



COMMUNITY JUSTICE SECURITY

EXECUTIVE ORDER 68

PUBLIC SECTOR AUDIT APPOINTMENTS – APPOINTMENT OF EXTERNAL AUDITORS WITH EFFECT FROM 2018-19

By the authority of the Police and Crime Commissioner as designated by the Police Reform and Social Responsibility Act 2011, and by the democratic mandate invested in me by the electorate of Northamptonshire, I have taken the following decisions:

- a) To approve the joining of the Public Sector Audit Appointments (PSAA) Ltd for the procurement of audit contracts with effect from 2018-19.
- b) To approve the response to the six consultations questions detailed in paragraph 2.3 of the attached report

STEPHEN MOLD

Northamptonshire Police and Crime Commissioner

16th January 2017


Equality, Diversity and Human Rights

All accommodation will comply with relevant legislative and regulatory requirements.

Advice taken

Advice to the Commissioner was set out in the attached report dated 6th December 2016 from the Director for Resources and Governance.

END


M.C. SCOBLE
8 Feb 17.



NORTHAMPTONSHIRE POLICE AND CRIME COMMISSIONER

Xx January 2017

REPORT BY	John Neilson – Director for Finance and Governance
SUBJECT	Public Sector Audit Appointments
RECOMMENDATION	<p>The Police and Crime Commissioner is recommended to</p> <ol style="list-style-type: none"> 1. Approve the joining of the Public Sector Audit Appointments (PSAA) Limited for the procurement of audit contracts with effect from 2018-19. 2. Approve the response to the six consultation questions in paragraph 2.3

1 Introduction and background

- 1.1 On 13 August 2010, the Government announced its intention to abolish the Audit Commission and put in place new decentralised arrangements for the audit of local public bodies.
- 1.2 In March 2012 the Audit Commission completed a procurement exercise to outsource the work of its in-house audit practice, covering 70% of principal audits. This exercise, and other efficiencies, allowed the Commission to make reductions of up to 40% in audit and certification fees from 2012/13, subject to annual review.
- 1.3 As a result of this procurement exercise KPMG were appointed to audit the PCC and Chief Constable for a five year period from 2012/13 i.e. ending with the audit of the 2017/18 accounts.
- 1.4 The Local Audit and Accountability Bill, published in May 2013, delivered the Government's commitment to close the Audit Commission and transfer its remaining functions. The Bill put in place a new local audit and accountability framework for local public bodies in England. This replaces the centralised arrangements for the audit of local bodies with a more localist approach, giving local bodies the freedom to appoint their own auditors from an open and competitive market; manage their own audit arrangements, with appropriate

safeguards to ensure auditor independence; and retain the same high standards.

- 1.5 Although the Minister of State was very keen that all local public bodies should establish Auditor Panels to select and appoint their own auditors, local public bodies - including the police - were not as enthusiastic and lobbied the Government to change the proposed legislation to enable sector-led collective procurement arrangements in order to benefit from economies of scale.
- 1.6 The Government clearly listened since Section 17 of the Local Audit and Accountability Act 2014 (the 2014 Act) gives the Secretary of State the power to make provision, by regulations, for certain relevant authorities to have a local auditor appointed on their behalf by a body (an 'appointing person') specified by the Secretary of State. This is to allow for sector-led collective procurement arrangements, under which relevant authorities would be able to opt to have their auditor appointed by a specified sector-led body, rather than appoint locally.

Public Sector Audit Appointments Limited (PSAA)

- 1.7 In July 2016 the Secretary of State confirmed that PSAA has been specified as an appointing person under the provisions of the 2014 Act and the Local Audit (Appointing Person) Regulations 2015. This means that PSAA will make auditor appointments to relevant principal local government bodies that choose to opt into the national appointment arrangements they are developing, for audits of the accounts for 2018/19.
- 1.8 PSAA is an independent, not-for-profit company limited by guarantee and established by the Local Government Association.
- 1.9 A number of documents are appended to this report for information:

Appendix 1 – Letter dated 17 August from Jon Hayes, Chief Officer, PSAA

Appendix 2 – Prospectus for the new [PSAA] scheme

Appendix 3 – Appointing Person: Frequently asked questions

- 1.10 According to PSAA the benefits of joining their scheme are:

- Assured appointment of a qualified, registered, independent auditor
- Appointment, if possible, of the same auditors to bodies involved in significant collaboration/joint working initiatives or combined authorities, if the parties believe that it will enhance efficiency and value for money
- On-going management of independence issues

- Securing highly competitive prices from audit firms
- Minimising scheme overhead costs
- Savings from one major procurement as opposed to a multiplicity of small procurements
- Distribution of surpluses to participating bodies
- A scale of fees which reflects size, complexity and audit risk
- A strong focus on audit quality to help develop and maintain the market for the sector
- Avoiding the necessity for individual bodies to establish an auditor panel and to undertake an auditor procurement
- Enabling time and resources to be deployed on other pressing priorities
- Setting the benchmark standard for audit arrangements for the whole of the sector

2 Issues for consideration

2.1 PSAA have issued invitations to formally opt in which need to be returned by March 2017. In their prospectus, PSAA has asked for feedback on six specific questions concerning their plans for the future. These are set out below, together with a suggested response to each.

1. Is PSAA right to place emphasis on both quality and price as the essential pre-requisites for successful auditor appointments?

Yes, these are the primary considerations for the next round of audit contracts

2. Is three to five years an appropriate term for initial contracts and for bodies to sign up to scheme membership?

Yes, three years with an option to extend to five would be appropriate for a contract of this value and importance.

3. Are PSAA's plans for a scale of fees which pools scheme costs and reflects size, complexity and audit risk appropriate? Are there any alternative approaches which would be likely to command the support of the sector?

Yes, the scale fee should reflect all three considerations set out above. In addition, the overall risk associated with auditing the 'PCC Group' should be considered when setting individual fees for PCCs and Chief Constables.

4. Are the benefits of joining the national scheme, as outlined here, sufficiently attractive? Which specific benefits are most valuable to local bodies? Are there others you would like included?

Yes, the benefits are adequately summarised in the prospectus.

The savings in audit fees since 2012 highlight the benefits, particularly in terms of economy of scale savings, that be obtained through national

procurement exercises. Being able to select (or request) the same auditor for collaboration partners should facilitate a quicker and smoother audit closedown.

Being a not for profit organisation, any savings generated through the careful management of audit contracts will be redistributed to members.

I presume the PSAA will undertake contract management on behalf of local bodies. If correct, this is an additional benefit that should be highlighted in the prospectus.

5. What are the key issues which will influence your decisions about scheme membership?

Cost and quality are the key issues. Timeliness of the tender process and award of contract is also very important.

Collaboration particularly Tri Force

6. What is the best way of us continuing our engagement with you on these issues?

Regular newsletters and email updates to chief finance officers

- 2.2. The Joint Independent Audit Committee considered this item at their meeting on 5th December 2016. They resolved to support the recommendations as detailed above.

3 Financial comments

3.1 The audit scale fee charges for 2016-17 are £29,291 for the PCC and £15,000 for the Chief Constable (i.e. a total charge of £44,291). Fee charges for 2017-18 are likely to be announced next March, following consultation with local public bodies. This will be the final year of fees under the present contracts.

3.2 It is too early to estimate the new audit fee with effect from 2018-19 but the cost will almost certainly be lower through a sector-led procurement than local procurement.

4 Legal comments

4.1 The Local Audit and Accountability Act 2014 explain the process to be adopted for the next round of audit contracts in 2018-19.

EQUALITY, DIVERSITY AND HUMAN RIGHTS IMPLICATIONS	None
HUMAN RESOURCES IMPLICATIONS	None
ENVIRONMENTAL IMPLICATIONS	None
RISK MANAGEMENT IMPLICATIONS	None
Author:	Steve Dainty – Strategic Resources Office
Chief Officer Portfolio Holder:	J Neilson – Director for Resources and Governance



17 August 2016

Dear Mr Thompson

PSAA has been specified by DCLG as the appointing person for auditor appointments at principal local government bodies

I am writing to you with updated information on the position on local auditor appointment requirements, following recent developments.

Local auditor appointments

Last month, the Secretary of State for Communities and Local Government confirmed that Public Sector Audit Appointments Limited (PSAA) has been specified as an appointing person under the provisions of the Local Audit and Accountability Act 2014 (the 2014 Act) and the Local Audit (Appointing Person) Regulations 2015. This means that PSAA will make auditor appointments to relevant principal local government bodies that choose to opt into the national appointment arrangements we are developing, for audits of the accounts from 2018/19.

Current auditor appointments are made under the audit contracts previously let by the Audit Commission and now managed by PSAA under transitional arrangements. These audit contracts will end with the completion of the 2017/18 audits for principal local government bodies including police and fire bodies, and the completion of the 2016/17 audits for NHS bodies.

A top priority for PSAA in developing the new scheme will be to ensure we are able to make independent auditor appointments at the best possible prices. We will also endeavour to appoint the same auditors to bodies which are involved in formal collaboration or joint working initiatives.

We are currently working on the details of the scheme, including a timetable, and will provide further information as soon as possible.

Timetable

Over the next few months all principal authorities will need to decide how their auditors will be appointed under the new requirements. They may make their auditor appointment themselves, or in conjunction with other bodies. Or principal local government bodies can take advantage of the national collective scheme that PSAA is developing, which should pay dividends in terms of quality, cost, responsiveness and convenience.

New appointments, for the 2018/19 accounts for principal local government bodies, must be made under the provisions of the 2014 Act and confirmed by 31 December 2017.

The date by which principal local government bodies will need to opt into the appointing person arrangement is not yet finalised. The aim is to award contracts to audit firms by June 2017, giving six months to consult on appointments with authorities before the 31 December 2017 deadline. We anticipate that invitations to opt in will be issued before December 2016.

The Local Audit (Appointing Person) Regulations 2015 require that a principal authority may only make the decision to opt into the appointing person arrangement by the members of the authority meeting as a whole, except where the authority is a corporation sole, in which case the decision may be made by the holder of the office.

More information

We will provide further updates as soon as we can.

Information is available on our website on the [specified appointing person arrangements](#) and on the [transition to local auditor appointment](#) more generally. A [prospectus for the new scheme](#) is also available on the website.

If you have a specific enquiry please contact us at generalenquiries@psaa.co.uk.

Yours sincerely

Jon Hayes
Chief Officer

PSAA is an independent, not-for-profit company limited by guarantee and established by the Local Government Association. The Secretary of State for Communities and Local Government has delegated statutory functions (from the Audit Commission Act 1998) on a transitional basis. Accountability Act 2014. Under these transitional arrangements, the company is responsible for appointing auditors to local public bodies and for setting audit fees.

Appointing person: Frequently asked questions

Question	Response
1. What is an appointing person?	<p>Public Sector Audit Appointments Limited (PSAA) has been specified as an appointing person under the Local Audit (Appointing Person) Regulations 2015 and has the power to make auditor appointments for audits of the accounts from 2018/19 on behalf of principal authorities who opt in, in accordance with the Regulations. The 'appointing person' is sometimes referred to as the sector-led body.</p> <p>PSAA is a company owned by the LGA's Improvement and Development Agency (IDeA) and was established to operate the transitional arrangements following closure of the Audit Commission.</p>
2. When will invitations to opt in be issued?	<p>The date by which principal authorities will need to opt into the appointing person arrangement is not yet finalised. The aim is to award contracts to audit firms by June 2017, giving six months to consult with authorities on appointments before the 31 December 2017 deadline. We anticipate that invitations to opt in will be issued before December 2016.</p> <p>In order to maximise the potential economies of scale from agreeing large contracts with firms, and to manage any auditor independence issues, PSAA needs as much certainty as possible about the volume and location of work it is able to offer to firms. Our provisional timetable suggests that we will need to start preparing tender documentation early in 2017, so we will need to know by then which authorities want to be included.</p>

Question	Response
3. Who can accept the invitation to opt in?	<p>In accordance with Regulation 19 of the Local Audit (Appointing Person) Regulations 2015, a principal authority will need to make the decision to opt in at full council (authority meeting as a whole), except where the authority is a corporation sole (such as a police and crime commissioner), in which case the function must be exercised by the holder of the office.</p>
4. Can we join after it has been set up or do we have to join at the beginning?	<p>The Regulations require that once the invitations to opt in have been issued, there will be a minimum period of eight weeks for you to indicate acceptance of the invitation. One of the main benefits of an appointing person approach is the ability to achieve economies of scale as a result of being able to offer larger volumes of work. The greater the number of participants we have signed up at the outset, the better the economies of scale we are likely to achieve. This will not prevent authorities from joining the sector-led arrangements in later years, but they will need to make their own arrangements to appoint an auditor in the interim. In order to be in the best position we would encourage as many authorities as possible to commit by accepting the invitation within the specified timeframe.</p>
5. Will membership be free for existing members of the LGA?	<p>The option to join the appointing person scheme will be open to all principal local government authorities listed under Schedule 2 of the Local Audit and Accountability Act 2014. There will not be a fee to join the sector-led arrangements. The audit fees that opted-in bodies will be charged will cover the costs to PSAA of appointing auditors and managing the arrangements. We believe that audit fees achieved through large contracts will be lower than the costs that individual authorities will be able to negotiate. In addition, by opting into the PSAA offer, authorities will avoid the costs of their own procurement and the</p>

Question	Response
<p>6. How will we be able to influence the development of the appointing person scheme and associated contracts with audit firms?</p>	<p>requirement to set up an auditor panel with independent members.</p> <p>We have not yet finalised the governance arrangements and we are considering the options, including how best to obtain stakeholder input. We are considering establishing a stakeholder engagement panel or advisory panel which can comment on our proposals. PSAA continues to work in partnership with the LGA in setting up the appointing person scheme and you can feed in comments and observations to PSAA by emailing generalenquiries@psaa.co.uk and via the LGA and their Principal Advisors.</p>
<p>7. Will there be standard contract terms and conditions?</p>	<p>The audit contracts between PSAA and the audit firms will require firms to deliver audits compliant with the NAO Code of Audit Practice. We are aware that authorities would like to understand how performance and delivery will be monitored and managed. This is one of the issues that could be discussed with the stakeholder advisory panel (see Q6).</p>
<p>8. What will be the length of the contracts?</p>	<p>The optimal length of contract between PSAA and firms has not been decided. We would welcome views on what the sector considers the optimal length of audit contract. We anticipate that somewhere between three and five years would be appropriate.</p>
<p>9. In addition to the Code of Audit Practice requirements set out by the NAO, will the contract be flexible to enable authorities to include the audit of wholly owned companies and group accounts?</p>	<p>Local authority group accounts are part of the accounts produced under the CIPFA SORP and are subject to audit in line with the NAO Code of Audit Practice. They will continue to be part of the statutory audit.</p> <p>Company audits are subject to the provisions of the Companies Act 2006 and are not covered by the Local Audit (Appointing Person) Regulations 2015. Local authority companies will be</p>

Question	Response
<p>10. Will bodies that opt in be able to seek information from potential suppliers and undertake some form of evaluation to choose a supplier?</p>	<p>able to appoint the same audit firm as PSAA appoints to undertake the principal body audit, should they so wish. PSAA will run the tendering exercise, and will evaluate bids and award contracts. PSAA will consult authorities on individual auditor appointments. The appointment of an auditor independently of the body to be audited is an important feature of the appointing person arrangements and will continue to underpin strong corporate governance in the public sector.</p>
<p>11. Will the price be fixed or will there be a range of prices?</p>	<p>The fee for the audit of a body that opts in will reflect the size, audit risk and complexity of the work required. PSAA will establish a system for setting the fee which is fair to all opted-in authorities. As a not-for-profit organisation, PSAA will be able to return any surpluses to participating authorities after all costs have been met.</p>
<p>12. We have shared service arrangements with our neighbouring bodies and we are looking to ensure that we share the same auditor. Will the appointing person scheme allow for this?</p>	<p>PSAA will be able to make appointments to all principal authorities listed in Schedule 2 of the Local Audit and Accountability Act 2014 that are 'relevant authorities' and not excluded as a result of being smaller authorities, for example parish councils.</p> <p>In setting up the new arrangements, one of our aims is to make auditor appointments that take account of joint working and shared service arrangements. PSAA will seek information on such arrangements to allow it to make a sensible distribution of appointments.</p>
<p>13. We have a joint committee which no longer has a statutory requirement to have an external auditor but has agreed in the interests of all parties to continue to engage one. Is it possible to use this process as an option to procure the external auditor for the joint committee?</p>	<p>The requirement for joint committees to produce statutory accounts ceased after production of the 2014/15 accounts and they are therefore not listed in Schedule 2. Joint committees that have opted to produce accounts voluntarily and obtain</p>

Question	Response
<p>14. How will the appointing person scheme ensure audit firms are not over-stretched and that the competition in the market place is increased?</p>	<p>non-statutory assurance on them will need to make their own local arrangements.</p> <p>The number of firms eligible to undertake local public audit will be regulated through the Financial Reporting Council and the recognised Supervisory Bodies (RSBs). Only appropriately accredited firms will be able to bid for appointments whether that is through PSAA or an auditor panel. The seven firms appointed by PSAA and the Audit Commission generally maintain a dedicated public sector practice with staff trained and experienced in public sector work.</p> <p>One of the advantages of the appointing person option is to make appointments that help to ensure that each successful firm has a sufficient quantum of work to make it possible for them to invest in public sector specific training, maintain a centre of excellence or hub that will mean:</p> <ul style="list-style-type: none"> • firms have a regional presence; • greater continuity of staff input; and • a better understanding the local political, economic and social environment.
<p>15. Will the appointing person scheme contract with a number of different audit firms and how will they be allocated to authorities?</p>	<p>PSAA will organise the contracts so that there is a minimum number of firms appointed nationally. The minimum is probably four or five (depending on the number of bodies that opt in). This is required, not just to ensure competition and capacity, but because each firm is required to comply with the FRC's ethical standards. This means that an individual firm may not be appointable for 'independence' reasons, for example, because they have undertaken consultancy work at an audited body. PSAA will consult on appointments that allow each firm a</p>

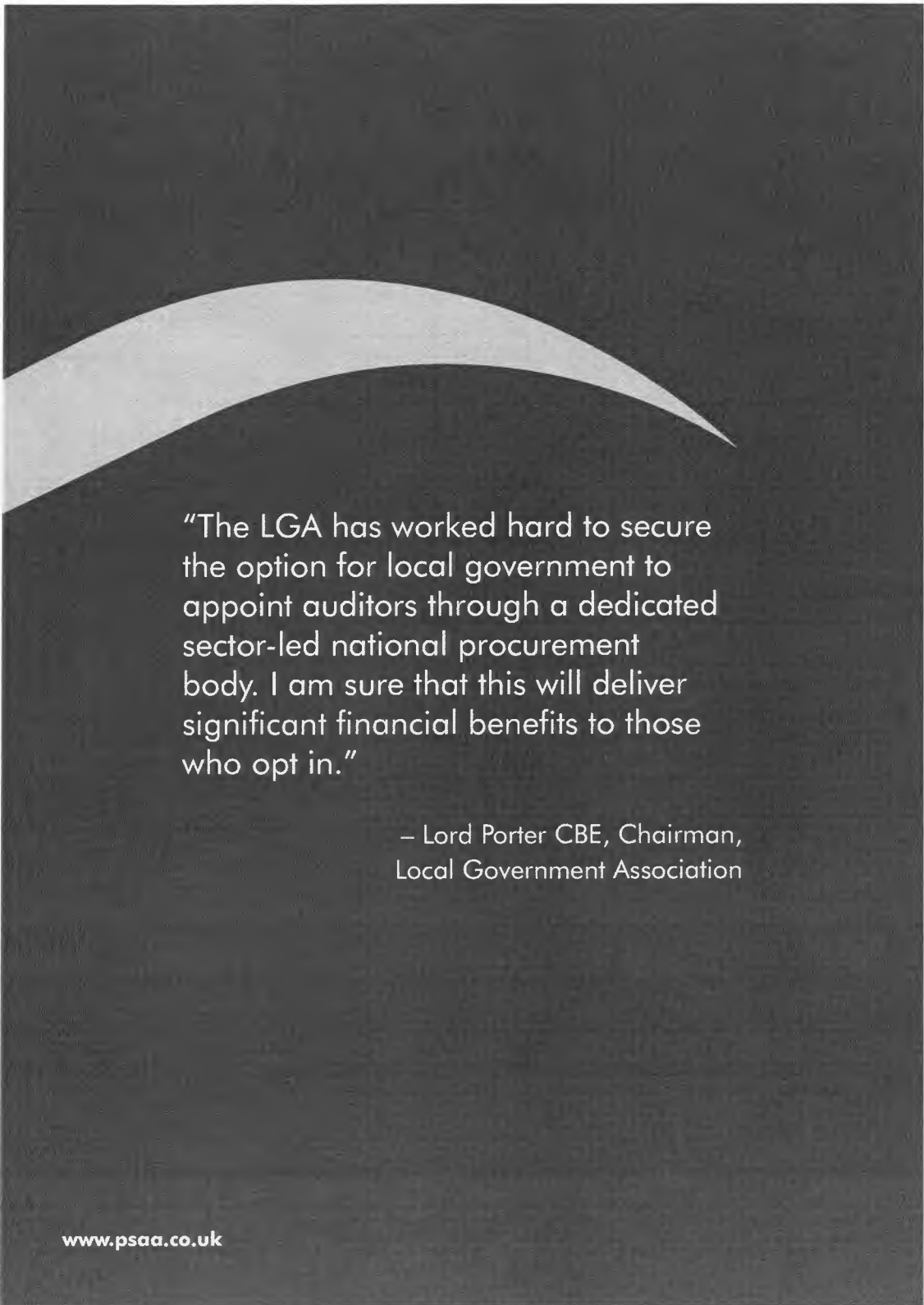
Question	Response
16. What will be the process to feed in opinions from customers of current auditors if there are issues?	<p>balanced portfolio of work subject to independence considerations.</p> <p>PSAA will seek feedback on its auditors as part of its engagement with the sector. PSAA will continue to have a clear complaints process and will also undertake contract monitoring of the firms it appoints.</p>
17. What is the timetable for set up and key decisions?	<p>We expect the key points in the timetable to be broadly:</p> <ul style="list-style-type: none"> • establish an overall strategy for procurement - by 31 October 2016; • achieve 'sign-up' of scheme members - by early January 2017; • invite tenders from audit firms - by 31 March 2017; • award contracts - by 30 June 2017; • consult on and make final auditor appointments - by 31 December 2017; and • consult on, propose audit fees and publish fees - by 31 March 2018.
18. What are the terms of reference of the appointing person?	<p>PSAA is wholly owned by the IDeA (the IDeA is wholly owned by the LGA). PSAA will continue to operate as an independent company, although there will be changes to its governance arrangements and its founding documents to reflect the fact that it will be an appointing person rather than a transitional body.</p>
19. Will the appointing person take on all audit panel roles and therefore mitigate the need for there to be one in each individual authority?	<p>Opting into the appointing person scheme will remove the need to set up an auditor panel. This is set out in the Local Audit and Accountability Act 2014 and the Local Audit (Appointing Person) Regulations 2015.</p>



Developing the option
of a national scheme for
local auditor appointments

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Public Sector
Audit Appointments



“The LGA has worked hard to secure the option for local government to appoint auditors through a dedicated sector-led national procurement body. I am sure that this will deliver significant financial benefits to those who opt in.”

– Lord Porter CBE, Chairman,
Local Government Association

www.psa.co.uk

Over the next few months all principal authorities will need to decide how their auditors will be appointed in the future. They may make the appointment themselves, or in conjunction with other bodies. Or they can take advantage of a national collective scheme which is designed to offer them a further choice. Choosing the national scheme should pay dividends in quality, in cost, in responsiveness and in convenience.

Public Sector Audit Appointments Ltd (PSAA) is leading the development of this national option. PSAA is a not-for-profit company which already administers the current audit contracts. It has been designated by the Department for Communities & Local Government (DCLG) to operate a collective scheme for auditor appointments for principal authorities (other than NHS bodies) in England. It is currently designing the scheme to reflect the sector's needs and views.

The Local Government Association (LGA) is strongly supportive of this ambition, and 200+ authorities have already signalled their positive interest. This is an opportunity for local government, fire, police and other bodies to act in their own and their communities' best interests.

We hope you will be interested in the national scheme and its development. We would be happy to engage with you to hear your views – please contact us at generalenquiries@psaa.co.uk

You will also find some questions at the end of this booklet which cover areas in which we would particularly welcome your feedback.

Audit does matter

High quality independent audit is one of the cornerstones of public accountability. It gives assurance that taxpayers' money has been well managed and properly expended. It helps to inspire trust and confidence in the organisations and people responsible for managing public money.

Imminent changes to the arrangements for appointing the auditors of local public bodies are therefore very important. Following the abolition of the Audit Commission, local bodies will soon begin to make their own decisions about how and by whom their auditors are appointed. A list of the local government bodies affected can be found at the end of this booklet.

The Local Government Association (LGA) has played a leadership role in anticipating these changes and influencing the range of options available to local bodies. In particular, it has lobbied to ensure that, irrespective of size, scale, responsibilities or location, principal local government bodies can, if they wish, subscribe to a specially authorised national scheme which will take full responsibility for local auditor appointments which offer a high quality professional service and value for money.

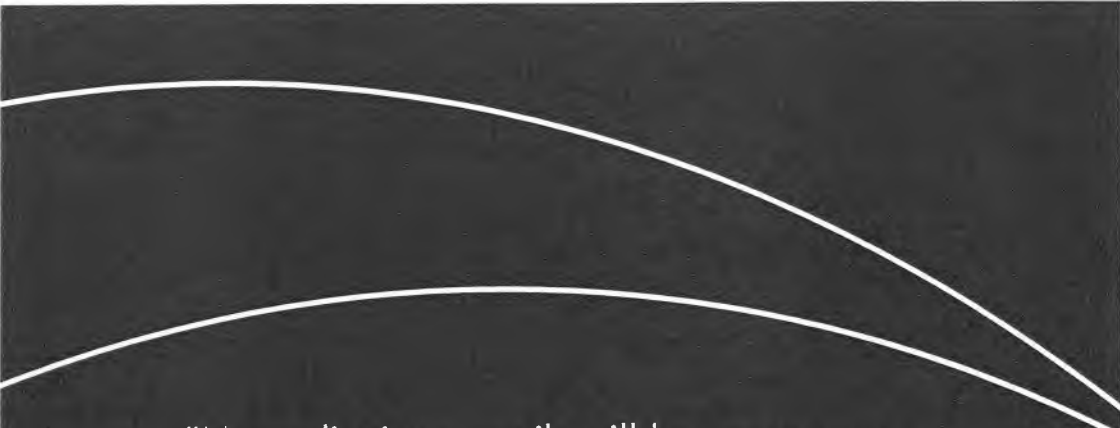
The LGA supported PSAA's successful application to the Department for Communities & Local Government (DCLG) to be appointed to deliver and manage this scheme.

PSAA is well placed to award and manage audit contracts, and appoint local auditors under a national scheme

PSAA is an independent, not-for-profit company limited by guarantee and established by the LGA. It already carries out a number of functions in relation to auditor appointments under powers delegated by the Secretary of State for Communities & Local Government. However, those powers are time-limited and will cease when current contracts with audit firms expire with the completion of the 2017/18 audits for local government bodies, and the completion of the 2016/17 audits for NHS bodies and smaller bodies.

The expiry of contracts will also mark the end of the current mandatory regime for auditor appointments. Thereafter, local bodies will exercise choice about whether they opt in to the authorised national scheme, or whether they make other arrangements to appoint their own auditors.

PSAA has been selected to be the trusted operator of the national scheme, formally specified to undertake this important role by the Secretary of State. The company is staffed by a team with significant experience in appointing auditors, managing contracts with audit firms and setting and determining audit fees. We intend to put in place an advisory group, drawn from the sector, to give us ready access to your views on the design and operation of the scheme. We are confident that we can create a scheme which delivers quality-assured audit services to every participating local body at a price which represents outstanding value for money.



“Many district councils will be very aware of the resource implications of making their own appointment. Joining a well-designed national scheme has significant attractions.”

– Norma Atlay, President,
Society of District Council Treasurers

“Police bodies have expressed very strong interest in a national scheme led by PSAA. Appointing the same auditor to both the PCC and the Chief Constable in any area must be the best way to maximise efficiency.”

– Sean Nolan, President,
Police and Crime Commissioners
Treasurers’ Society (PACCTS)

The national scheme can work for you

We believe that the national scheme can be an excellent option for all local bodies. Early indications are that many bodies agree - in a recent LGA survey more than 200 have expressed an interest in joining the scheme.

We plan to run the scheme in a way that will save time and resources for local bodies - time and resources which can be deployed to address other pressing priorities. Bodies can avoid the necessity to establish an auditor panel (required by the Local Audit & Accountability Act, 2014) and the need to manage their own auditor procurement. The scheme will take away those headaches and, assuming a high level of participation, be able to attract the best audit suppliers and command highly competitive prices.

The scope of public audit is wider than for private sector organisations. For example, it involves forming a conclusion on the body's arrangements for securing value for money, dealing with electors' enquiries and objections, and in some circumstances issuing public interest reports. PSAA will ensure that the auditors which it appoints are the most competent to carry out these functions.

Auditors must be independent of the bodies they audit, to enable them to carry out their work with objectivity and credibility, and in a way that commands public confidence. PSAA plans to take great care to ensure that every auditor appointment passes this test. It will also monitor any significant proposals, above an agreed threshold, for auditors to carry out consultancy or other non-audit work to ensure that these do not undermine independence and public confidence.

The scheme will also endeavour to appoint the same auditors to bodies which are involved in formal collaboration/joint working initiatives or within combined authority areas, if the parties consider that a common auditor will enhance efficiency and value for money.

PSAA will ensure high quality audits

We will only contract with firms which have a proven track record in undertaking public audit work. In accordance with the 2014 Act, firms must be registered with one of the chartered accountancy institutes acting in the capacity of a Recognised Supervisory Body (RSB). The quality of their work will be subject to scrutiny by both the RSB and the Financial Reporting Council (FRC). Current indications are that fewer than ten large firms will register meaning that small local firms will not be eligible to be appointed to local public audit roles.

PSAA will ensure that firms maintain the appropriate registration and will liaise closely with RSBs and the FRC to ensure that any concerns are detected at an early stage and addressed effectively in the new regime. The company will take a close interest in feedback from audited bodies and in the rigour and effectiveness of firms' own quality assurance arrangements, recognising that these represent some of the earliest and most important safety nets for identifying and remedying any problems arising. We will liaise with the National Audit Office (NAO) to help ensure that guidance to auditors is updated when necessary.

We will include obligations in relation to maintaining and continuously improving quality in our contract terms and quality criteria in our tender evaluation method.

PSAA will secure highly competitive prices

A top priority must be to seek to obtain the best possible prices for local audit services. PSAA's objective will be to make independent auditor appointments at the most competitive aggregate rate achievable.

Our current thinking is that the best prices will be obtained by letting three year contracts, with an option to extend to five years, to a relatively small number of appropriately registered firms in two or three large contract areas nationally. The value of each contract will depend on the prices bid, with the firms offering the best prices being awarded larger amounts of work. By having contracts with a number of firms we will be able to ensure independence and avoid dominance of the market by one or two firms.

Correspondingly, at this stage our thinking is to invite bodies to opt into the scheme for an initial term of three to five years.

The procurement strategy will need to prioritise the importance of demonstrably independent appointments, in terms of both the audit firm appointed to each audited body and the procurement and appointment processes used. This will require specific safeguards in the design of the procurement and appointment arrangements.

“Early audit planning is a vital element of a timely audit. We need the auditors to be available and ready to go right away at the critical points in the final accounts process.”

– Steven Mair, City Treasurer,
Westminster City Council

“In forming a view on VFM arrangements it is essential that auditors have an awareness of the significant challenges and changes which the service is grappling with.”

– Charles Kerr, Chair,
Fire Finance Network

PSAA will establish a fair scale of fees

Audit fees must ultimately be met by individual audited bodies. PSAA will ensure that fee levels are carefully managed by securing competitive prices from firms and by minimising PSAA's own costs. The changes to our role and functions will enable us to run the new scheme with a smaller team of staff. PSAA is a not-for-profit company and any surplus funds will be returned to scheme members.

PSAA will pool scheme costs and charge fees to audited bodies in accordance with a fair scale of fees which has regard to size, complexity and audit risk. Pooling means that everyone within the scheme will benefit from the most competitive prices. Current scale fees are set on this basis. Responses from audited bodies to recent fee consultations have been positive.

PSAA will continue to consult bodies in connection with any proposals to establish or vary the scale of fees. However, we will not be able to consult on our proposed scale of fees until the initial major procurement has been completed and contracts with audit firms have been let. Fees will also reflect the number of scheme participants - the greater the level of participation, the better the value represented by our scale of fees. We will be looking for principal bodies to give firm commitments to join the scheme during Autumn 2016.

The scheme offers multiple benefits for participating bodies

We believe that PSAA can deliver a national scheme which offers multiple benefits to the bodies which take up the opportunity to collaborate across the sector by opting into scheme membership.

Benefits include:

- assured appointment of a qualified, registered, independent auditor
- appointment, if possible, of the same auditors to bodies involved in significant collaboration/joint working initiatives or combined authorities, if the parties believe that it will enhance efficiency and value for money
- on-going management of independence issues
- securing highly competitive prices from audit firms
- minimising scheme overhead costs
- savings from one major procurement as opposed to a multiplicity of small procurements
- distribution of surpluses to participating bodies
- a scale of fees which reflects size, complexity and audit risk
- a strong focus on audit quality to help develop and maintain the market for the sector
- avoiding the necessity for individual bodies to establish an auditor panel and to undertake an auditor procurement
- enabling time and resources to be deployed on other pressing priorities
- setting the benchmark standard for audit arrangements for the whole of the sector

We understand the balance required between ensuring independence and being responsive, and will continually engage with stakeholders to ensure we achieve it.

How can you help?

We are keen to receive feedback from local bodies concerning our plans for the future. Please let us have your views and let us know if a national scheme operated by PSAA would be right for your organisation.

In particular we would welcome your views on the following questions:

1. Is PSAA right to place emphasis on both quality and price as the essential pre-requisites for successful auditor appointments?
2. Is three to five years an appropriate term for initial contracts and for bodies to sign up to scheme membership?
3. Are PSAA's plans for a scale of fees which pools scheme costs and reflects size, complexity and audit risk appropriate? Are there any alternative approaches which would be likely to command the support of the sector?
4. Are the benefits of joining the national scheme, as outlined here, sufficiently attractive? Which specific benefits are most valuable to local bodies? Are there others you would like included?
5. What are the key issues which will influence your decisions about scheme membership?
6. What is the best way of us continuing our engagement with you on these issues?

Please reply to: generalenquiries@psaa.co.uk



The following bodies will be eligible to join the proposed national scheme for appointment of auditors to local bodies:

- county councils in England
- district councils
- London borough councils
- combined authorities
- passenger transport executives
- police and crime commissioners for a police area in England
- chief constables for an area in England
- national park authorities for a national park in England
- conservation boards
- fire and rescue authorities in England
- waste authorities
- the Greater London Authority and its functional bodies.

BOARD MEMBERS

Steve Freer (Chairman), former Chief Executive CIPFA

Caroline Gardner, Auditor General Scotland

Clive Grace, former Deputy Auditor General Wales

Stephen Sellers, Solicitor, Gowling WLG (UK) LLP


CHIEF OFFICER

Jon Hayes, former Audit Commission Associate Controller

www.psa.co.uk

“Maintaining audit quality is critically important. We need experienced audit teams who really understand our issues.”

– Andrew Burns, Director of
Finance and Resources,
Staffordshire County Council



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Public Sector
Audit Appointments