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<b>PART B:</b>	<b>RECOMMENDATIONS TO COUNCIL</b>
<b>REPORT TO:</b>	<b>OVERVIEW AND SCRUTINY COMMITTEE</b>
<b>DATE:</b>	<b>26 JANUARY 2017</b>
<b>REPORT OF THE:</b>	<b>RESOURCES AND ENABLING SERVICES LEAD (s151) PETER JOHNSON</b>
<b>TITLE OF REPORT:</b>	<b>APPOINTMENT OF THE SECTOR LED BODY, PUBLIC SECTOR AUDIT APPOINTMENTS (PSAA), TO APPOINT EXTERNAL AUDIT SERVICES FOR RYEDALE DISTRICT COUNCIL FROM 1 APRIL 2018</b>
<b>WARDS AFFECTED:</b>	<b>ALL</b>

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## **EXECUTIVE SUMMARY**

### **1.0 PURPOSE OF REPORT**

- 1.1 To update Members on the appointment of Public Sector Appointments Ltd (PSAA) as the approved sector-led body to procure future external audit contracts for local government.

### **2.0 RECOMMENDATIONS**

Members recommended to Council that:

- 2.1 Ryedale District Council accepts Public Sector Appointments Ltd (PSAA) invitation to 'opt in' to the sector led option for the procurement of external auditors for a maximum of five financial years commencing 1 April 2018.
- 2.2 Delegation be given to the Resources and Enabling Services Lead (s151 officer) to undertake the necessary steps to ensure that the appointment of PSAA is made by 9 March 2017.

### **3.0 REASON FOR RECOMMENDATIONS**

- 3.1 The Council must have appropriate External Auditors. Officers believe that the most efficient and cost effective appointment process is through a sector-led body.
- 3.2 Regulation 19 of the Local Audit (Appointing Person) Regulations 2015 requires that a decision to opt in must be made by a meeting of the Council (meeting as a whole).

#### **4.0 SIGNIFICANT RISKS**

- 4.1 The principal risks are that the Council fails to appoint an auditor in accordance with the new frameworks or does not achieve value for money. These risks are considered best mitigated by opting in to the sector led approach through PSAA.
- 4.2 There is a risk that the current level of fees could increase when the current contracts end in 2018. Opting in to a national scheme provides maximum opportunity to ensure that fees are as low as possible.

#### **5.0 POLICY CONTEXT AND CONSULTATION**

- 5.1 External Audit is part of the Governance framework of the Council which assists with the assurances around financial resilience.

### **REPORT**

#### **6.0 REPORT DETAILS**

- 6.1 In August 2010, the Secretary of State for Communities and Local Government announced plans for new arrangements to audit local public bodies in England. The Government consulted widely and worked with a range of partners to develop and refine its proposals. The Local Audit and Accountability Act 2014 which received Royal Assent in January 2014 led to the abolition of the existing regime which included the Audit Commission.
- 6.2 The closure of the Audit Commission on 31 March 2015 heralded the start of the process of devolving the responsibility for making external audit appointments to all local public bodies including all classes of local authorities, police, fire and rescue bodies (where separate), waste disposal, transport authorities and executives, together with relevant NHS bodies.
- 6.3 Initially transitional arrangements were put in place until 31 March 2017. PSAA, an independent company established by the LGA, was set up to manage the existing appointments.
- 6.4 The Council is currently audited by KPMG LLP who were appointed as the Council's auditors from 1st April 2015.
- 6.5 The transitional arrangements were due to expire following completion of the 2016/17 audit of accounts.. On 5 October 2015 the Secretary of State notified his intention to extend the transitional arrangements, larger local government bodies will remain on current appointments contracts until the completion of the 2017/18 audits. This means new appointments will need to be made by 31 December 2017.
- 6.6 PSAA responded to the DCLG's market enquiry for bodies interested in becoming the sector led appointing person and were specified as an appointing person under regulation 3 of the Local Audit (Appointing Person) Regulations 2015 by the Secretary of State for Communities and Local Government in July 2016.

- 6.7 The consensus from colleagues within North Yorkshire is that a sector led body should offer the most cost effective route to procurement. A previous report to a meeting of Audit Committee in July 2016 apprised members of the position and options.
- 6.8 Over recent years the Council has benefitted from a reduction in fees of around 50% compared to fees in 2011/12. The Council's current external audit fees are £42K per annum
- 6.9 The proposed fees for subsequent years cannot be known until the procurement process has been completed, as the costs will depend on the proposals from the audit firms.
- 6.10 The scope of the audit will still be specified nationally, the National Audit Office is responsible for writing the Code of Audit Practice which all firms appointed to carry out the Council's audit must follow. Eligible audit firms need to demonstrate that they have the required skills and experience and be registered with a Registered Supervising Body approved by the Financial Reporting Council.
- 6.11 Currently there are only nine providers that are eligible to audit local authorities and other relevant bodies; all of these being firms with a national presence.

### **The Invitation**

- 6.12 PSAA has now formally invited Ryedale District Council to opt in. Details relating to PSAA's invitation prospectus are provided at Appendix A to this report.
- 6.13 In summary the national opt in scheme provides the following:
- The appointment of a suitably qualified audit firm for each of the financial years commencing 1 April 2018;
  - Appointing the same auditor to the other opted in bodies that are involved in formal collaboration or joint working initiatives to the extent that this is possible;
  - Managing the procurement process to ensure that both quality and price criteria are satisfied. PSAA will seek views from the sector to help inform its detailed strategy;
  - Ensuring suitable independence of the auditors from the bodies they audit and managing any potential conflicts as they arise;
  - Minimising the scheme management costs and returning any surpluses to members;
  - Consulting with authorities on auditor appointments, giving the Council the opportunity to influence which auditor is appointed;
  - Consulting with authorities on the scale of audit fees and ensuring that these reflect scale, complexity and audit risk; and
  - Ongoing contract and performance management of the contracts once these

have been let.

- 6.14 Regulation 19 of the Local Audit (Appointing Person) Regulations 2015 requires that a decision to opt in must be made by a meeting of the Council (meeting as a whole). The Council then needs to formally respond to PSAA's invitation in the form specified by PSAA by 9 March 2017. A copy of this invitation letter is attached at Appendix B.
- 6.15 PSAA will commence the formal procurement process in early 2017 in accordance with the timetable included within their offer letter.

## **7.0 IMPLICATIONS**

7.1 The following implications have been identified:

a) Financial

PSAA costs for setting up and managing the scheme will need to be covered by audit fees. PSAA are intending to fund an element of the costs of establishing the scheme, including the costs of procuring audit contracts, from local government's share of its current deferred income. 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, most likely as evidenced by audit fees for 2016/17. Pooling means that everyone in the scheme will benefit from the most competitive prices. Fees will reflect the number of scheme participants - the greater the level of participation, the better the value represented by our scale fees.

There is a risk that the current level of fees could increase when the current contracts end in 2018. Until the procurement exercise is completed it is not possible to state what if any additional resource will be required for audit fees from 2018/19 onwards.

b) Legal

Section 7 of the Local Audit and Accountability Act 2014 requires a relevant Council to appoint a local auditor to its accounts for a financial year not later than 31 December in the preceding year. Section 8 governs the procedure for appointment including that the Council must consult and take advice of its auditor panel on selection and appointment of a local auditor.

Section 12 makes provision for the failure to appoint a local auditor: the Council must immediately inform the Secretary of State, who may direct the Council to appoint the auditor named in the direction or appoint a local auditor on behalf of the Council.

Section 17 gives the Secretary of State the power to make regulations in relation to an 'appointing person' specified by the Secretary of State. This power has been exercised in the Local Audit (Appointing Person) Regulations 2015 (SI 192) and this gives the Secretary of State the ability to enable a Sector Led Body to become the appointing person. In July 2016 the Secretary of State specified PSAA as the appointing person.

c) Other (Equalities, Staffing, Planning, Health & Safety, Environmental, Crime & Disorder)

There are no additional implications within this report.

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**Background Papers:**  
**[July Audit Committee - Options for External Audit Procurement - Agenda Item 12](#)**