



**NOTICE UNDER REGULATION 10
OF THE LOCAL AUTHORITIES (EXECUTIVE ARRANGEMENTS (MEETINGS
AND ACCESS TO INFORMATION) ENGLAND REGULATIONS 2012 RULES**

The following item was not on the Executive Meetings and Key Decisions Notice

- **APPOINTMENT OF EXTERNAL AUDITOR**

This item was not shown on the Executive Meetings and Key Decisions Notice and pursuant to Regulation 10 of the Local Authorities (Executive Arrangements (Meetings and Access to Information) England Regulations 2012 these reports are submitted as a General Exception. The reason why compliance with Regulation 10 is impracticable is set out below.

Appointment of External Auditor is being submitted under general exception as it is urgent

The reason for the General Exception is that the decision is to be made at Full Council and ordinarily such a report would not come to Cabinet. However, in the past reports that went to Cabinet recommending that they go to Council for decision have been included in the Executive Key Decision Notice. The Lead Member has asked that this item be taken to Cabinet given the importance of the subject matter. Because it is not for Cabinet decision the item was not included on the Executive Key Decision Notice and is therefore a General Exception item for noting.

MONDAY JANUARY 23 2017

at 6.00 pm

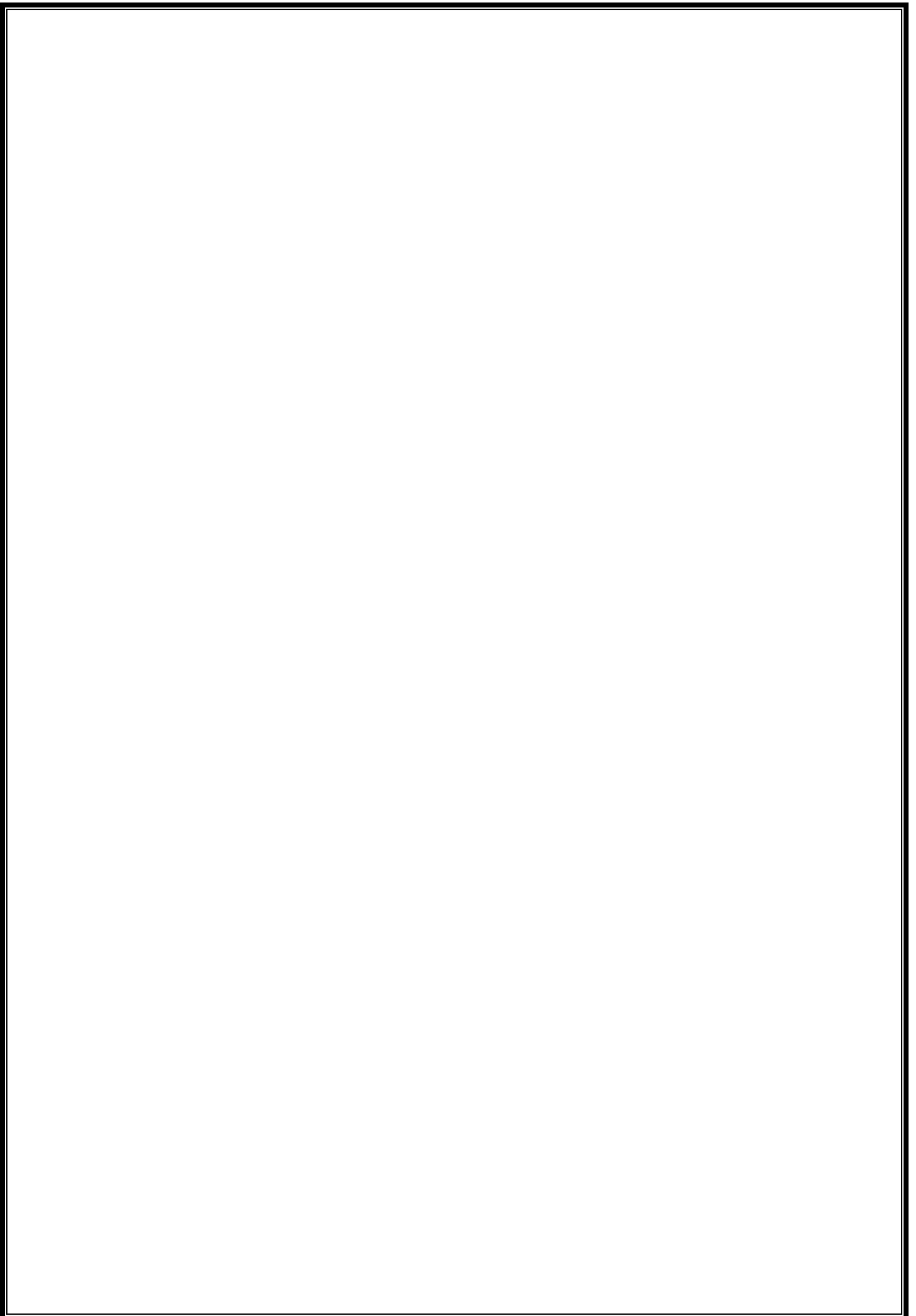
**Room 102, Hackney Town Hall, Mare Street, London
E8 1EA**

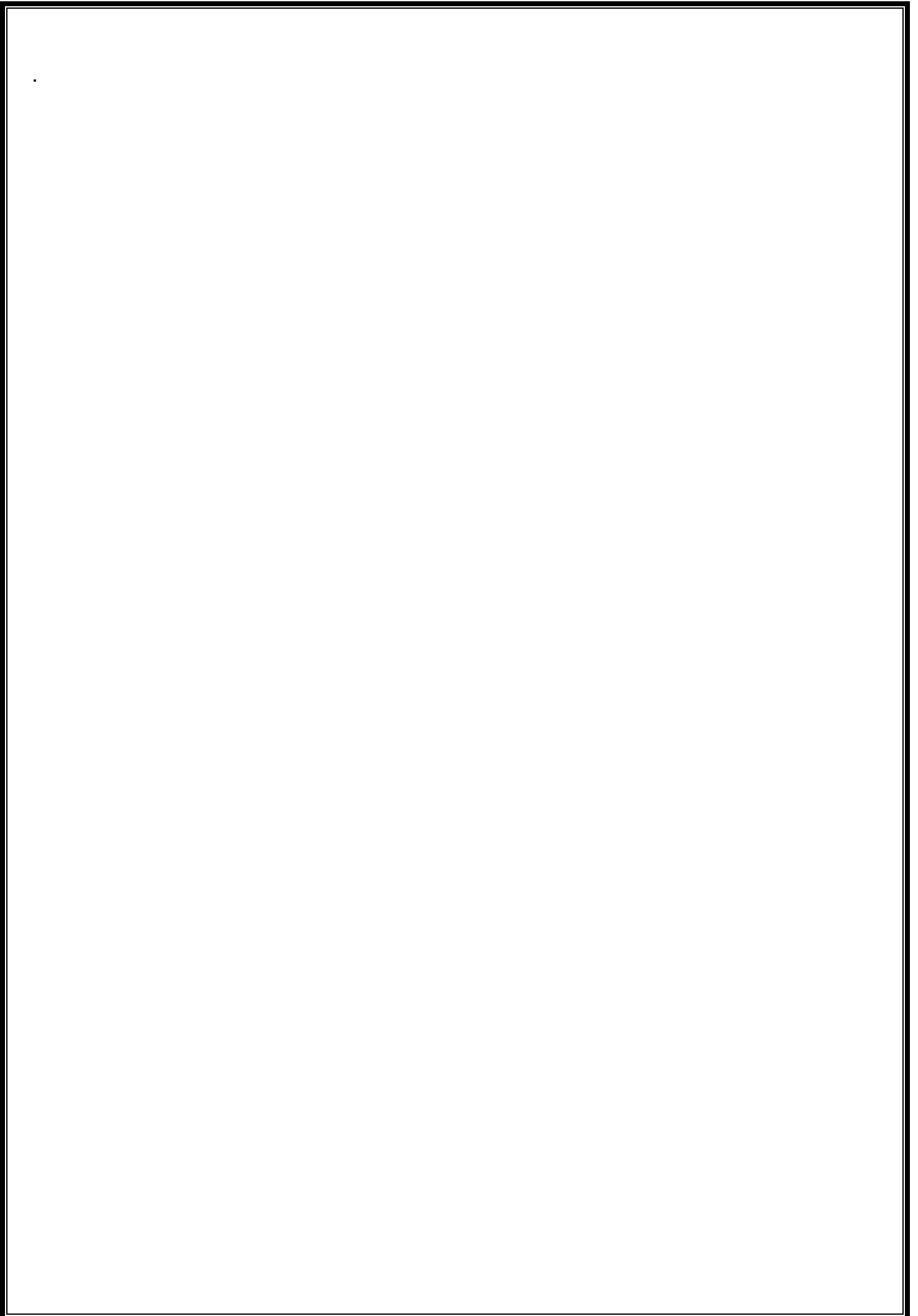
All members of the public are welcome to attend

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Chief Executive

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GENERAL EXCEPTION REPORT: APPOINTMENT OF EXTERNAL AUDITOR

**AUDIT COMMITTEE
MEETING DATE 2016/17**

18 January 2017

CLASSIFICATION:

Open

**If exempt, the reason will be listed in the
main body of this report.**

WARD(S) AFFECTED

All Wards

GROUP DIRECTOR

Ian Williams Group Director Finance & Corporate Resources

REASONS FOR GENERAL EXCEPTION:

Regulation 10 of the Local Authorities Executive Arrangements (Meetings and Access to Information) (England) Regulations 2012.

This item is to be considered under the Council's General Exception Procedure (Rule 16 of the Access to Information Procedure Rules).

The reasons for the general exception are:

The decision is to be made at Full Council and ordinarily such a report would not come to Cabinet. However, in the past reports that went to Cabinet recommending that they go to Council for decision have been included in the Executive Key Decision Notice. The Lead Member has asked that this item be taken to Cabinet given the importance of the subject matter. Because it is not for Cabinet decision the item was not included on the Executive Key Decision Notice and is therefore a General Exception item for noting.

1. INTRODUCTION AND PURPOSE

Following the demise of the Audit Commission new arrangements were needed for the appointment of external auditors. The Local Audit and Accountability Act 2014 requires authorities to either opt in to the appointing person regime or to establish an auditor appointment panel and conduct their own procurement exercise. This report sets out and recommends that the Council opt in to the appointing person arrangements.

2. RECOMMENDATION(S)

To recommend to Full Council that this Council opts in to the appointing person arrangements made by Public Sector Audit Appointments (PSAA) for the appointment of external auditors

3. REASONS FOR DECISION

It is likely that a public sector wide procurement conducted by PSAA will produce better outcomes for the Council than any procurement we undertook by ourselves or with a limited number of partners. Use of the PSAA will also be less resource intensive than establishing an auditor panel and conducting our own procurement.

Regulation 19 of the Local (Appointing Persons) Regulations 2015 requires that a decision to opt in must be made by Full Council (authority meeting as a whole). To comply with this regulation Audit Committee is asked to make the recommendation above to Council.

4. BACKGROUND

As part of closing the Audit Commission the Government novated external audit contracts to PSAA on 1 April 2015. The contracts were due to expire following conclusion of the audits of the 2016/17 accounts, but could be extended for a period of up to three years by PSAA, subject to approval from the Department for Communities and Local Government.

In October 2015 the Secretary of State confirmed that the transitional provisions would be amended to allow an extension of the contracts for a period of one year. This meant that for the audit of the 2018/19 accounts it would be necessary for authorities to either undertake their own procurements or to opt in to the appointed person regime.

There was a degree of uncertainty around the appointed person regime until July 2016 when PSAA were specified by the Secretary of State as an appointing person under regulation 3 of the Local Audit (Appointing Person) Regulations 2015. The appointing person is sometimes referred to as the sector led body and PSAA has wide support across most of local government. PSAA were originally established to operate the transitional arrangements following the closure of the Audit Commission and is a company owned by the Local Governments Association's Improvement and Development Agency (IDeA).

It has been confirmed that the date by which authorities will need to opt in to the appointing person arrangements is 9th March 2017 and hence this report to January Audit Committee in order that the January Council meeting can consider the recommendation ahead of this deadline,

The main advantages of using PSAA are set out in its prospectus (see Appendix 1) and are summarised below. The converse of these can be viewed as the disadvantages if the Council was to decide to undertake its own procurement.

- Assure timely auditor appointments
- Manage independence of auditors
- Secure highly competitive prices
- Save on procurements costs
- Save time and effort needed on auditor panels
- Focus on audit quality
- Operate on a not for profit basis and distribute any surplus funds to scheme members.

4.1 Policy Context

The recommendation within this report helps to ensure that resources continue to be used efficiently and that resources available to maintain frontline services are maximised.

4.2 Equality Impact Assessment

This report deals with the appointment of the Council's external auditors and will not affect any groups of people

4.3 Sustainability

Not applicable

4.4 Consultations

The PSAA has consulted widely with s151 Officers within London and across the country.

4.5 Risk Assessment

As set out in this report, use of the PSAA minimises the risks inherent in undertaking our own procurement.

5. COMMENTS OF THE GROUP DIRECTOR OF FINANCE & CORPORATE RESOURCES

If PSAA is not used additional resources would likely be required to establish an auditor panel and conduct our own procurement. Until either procurement exercise is completed it is not possible to state what additional resource would be required for audit fees for 2018/19 and the years beyond, although it is anticipated that any increase will be minimised through using PSAA.

6. COMMENTS OF THE DIRECTOR OF LEGAL

- 6.1 The Local Audit and Accountability Act 2014, section 9 requires each Authority to have an auditor panel to exercise the required functions of an auditor panel under the Act.
- 6.2 The functions include providing advice to the authority on maintaining an independent relationship with its auditor and on selection and appointment of its auditor taking into account guidance issued by the Secretary of State regarding the exercise of the auditor panel functions.
- 6.3 The process as set out in this report and the Appendix will ensure compliance with the Local Audit and Accountability Act 2014.

APPENDICES

1 - PSAA Prospectus

BACKGROUND PAPERS


None

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Developing the option of a national scheme for local auditor 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

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**](mailto: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 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

“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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www.psaa.co.uk

Page 22



Public Sector
Audit Appointments