

**READING BOROUGH COUNCIL
REPORT BY HEAD OF FINANCE**

TO:	COUNCIL		
DATE:	24 JANUARY 2017	AGENDA ITEM:	8
TITLE:	FUTURE AUDIT ARRANGEMENTS - APPOINTMENT OF PUBLIC SECTOR AUDIT APPOINTMENTS LTD		
LEAD COUNCILLOR:	JO LOVELOCK	PORTFOLIO:	LEADERSHIP
SERVICE:	FINANCIAL	WARDS:	BOROUGHWIDE
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1. PURPOSE AND SUMMARY OF REPORT

- 1.1 Further to the recommendation made by Audit and Governance Committee meetings on 19 April 2016 (Minute 22 refers) and 29 September 2016 (Minute 12 refers), this report explains the latest position in relation to the changed arrangements in the Local Audit & Accountability Act 2014 (the 2014 Act) for the appointment of an external auditor for the Council, and asks Council to confirm the recommendation Public Sector Audit Appointments Limited should be asked to appoint an external auditor for the Council.
- 1.2 In August 2010 the then Secretary of State announced that the Audit Commission would be abolished, and authorities would need to appoint their own auditor. Subsequently, during the legislative process to enact the announcement, the Local Government Association argued that in order to simplify and streamline the process (and hopefully retain many of the financial gains that were subsequently made by the Audit Commission in contracting for a more streamlined audit (focused on the accounts and vfm)), that there should be a facility for a sector led body to assist local authorities with the appointment of auditors.
- 1.3 As part of the process of shutting down the Audit Commission, Public Sector Audit Appointments Limited was established (as an LGA linked company) to manage the run off of the audit contracts, and at the time of its establishment (in which the LGA was involved), it was indicated that it would seek to offer a service to authorities with subsequent audit appointments.
- 1.4 In July 2016, the present Secretary of State for Communities and Local Government specified Public Sector Audit Appointments Limited (PSAA) as an

appointing person under regulation 3 of the Local Audit (Appointing Person) Regulations 2015. This means that PSAA can make auditor appointments for audits of the accounts from 2018/19 of principal authorities that choose to opt into its arrangements.

- 1.5 Following the approval of PSAA as the appointing person under the 2014 Act, this report recommends that to ensure the Council gets the best price for its independent external audit, and minimises the work involved locally, that PSAA is asked to assist the Council in finding an auditor, and authorises the Head of Finance to progress arrangements, reporting to Council or Audit & Governance Committee, as necessary in due course.

2. RECOMMENDATION

- 2.1 That the appointment of Public Sector Audit Appointments Limited (PSAA) by the Government, to act as an appointing person under the provisions of the Local Audit and Accountability Act 2014 and the Local Audit (Appointing Person) Regulations 2015, be noted.
- 2.2 That, in accordance with regulation 19 of the Local Audit (Appointing Person) Regulations 2015, the recommendation of the Audit & Governance Committee to 'opt in' to the 'Appointing Person' arrangement be confirmed and agreed.
- 2.3 That, under the 'opt in' arrangement, PSAA be appointed to assist the Council in finding an Auditor for 2018/19 and beyond for a 5 year period, in accordance with the Local Audit (Appointing Person) Regulations 2015 and on the recommendation of the Audit & Governance Committee (Minute 12 of the meeting held on 29 September 2016 refers) and the Head of Finance be authorised to make the necessary arrangements to progress the process within the required timescale.
- 2.4 That the decisions to 'opt in' to the 'Appointing Person' arrangement to seek external auditors on behalf of the Council; and to confirm the appointment of the external auditors be added to the list of matters reserved to Council set out in Article 4 of the Council's Constitution.

3. POLICY CONTEXT

- 3.1 Most audit related matters are currently the responsibility of Audit & Governance Committee on behalf of Council, and the Committee has received several updates since the previous Secretary of State made his abolition announcement,
- 3.2 In April 2016 the Audit & Governance Committee resolved that it supported in principle a proposal to ask Public Sector Audit Appointments Ltd to assist with the

appointment of an external auditor for the 2018/19 and subsequent accounts and confirmed its support for this course of action at a later meeting on 29 September 2016 (Minute 12 refers). Whilst PSAA had recently been designated for that purpose, at the time of the September committee it had not set out the arrangements for option in. Furthermore, in any event, the legislation requires Council as a whole to decide its audit arrangements.

4. THE PROPOSAL

(a) Option Proposed

- 4.1 The Government decided to abolish the Audit Commission and give local authorities the power to appoint their own auditor. During the passage of the legislation through Parliament, the Local Government Association argued that there should be a facility for authorities to club together at a national level to make appointments.
- 4.2 Public Sector Audit Appointments Ltd (PSAA) was set up initially as part of the transitional arrangements associated with the Audit Commission's abilities to manage the run off of the contracts let by the Commission, but with the intention that in due course it would apply to be able to let future contracts. PSAA sits within the LGA Group, and currently works from the LGA's offices.
- 4.3 The Government confirmed PSAA's appointment in the latter role, and PSAA then wrote to chief financial officers in August 2016 (see Appendix A) to invite the Council, as a principal authority, to 'opt in' to the 'Appointing Person' arrangement. The appendix outlines the process thereafter leading to a formal appointment of an auditor for 2018/19 during the second half of calendar year 2017 (as the legal deadline to appoint is 31 December before the 1 April in the year the appointment commences). PSAA subsequently wrote in October after the last Council meeting setting out the formal arrangements for opting in (Appendix B).
- 4.4 This report recommends that to ensure the Council gets the best price for its independent external audit and minimises the work involved locally, PSAA is asked to assist the Council in finding an auditor, and the Head of Finance is authorised to make the necessary arrangements to progress this process within the required timescale.
- 4.5 Practically PSAA has the expertise to let audit contracts (as several of its staff worked in recent years in the audit contracts team at the Audit Commission, and by appointing PSAA the Council can ensure its auditor is independent, as PSAA will be putting in arrangements to ensure this is the case at the time of appointment.
- 4.6 PSAA has indicated that councils wishing to use its services should formally confirm their intent by 9 March 2017. Subsequently PSAA will ensure an

appointment is made by the statutory deadline of 31 December 2017 (so auditors are in place 3 months before the first year of their appointment, albeit they have limited work to do for 12 months).

(b) Other Options Considered

- 4.7 The appointment of an 'appointing person' is an alternative arrangement to the Council setting up and managing its own Auditor Panel, which would recommend the appointment of external auditors to the full Council, in accordance with the process specified in the 2014 Act.
- 4.8 PSAA has set out that for authorities that choose not to opt in to the appointing person arrangements, there are two options available for appointing their own auditor. These are to:
- undertake an individual auditor procurement and appointment exercise; or
- undertake a joint audit procurement and appointing exercise with other bodies, those in the same locality for example
- 4.9 Both these options require the authority *to establish an Auditor Panel (which has to include independent members)* and consult and take into the advice of its Auditor Panel on the selection and appointment of a local auditor. Section 9 of the Act requires a relevant authority to establish an auditor panel, section 10 sets out the functions of an auditor panel, and schedule 4 sets out provisions applying to auditor panels. An auditor panel must consist of a majority of independent members (or wholly of independent members), and must be chaired by an independent member. *{The section in italics added to PSAA's words}*.
- 4.10 To date the Council has taken no action to establish an Auditor Panel, and in addition to this, practically the Council would need to draw up a specification for the work required. There are not resources available to do this within the Council to meet the 31 December 2017 deadline. Furthermore we are not aware of any joint audit procurement (other than the PSAA arrangements).
- 4.11 PSAA's website lists the many authorities that have formally opted in; informally amongst unitary authorities one of our Berkshire neighbours undertook a survey at the beginning of January and advised (excluding the Reading response 30/33 were opting for PSAA, one was doing its own procurement and two were undecided. As at the beginning of January, PSAA advised in total there are 177 authorities who have opted in, and they are aware of at least a further 80 that are minded to do so. The table below was provided by them.

Authority type	Total Authorities	Opted in so far	Opt-in percentage
Police bodies	73	26	36%
County Councils	27	15	56%
District Councils	201	87	43%
Fire and Rescue Authorities	30	11	37%
London Borough Councils	33	9	27%
Metropolitan District Councils	36	5	14%
Unitary Authorities	56	16	29%
LG Miscellaneous	37	8	22%

5. CONTRIBUTION TO STRATEGIC AIMS

- 5.1 The appointment of external auditors will contribute to the Council remaining financially sustainable to deliver its corporate priorities.

6. COMMUNITY ENGAGEMENT AND INFORMATION

- 6.1 Section 138 of the Local Government and Public Involvement in Health Act 2007 places a duty on local authorities to involve local representatives when carrying out "any of its functions" by providing information, consulting or "involving in another way".
- 6.2 This report is concerned with the process for appointing the local authority's external auditors through PSAA Ltd. There is no requirement for external consultation on this decision.

7. EQUALITY IMPACT ASSESSMENT

- 7.1 Under the Equality Act 2010, Section 149, a public authority must, in the exercise of its functions, have due regard to the need to—
- eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act;
 - advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;
 - foster good relations between persons who share a relevant protected characteristic and persons who do not share it.
- 7.2 This report is concerned with the process for appointing the local authority's external auditors through PSAA. This does not have a differential impact on: racial groups; gender; people with disabilities; people of a particular sexual orientation; people due to their age; people due to their religious belief. As a

result, there is no requirement for an equality impact assessment to be undertaken.

8. FINANCIAL IMPLICATIONS

- 8.1 None, directly from this report, save that in principle the decision should ensure a value for money independent audit appointment in due course.
- 8.2 PSAA's work in appointing auditors will be funded as part of the contracting process; and ultimately paid for by local authorities through audit fees. There are no (draft) budgeted resources in 2017/18 for any other solution.

9. LEGAL IMPLICATIONS

- 9.1 The proposal to be an 'opted in' authority for the purpose of appointing external auditors significantly simplifies the process the Council would need to undertake this appointment. In the event, the Council chose to do this independently, it would be necessary to set up an auditor panel, which would include an independent chair and a majority of other independent members. The Council would be responsible for the procurement process and would need to follow various other tightly specified procedures.
- 9.2 In accordance with the Local Audit (Appointing Persons) Regulations 2015, the Council can decide to become an 'opted in' authority and appoint PSAA Ltd to assist finding an Auditor to commence in 2018/19, which would avoid the resource implications of setting up its own auditor panel.
- 9.3 The decision to 'opt in' and appoint PSAA to seek external auditors on behalf of the Council is a matter reserved to Council under regulation 19 of the 2015 Regulations. The decision to confirm the appointment of the external auditors is also a reserved function of Council.

8. BACKGROUND PAPERS

- 8.1 Communications from PSAA received by e-mail in Appendices A & B
 - A - PSAA has been specified by DCLG as the appointing person for auditor appointments at principal local government bodies
 - B - Invitation to become an opted-in authority
- 8.2 Local Audit & Accountability Act 2014 & Local Audit (Appointing Persons) Regulations 2015
- 8.3 Q&A from PSAA Website
<http://www.psa.co.uk/wp-content/uploads/2016/12/Appointing-person-FAQs-updated-1-December-2016.pdf>

Appendix A

17 August 2016

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

Dear Mr Cross

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

Appendix B

Invitation to become an opted-in authority

The Local Audit and Accountability Act 2014 and the Local Audit (Appointing Person) Regulations 2015 (the Regulations)

Public Sector Audit Appointments Limited (PSAA), being an appointing person for the purposes of the Regulations, invites Reading Borough Council (the authority) to become an opted in authority in accordance with the Regulations.

Further information is contained in the opt-in letter and additional information attached to this email. The length of the compulsory appointing period is the 5 consecutive financial years commencing 1 April 2018.

A decision to become an opted-in authority must be taken in accordance with the Regulations, that is by the members of an authority meeting as a whole, except where the authority is a corporation sole, such as a police and crime commissioner, in which case this decision can be taken by the holder of that office.

The closing date to give notice to PSAA of the authority's acceptance of our invitation is: **9 March 2017**.

A form of notice of acceptance is enclosed with this invitation to opt in. The notice of acceptance must be sent by email to: appointingperson@psaa.co.uk and must be received **before 5pm on Thursday 9 March 2017**.

PSAA confirms it is willing to receive notices of acceptance by email to this address and will confirm receipt of all notices of acceptance by email.

Jon Hayes
Chief Officer