

## **Audit Committee – 4 September 2017**

### **National scheme for Auditor appointments with Public Sector Audit Appointments (PSAA) as the ‘appointing person’**

#### **1. Summary of report**

- 1.1 This report sets out the outcome for the appointment of the external auditor to the Council for the 2018/19 accounts and beyond, as the current arrangements only cover up to and including the 2017/18 audits.

#### **2. Recommendations:**

- 2.1 Audit Committee are asked to note that Grant Thornton (UK) LLP have been appointed as the Council’s external auditor by the Public Sector Audit Appointments (PSAA) for 5 financial years commencing 1 April 2018 and that the Council does not propose to object to this appointment.

#### **3. Governance**

- 3.1 The Local Audit and Accountability Act 2014 (the Act) brought to a close the Audit Commission and established transitional arrangements for the appointment of external auditors and the setting of audit fees for all local government and NHS bodies in England. On 5 October 2015 the Secretary of State Communities and Local Government (CLG) determined that the transitional arrangements for local government bodies would be extended by one year to also include the audit of the accounts for 2017/18.
  - 3.2 The Act also set out the arrangements for the appointment of auditors for subsequent years, with the opportunity for authorities to make their own decisions about how and by whom their auditors are appointed. Regulations made under the Act allow authorities to ‘opt in’ for their auditor to be appointed by an ‘appointing person’.
  - 3.3 In July 2016 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 local government. PSAA was originally established to operate the transitional arrangements following the closure of the Audit Commission under powers delegated by the Secretary of State. PSAA is an independent, not-for-profit company limited by guarantee and established by the LGA.
- #### **4. Detail**
- 4.1 Council at its meeting on 14 November 2016 approved that the Council should accept the invitation from PSAA to conduct a sector-wide procurement for appointing auditors.

4.2 PSAA has outlined a number of benefits for authorities opting in to this sector-wide process, including:

- The audit costs are likely to be lower than if the Council sought to appoint locally, as national large-scale contracts are expected to drive keener prices from the audit firms;
- Without the national appointment, the Council would need to establish a separate independent auditor panel, which could be difficult, costly and time-consuming;
- PSAA can ensure the appointed auditor meets and maintains the required quality standards and can manage any potential conflicts of interest much more easily than the Council;
- Supporting the sector-led body will help to ensure there is a vibrant public audit market for the benefit of the whole sector and this Council going forward into the medium and long term.
- PSAA will ensure the appointment of a suitably qualified and registered auditor and expects to be able to manage the appointments to allow for appropriate groupings and clusters of audits where bodies work together;
- PSAA will monitor contract delivery and ensure compliance with contractual, audit quality and independence requirements;
- Any auditor conflicts at individual authorities would be managed by PSAA who would have a number of contracted firms to call upon;
- It is expected that the large-scale contracts procured through PSAA will bring economies of scale and attract keener prices from the market than a smaller scale competition;
- The overall procurement costs would be lower than an individual smaller scale local procurement;
- The overhead costs for managing the contracts will be minimised through a smaller number of large contracts across the sector;
- The new regime provides both the perception and reality of independent auditor appointment through a collective approach; and
- A sustainable market for audit provision in the sector will be easier to ensure for the future.

4.3 PSAA have now completed this process and wrote the Council on 9 June 2017 to advise that Grant Thornton (UK) LLP had been successful in winning a contract in the procurement, and that PSAA were proposing to appoint this firm as the auditor of Walsall Metropolitan Borough Council.

4.4 If the Council wishes to make representations about this appointment then there is a process for it to follow, however it is not proposed that an objection is raised.

## **5. Financial Implications**

- 5.1 The Council's current external auditor is Ernst & Young LLP, this appointment having been made under a contract let by the Audit Commission. Following closure of the Audit Commission the contract was novated to PSAA, and since this date PSAA has demonstrated its capability in terms of auditor appointment, contract management, and monitoring audit quality.
- 5.2 Over recent years authorities have benefited from a reduction in fees in the order of 55% compared with fees in 2012. This has been the result of a combination of factors including new contracts negotiated nationally with the audit firms and savings from closure of the Audit Commission.
- 5.3 The Council's current external audit fees, for the audit of its main financial statements, for 2016/17 were £0.143m per annum.
- 5.4 The proposed fees under the new contract starting 1 April 2018 and for the subsequent years are not yet known however the results of the audit procurement indicate that a reduction in scale fees in the region of approximately 18 per cent (approximately £0.026m compared to the 2016/17 fees) should be possible for 2018/19, based on the individual scale fees applicable for 2016/17.

## **6. Legal Considerations**

- 6.1 Section 7 of the Local Audit and Accountability Act 2014 requires a relevant Council to appoint a local auditor to audit 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 account of the advice of its auditor panel on the selection and appointment of a local auditor.
- 6.2 Section 8 provides that where a relevant Council is a local Council operating executive arrangements, the function of appointing a local auditor to audit its accounts is not the responsibility of an executive of the Council under those arrangements;
- 6.3 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.
- 6.4 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.

## **7. Risk Management**

- 7.1 Opting-in to a national scheme should provide maximum opportunity to ensure fees are as low as possible, whilst ensuring the quality of audit is maintained by entering in to a large scale collective procurement arrangement. However as the

proposed fees under the new contract starting 1 April 2018 are not yet known there is a risk that the current external fee levels could increase when the new contracts begins (although the high level outcome of the procurement process undertaken by PSAA does not indicate this at present).

## **8. Equality Implications**

8.1 There are no equality implications as a result of this report.

## **9. Consultation**

9.1 Council at its meeting on 14 November 2016 approved that the Council should opt in to the PSAA procurement process.

## **Background papers**

Report to Council 14 November 2016 – National scheme for auditor appointments  
Local Government Association (LGA) report for decision to 'opt in'  
The Local Audit and Accountability Act 2014  
Local Audit (Appointing Person) Regulations 2015



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