



## **Leadership Board (Extraordinary Meeting)**

Tuesday 7th March 2017 at 2.15 pm

Meeting to be held at Tyne and Wear Fire and Rescue Service Headquarters, Nissan Way, Sunderland, SR5 3QY

[www.northeastca.gov.uk](http://www.northeastca.gov.uk)

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# AGENDA

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**Page No**

1. **Apologies for Absence (Members)**

2. **Declarations of Interest**

Please remember to declare any personal interest where appropriate both verbally and by recording it on the relevant form (to be handed to the Democratic Services Officer). Please also remember to leave the meeting where any personal interest requires this.

3. **Invitation to Opt Into the National Scheme for Auditor Appointments** **1 - 18**

4. **Date and Time of the Next Ordinary Meeting**

Tuesday, 21 March 2017 at 2pm at Northumberland County Council.

Contact Officer: Victoria Miller Tel: 0191 211 5118 E-mail: [victoria.miller@northeastca.gov.uk](mailto:victoria.miller@northeastca.gov.uk)

**To All Members**

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## North East Combined Authority

### Leadership Board

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**Date:** 7 March 2017

**Subject:** Invitation to Opt Into the National Scheme for Auditor Appointments

**Report of:** Head of Paid Service and the Chief Finance Officer

#### Executive Summary

The purpose of this report is to advise members about the arrangements for the appointment of external auditors to local authorities (including NECA). From 2018/19 onwards the responsibility for auditor appointments lies with the authorities themselves. They can exercise this responsibility independently and procure their own auditors individually, or opt-in to a national scheme for appointments. Following a report and discussions at Governance Committee in December and discussions with the Directors of Finance of the constituent local authorities, it is recommended that NECA join the national scheme for the appointment of external Auditors. This is the approach being taken by the majority of constituent authorities within NECA and by Nexus.

A decision by NECA to opt in to the national scheme needs to be notified to Public Sector Audit Appointments Limited by 9<sup>th</sup> March and is a decision that requires approval of the full Leadership Board.

#### Recommendations

It is recommended that the Leadership Board:-

Formerly submit a Notice of Acceptance to the invitation received from Public Sector Audit Appointment Limited for the North East Combined Authority to opt in to the National Scheme for Auditor Appointments.

# North East Combined Authority

## Leadership Board

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### **1 Background Information**

- 1.1 The Authority's current external auditors (Mazars) were appointed under the current audit contracts let by the Audit Commission before it closed. The current contract runs until the close of the 2017/18 accounts and is managed by Public Sector Audit Appointments Limited (PSAA), a not-for-profit company established by the Local Government Association (LGA).
- 1.2 Auditor appointments for the audit of the 2018/19 accounts (and for the following four years) must be made by 31 December 2017. Following the abolition of the Audit Commission, the responsibility for auditor appointments now lies with authorities themselves. They can exercise this responsibility independently and procure their own auditors individually, or opt-in to a national scheme for appointments.
- 1.3 PSAA has been specified by the Secretary of State for Communities and Local Government as an 'appointing person' for principal local government bodies which includes NECA. As an appointing person PSAA has the power to make auditor appointments to any principal local government bodies that choose to opt into the national appointment arrangements. In order to identify the number of authorities to be covered by the national scheme to enable procurement of external auditors to take place, they have asked local authorities to notify them of an intention to opt in to the national scheme by 9<sup>th</sup> March 2017.

### **2 Proposals**

- 2.1 The views of Governance Committee were sought at its meeting in December 2016. Some members of the Committee expressed a preference for external auditors to be based locally in the region and that the same auditors should be appointed for Nexus, which forms part of the NECA group accounts. The Committee was therefore interested in exploring the option of a local arrangement if this was forthcoming. The Committee was not minded to recommend that NECA seek to appoint its own auditors independently.
- 2.2 Responses to these comments were sought from PSAA and confirmation received that the views of authorities would be taken into account in appointing auditors wherever possible, including appointments of the same auditors to connected bodies (such as NECA and Nexus) and that it was highly likely that firms appointed would have a regional base.

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- 2.3 A majority of NECA's constituent authorities have indicated that they will be opting-in to the national appointment scheme, while the others are exploring options to procure external auditors jointly, so there will be no NECA-wide local arrangement available. Nexus have decided to opt-in to the national scheme.
- 2.4 Given the assurances received from PSAA about a local audit base; the fact that the majority of NECA constituent authorities are opting into the national scheme; and that Nexus are also choosing to opt-in to the national scheme, the recommendation is that NECA should opt-in to the national scheme. This has been discussed with the Finance Directors of the constituent authorities and no issues or concerns have been raised about this approach.

### **3 Next Steps**

- 3.1 The decision to accept PSAA's invitation for NECA to become an opted in authority to the national scheme must be made and confirmed to PSAA by 9 March 2017. On receipt of the notice of acceptance of the invitation by PSAA, NECA will become an 'opted in authority' with the responsibility for the appointment of its Auditor becoming the responsibility of PSAA.
- 3.2 Appointments for auditors for the 2018/19 financial year onwards would be made by December 2017 with the views of authorities taken into account where possible.

### **4 Potential Impact on Objectives**

- 4.1 There are no impacts on objectives directly arising from this decision.

### **5 Finance and Other Resources**

- 5.1 This option should have the minimum resource implications for the Authority and is likely to be the most efficient and effective external audit arrangement. Procuring audit contracts on a large scale should deliver economies of scale to keep audit fees competitive. The costs of PSAA would be recovered through the scale fees paid by audited bodies. All contract management and independence issues would be dealt with by PSAA.

### **6 Legal**

- 6.1 The Local Audit and Accountability Act 2014 sets out the requirements and processes for the appointment of auditors to local authorities and similar public bodies. The Local Audit (Appointing Person) Regulations 2015 sets out the arrangements for becoming an opted in authority to the National Auditor Appointment Scheme. The option selected by the Authority for appointing its auditors must meet the requirements of the Act and the Regulations.

# North East Combined Authority

## Leadership Board

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If NECA formerly accepts the invitation from PSAA for it to become the body responsible for appointing NECA's external auditors, it must do so by way of a notice of acceptance of the invitation by no later than 9 March 2017.

- 6.2 The Regulations state that the decision to formerly accept the invitation to become an opted in authority can only be taken by the Leadership Board meeting as a whole.

## 7 Other Considerations

### 7.1 Consultation/Community Engagement

Consultation has taken place with NECA Governance Committee and the Finance Directors of the NECA constituent authorities and Nexus and their views taken into account in forming a recommendation.

### 7.2 Human Rights

There are no specific human rights implications arising from this report.

### 7.3 Equalities and Diversity

There are no specific equalities and diversity implications arising from this report.

### 7.4 Risk Management

There are no specific risk management implications arising from this report.

### 7.5 Crime and Disorder

There are no specific crime and disorder implications arising from this report.

### 7.6 Environment and Sustainability

There are no specific environment and sustainability implications arising from this report.

## 8 Background Documents

- 8.1 PSAA – Developing the option of a national scheme for local auditor appointments
- 8.2 PSAA – Frequently Asked Questions
- 8.3 The Local Audit (Appointing Person) Regulations 2015

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## Leadership Board

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### **9 Links to the Local Transport Plans**

9.1 There are no specific links to local transport plans.

### **10 Appendices**

10.1 Appendix A - Governance Committee Report December 2016  
Appendix B - Letter of invitation from Public Sector Audit Appointments

### **11 Contact Officers**

11.1 Paul Woods, Chief Finance Officer, [paul.woods@northeastca.gov.uk](mailto:paul.woods@northeastca.gov.uk),  
07984747487

### **12 Sign off**

- Head of Paid Service ✓
- Monitoring Officer ✓
- Chief Finance Officer ✓

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# **North East Combined Authority**

## **Governance Committee**

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**Date:** 6 December 2016

**Subject:** Invitation to opt into the national scheme for auditor appointments

**Report of:** Chief Finance Officer

### **Executive Summary**

The purpose of this report is to set out the options available for auditor appointments from 2018/19 onwards and the invitation received from Public Sector Audit Appointments to opt-in to a national scheme, and seek the views of Governance Committee on preferred options which would be presented to the Leadership Board.

### **Recommendations**

The Committee is recommended to receive the report for information and provide views on which of the three options is preferred to form a recommendation to be put before the Leadership Board.

# North East Combined Authority

## Governance Committee

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### 1 Background Information

- 1.1 The Authority's current external auditors (Mazars) were appointed under the current audit contracts let by the Audit Commission before it closed. The current contracts run until 2017/18 and are managed by Public Sector Audit Appointments Limited (PSAA), a not-for-profit company established by the Local Government Association (LGA).
- 1.2 Auditor appointments for the audit of the 2018/19 accounts must be made by 31 December 2017. Following the abolition of the Audit Commission, the responsibility for auditor appointments now lies with authorities themselves. They can exercise this responsibility independently and procure their own auditors individually, or opt-in to a national scheme for appointments.
- 1.3 PSAA have been specified by the Secretary of State for Communities and Local Government as an 'appointing person' for principal local government bodies. They will make auditor appointments to any principal local government bodies that choose to opt into the national appointment arrangements.

### 2 Proposals

#### 2.1 Option 1 – National Appointment Scheme

The letter, prospectus and frequently asked questions attached to this report as appendices set out further details about the national appointment scheme option.

- 2.2 The decision to opt-in must legally be made by the Leadership Board, but it is appropriate for Governance Committee to consider the proposals and make recommendations to the Leadership Board under its terms of reference.
- 2.3 This option has the advantage of the minimum resource implications for the Authority. Procuring audit contracts on a large scale should deliver economies of scale to keep audit fees competitive. The costs of PSAA would be recovered through the scale fees paid by audited bodies. All contract management and independence issues would be dealt with by PSAA. However, although authorities will be consulted on proposed appointments, there is less opportunity to influence the decision than if participating in a local scheme or appointing individually.

# North East Combined Authority

## Governance Committee

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### 2.4 Option 2 – Local Appointment Scheme

Some authorities within the NECA area have expressed a wish to work together on a regional basis to establish an auditor panel and appoint auditors on this basis. Proposals are subject to further discussion by all local authorities in the region, and the views of NECA Governance Committee would be welcomed.

- 2.5 This option has the advantage of sharing the resourcing burden between authorities and widening the pool of available participants in an Appointment Panel which would be required. Working on a regional basis would allow the Authority to have input into the decision of which firm was appointed. However the economies of scale may not be as significant so there may be higher costs or resource implications for NECA and it is as yet unclear how many authorities in the region may wish to participate.

### 2.6 Option 3 – Individual Appointment

The final option is for the Authority to appoint its own auditors independently. This option would give the Authority control over its own decision of which firm to appoint. However there would be cost and resource implications to fall on the Authority in terms of procurement and ongoing management of the contract. CIPFA and DCLG have produced guidance which sets out the requirements of audit panels, which may prove quite onerous for an Authority such as NECA to operate on an individual basis.

## 3 Next Steps

- 3.1 A report, including the views of Governance Committee, will be presented to the Leadership Board at its meeting in January for decision. Acceptance of the invitation to opt-in to the national scheme would be required to be returned to PSAA by 9 March 2017. Should this take place, the timetable for the new arrangements is as set out in the letter attached as Appendix 1. A decision to join a local arrangement would be subject to a timetable as yet to be determined, but all auditor appointments for 2018/19 must be made by 31 December 2017 and follow proper procurement practices. This would also apply should the Authority wish to appoint its own auditors independently.

## 4 Potential Impact on Objectives

- 4.1 There are no impacts on objectives directly arising from this report.

# North East Combined Authority

## Governance Committee

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### **5 Finance and Other Resources**

5.1 The financial and resource implications are set out in the body of the report.

### **6 Legal**

6.1 The Local Audit and Accountability Act 2014 sets out the requirements and processes for the appointment of auditors to local authorities and similar public bodies. The option selected by the Authority for appointing its auditors must meet the requirements of the Act.

### **7 Other Considerations**

#### **7.1 Consultation/Community Engagement**

There are no specific consultation or community engagement implications arising from this report.

#### **7.2 Human Rights**

There are no specific human rights implications arising from this report.

#### **7.3 Equalities and Diversity**

There are no specific equalities and diversity implications arising from this report.

#### **7.4 Risk Management**

There are no specific risk management implications arising from this report.

#### **7.5 Crime and Disorder**

There are no specific crime and disorder implications arising from this report.

#### **7.6 Environment and Sustainability**

There are no specific environment and sustainability implications arising from this report.

### **8 Background Documents**

8.1 Local Audit and Accountability Act 2014

### **9 Links to the Local Transport Plans**

9.1 There are no specific links to the local transport plans arising as a result of this report.

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## Governance Committee

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### 10 Appendices

10.1 Appendix 1 – Invitation letter from Public Sector Audit Appointments

Appendix 2 – Developing the option of a national scheme for local auditor appointments

Appendix 3 – Frequently Asked Questions

### 11 Contact Officers

11.1 Eleanor Goodman, Principal Accountant,  
[eleanor.goodman@northeastca.gov.uk](mailto:eleanor.goodman@northeastca.gov.uk), 0191 277 7518

### 12 Sign off

- Head of Paid Service ✓
- Monitoring Officer ✓
- Chief Finance Officer ✓

### 13 Glossary

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27 October 2016

**Email:** [appointingperson@psaa.co.uk](mailto:appointingperson@psaa.co.uk)

Helen Golightly  
North East Combined Authority  
Quadrant  
The Silverlink North Cobalt Business Park  
North Tyneside NE27 0BY

Copied to: Paul Woods, Chief Finance Officer, North East Combined Authority

Dear Ms Golightly

## Invitation to opt into the national scheme for auditor appointments

As you know the external auditor for the audit of the accounts for 2018/19 has to be appointed before the end of 2017. That may seem a long way away, but as there is now a choice about how to make that appointment, a decision on your authority's approach will be needed soon.

We are pleased that the Secretary of State has expressed his confidence in us by giving us the role of appointing local auditors under a national scheme. This is one choice open to your authority. We issued a prospectus about the scheme in July 2016, available to download on the [appointing person](#) page of our website, with other information you may find helpful.

The timetable we have outlined for appointing auditors under the scheme means we now need to issue a formal invitation to opt into these arrangements. The covering email provides the formal invitation, along with a form of acceptance of our invitation for you to use if your authority decides to join the national scheme. We believe the case for doing so is compelling. To help with your decision we have prepared the additional information attached to this letter.

I need to highlight two things:

- we need to receive your formal acceptance of this invitation by 9 March 2017; and
- the relevant regulations require that, except for a body that is a corporation sole (a police and crime commissioner), the decision to accept the invitation and to opt in needs to be made by the members of the authority meeting as a whole. We appreciate this will need to be built into your decision making timetable.

If you have any other questions not covered by our information, do not hesitate to contact us by email at [appointingperson@psaa.co.uk](mailto:appointingperson@psaa.co.uk).

Yours sincerely



Jon Hayes, Chief Officer

## Appointing an external auditor

### Information on the national scheme

#### Public Sector Audit Appointments Limited (PSAA)

We are a not-for-profit company established by the Local Government Association (LGA). We administer the current audit contracts, let by the Audit Commission before it closed.

We have the support of the LGA, which has worked to secure the option for principal local government and police bodies to appoint auditors through a dedicated sector-led national procurement body. We have established an advisory panel, drawn from representative groups of local government and police bodies, to give access to your views on the design and operation of the scheme.

#### The national scheme for appointing local auditors

We have been specified by the Secretary of State for Communities and Local Government as the appointing person for principal local government bodies. This means that we will make auditor appointments to principal local government bodies that choose to opt into the national appointment arrangements we will operate for audits of the accounts from 2018/19. These arrangements are sometimes described as the 'sector-led body' option, and our thinking for this scheme was set out in a prospectus circulated to you in July. The prospectus is available on the [appointing person](#) page of our website.

We will appoint an auditor for all opted-in authorities for each of the five financial years beginning from 1 April 2018, unless the Secretary of State chooses to terminate our role as the appointing person beforehand. He or she may only do so after first consulting opted-in authorities and the LGA.

#### What the appointing person scheme will offer

We are committed to making sure the national scheme will be an excellent option for auditor appointments for you.

We intend to run the scheme in a way that will save time and resources for local government bodies. We think that a collective procurement, which we will carry out on behalf of all opted-in authorities, will enable us to secure the best prices, keeping the cost of audit as low as possible for the bodies who choose to opt in, without compromising on audit quality.

Our current role means we have a unique experience and understanding of auditor procurement and the local public audit market.

Using the scheme will avoid the need for you to:

- establish an audit panel with independent members;
- manage your own auditor procurement and cover its costs;
- monitor the independence of your appointed auditor for the duration of the appointment;
- deal with the replacement of any auditor if required; and
- manage the contract with your auditor.

Our scheme will endeavour to appoint the same auditors to other opted-in bodies that are involved in formal collaboration or joint working initiatives, if you consider that a common auditor will enhance efficiency and value for money.

We will also try to be flexible about changing your auditor during the five-year appointing period if there is good reason, for example where new joint working arrangements are put in place.

Securing a high level of acceptances to the opt-in invitation will provide the best opportunity for us to achieve the most competitive prices from audit firms. The LGA has previously sought expressions of interest in the appointing person arrangements, and received positive responses from over 270 relevant authorities. We ultimately hope to achieve participation from the vast majority of eligible authorities.

### **High quality audits**

The Local Audit and Accountability Act 2014 provides that firms must be registered as local public auditors with one of the chartered accountancy institutes acting in the capacity of a Recognised Supervisory Body (RSB). The quality of registered firms' work will be subject to scrutiny by both the RSB and the Financial Reporting Council (FRC), under arrangements set out in the Act.

We will:

- only contract with audit firms that have a proven track record in undertaking public audit work;
- include obligations in relation to maintaining and continuously improving quality in our contract terms and in the quality criteria in our tender evaluation;
- ensure that firms maintain the appropriate registration and will liaise closely with RSBs and the FRC to ensure that any quality concerns are detected at an early stage; and
- take a close interest in your feedback and in the rigour and effectiveness of firms' own quality assurance arrangements.

We will also liaise with the National Audit Office to help ensure that guidance to auditors is updated as necessary.

### **Procurement strategy**

In developing our procurement strategy for the contracts with audit firms, we will have input from the advisory panel we have established. The panel will assist PSAA in developing arrangements for the national scheme, provide feedback to us on proposals as they develop, and helping us maintain effective channels of communication. We think it is particularly important to understand your preferences and priorities, to ensure we develop a strategy that reflects your needs within the constraints set out in legislation and in professional requirements.

In order to secure the best prices we are minded to let audit contracts:

- for 5 years;
- in 2 large contract areas nationally, with 3 or 4 contract lots per area, depending on the number of bodies that opt in; and
- to a number of firms in each contract area to help us manage independence issues.

The value of each contract will depend on the prices bid, with the firms offering the best value being awarded larger amounts of work. By having contracts with a number of firms, we will be able to manage issues of independence and avoid dominance of the market by one or two firms. Limiting the national volume of work available to any one firm will encourage competition and ensure the plurality of provision.

## **Auditor appointments and independence**

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.

We plan to take great care to ensure that every auditor appointment passes this test. We will also monitor significant proposals for auditors to carry out consultancy or other non-audit work, to protect the independence of auditor appointments.

We will consult you on the appointment of your auditor, most likely from September 2017. To make the most effective allocation of appointments, it will help us to know about:

- any potential constraints on the appointment of your auditor because of a lack of independence, for example as a result of consultancy work awarded to a particular firm;
- any joint working or collaboration arrangements that you think should influence the appointment; and
- other local factors you think are relevant to making the appointment.

We will ask you for this information after you have opted in.

Auditor appointments for the audit of the accounts of the 2018/19 financial year must be made by 31 December 2017.

## **Fee scales**

We will ensure that fee levels are carefully managed by securing competitive prices from firms and by minimising our own costs. Any surplus funds will be returned to scheme members under our articles of association and our memorandum of understanding with the Department for Communities and Local Government and the LGA.

Our costs for setting up and managing the scheme will need to be covered by audit fees. We expect our annual operating costs will be lower than our current costs because we expect to employ a smaller team to manage the scheme. We 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 our current deferred income. We think this is appropriate because the new scheme will be available to all relevant principal local government bodies.

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.

Scale fees will be determined by the prices achieved in the auditor procurement that PSAA will need to undertake during the early part of 2017. Contracts are likely to be awarded at the end of June 2017, and at this point the overall cost and therefore the level of fees required will be clear. We expect to consult on the proposed scale of fees in autumn 2017 and to publish the fees applicable for 2018/19 in March 2018.

## Opting in

The closing date for opting in is 9 March 2017. We have allowed more than the minimum eight week notice period required, because the formal approval process for most eligible bodies, except police and crime commissioners, is a decision made by the members of an authority meeting as a whole.

We will confirm receipt of all opt-in notices. A full list of authorities who opt in will be published on our website. Once we have received an opt-in notice, we will write to you to request information on any joint working arrangements relevant to your auditor appointment, and any potential independence matters that would prevent us appointing a particular firm.

If you decide not to accept the invitation to opt in by the closing date, you may subsequently make a request to opt in, but only after 1 April 2018. The earliest an auditor appointment can be made for authorities that opt in after the closing date is therefore for the audit of the accounts for 2019/20. We are required to consider such requests, and agree to them unless there are reasonable grounds for their refusal.

## Timetable

In summary, we expect the timetable for the new arrangements to be:

- Invitation to opt in issued 27 October 2016
- Closing date for receipt of notices to opt in 9 March 2017
- Contract notice published 20 February 2017
- Award audit contracts By end of June 2017
- Consult on and make auditor appointments By end of December 2017
- Consult on and publish scale fees By end of March 2018

## Enquiries

We publish frequently asked questions on our [website](#). We are keen to receive feedback from local bodies on our plans. Please email your feedback or questions to: [appointingperson@psaa.co.uk](mailto:appointingperson@psaa.co.uk).

If you would like to discuss a particular issue with us, please send an email to the above address, and we will make arrangements either to telephone or meet you.

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