

PSAA Ltd and Sector Led Body Development

Purpose

To receive a review of performance from the Chair and Chief Officer of Public Sector Audit Appointments Limited (PSAA), and to consider proposals for the setting up of a sector led body (SLB) to procure audit services on behalf of local government bodies.

Summary

PSAA was established in August 2014 as a subsidiary of the IDeA to fulfil the role of 'transitional body' on closure of the Audit Commission. Since 1 April 2015 PSAA has been undertaking functions delegated by the Secretary of State Communities and Local Government (CLG) including appointing auditors and managing audit appointments for local government sector and NHS bodies in England.

In October 2015 the Secretary of State CLG decided to extend the transitional arrangements for local government bodies to the end of the 2017/18 financial year audit. For 2018/19 and onwards local government bodies will need to make new arrangements to appoint their auditor. The options include establishing an auditor panel made up of wholly or largely non-elected appointees; joining with other authorities to establish a joint auditor panel or; 'opt-in' to a sector led appointing person arrangements – a sector led body.

The LGA lobbied for the sector led body option to be included in the legislation. National procurement of audit services by local government offers the potential for significant savings and other qualitative benefits. We propose that PSAA is asked to become the LGA's sector led body utilising the valuable skills and experience the company has in the area of audit appointments. Amendments will be required to PSAA's Articles and Memorandum of Association.

Recommendations

That the Board:

1. Note the review of performance from the Chair and the Chief Officer of PSAA;
2. Reconfirm support for developing a sector led body offering to local government bodies; and
3. Invite the PSAA Board to consider becoming the sector led body for the procurement of audit services once the current contracts come to an end.

Action

Officers to take forward the work in light of the Board's decisions.

Contact officer: Dennis Skinner
Position: Head of Improvement
Phone no: 020 7664 3017 / 07747 791 754
Email: dennis.skinner@local.gov.uk

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Background

1. In April 2014, the LGA Executive received a report confirming that the LGA had been asked to set up the Audit Transitional Body and the Executive welcomed this and the opportunity it provided to continue to offer councils a means for audit services to be provided through a national procurement process with significant benefits to councils overall.
2. PSAA was established in August 2014 as a wholly owned subsidiary of the IDeA to fulfil the role of 'transitional body' on closure of the Audit Commission. Since 1 April 2015 PSAA has been undertaking functions delegated by the Secretary of State CLG including managing contracts with firms of accountants and appointing auditors to local government and NHS bodies in England. Other activities undertaken by PSAA under the transitional arrangements include the publication of VFM profiles and preparation of the Housing Benefit (HB) subsidy certification arrangements on behalf of the Department of Work and Pensions (DWP).
3. Under the terms of a Memorandum of Understanding (MOU) between the Secretary of State for CLG, IDeA and PSAA, the IDeA is required to:
 - 3.1. hold meetings every six months with the Chair and Chief Officer of PSAA;
 - 3.2. receive the annual report routinely produced by the Chair of the PSAA Audit Committee;
 - 3.3. receive a copy of the PSAA annual report and accounts.
4. This report provides an informal agenda for a discussion with PSAA's Chair and Chief Officer and a first opportunity for a meeting since the company become operational in April 2015. This report also provides details of the arrangements that follow when the transitional arrangements come to an end. In October 2015, the Secretary of State CLG wrote to the LGA to confirm his decision to extend the transitional arrangements for local government, but not NHS, for a further 12 months, to include the 2017/18 audit of accounts. The LGA lobbied for this extension and estimates that it has saved the sector in the order of £24m by locking in historically low audit fees for a further year.
5. Following agreement at the LGA Executive and the LGA's Improvement and Innovation Board, the LGA lobbied for provisions within the Local Audit and Accountability Act 2014 to enable the creation a sector led body capable of negotiating and letting contracts with audit firms on behalf of local authorities who wish to 'opt-in' to such an arrangement. The LGA believe there is scope for significant savings from the national procurement of audit services. In addition to economies of scale a national sector led body would remove the need for local authorities to set up independent procurement panels and could deliver other qualitative benefits.
6. In response to a survey of council Directors of Finance undertaken by LGA in mid-2015 a significant majority of respondents were in favour of a sector led appointment arrangements. PSAA staff and Board members have valuable expertise in the area of managing contracts and appointing auditors, making the company the ideal vehicle to act as the sector led body and fulfil the role of appointing person for opted-in authorities.

Update from Chair and Chief Officer of PSAA

7. Following the successful set up of the company, PSAA commenced operations on 1 April and work has progressed well. Auditor appointments for new bodies have been made and changes to appointments effected where necessary. PSAA has published 'terms of appointment' based on those used by the Audit Commission which set out the detailed requirements of the appointed auditors.
8. PSAA publishes quarterly reports on the contracted firms work and their compliance with its requirements on its website. In July PSAA published the results of the reviews of auditors work on 2013/14 audits. As part of that review work PSAA commissions the Financial Reporting Council (FRC) to undertake inspections of audit work on its behalf.
9. PSAA have considered and approved variations to the published scales of audit fees as appropriate and have launched a consultation on the scales of fees for 2016/17. PSAA has also made HB subsidy certification arrangements at DWP's request and auditors have certified claims for HB subsidy and reported the findings to DWP.
10. The PSAA website explains its work in all these areas and also allows free access to the former Audit Commission VFM profiles which are maintained by PSAA at the request of DCLG. PSAA have published an annual report on the outcomes of auditors' work at NHS bodies and will produce a similar one on auditors' work at LG bodies in December.
11. PSAA works with colleagues from DCLG, DH, FRC, ICAEW, LGA and NALC to support the transition to the new regime sharing its expertise where it can have best effect.

End of the transitional arrangements

12. In October 2015 LGA received a letter from the Secretary of State confirming his decision to extend the transitional arrangements for local government bodies to include the 2017/18 audit of accounts. For 2018/19 audits and onwards local government bodies, including all councils, police, fire and national park authorities need to make new arrangements to appoint their auditor. The options comprise:
 - 12.1. establishing an auditor panel made up of wholly or largely non-elected appointees and carrying out individual procurement exercises to select an auditor;
 - 12.2. joining with other authorities to establish a joint auditor panel or;
 - 12.3. 'opting-in' to a sector led appointing person arrangements – a sector led body.
13. The LGA lobbied for the sector led body option to be included in the legislation. National procurement of audit services by local government offers the potential for significant savings through the economies of scale derived from letting large value contracts. A national sector led body would also offer savings against the costs of setting up local auditor panel arrangements and in being able deliver qualitative benefits.
14. Support for such a body was assessed in May and June 2015 when LGA undertook a survey of Directors of Finance (or equivalent) in all 353 English local authorities, 47 Fire and Rescue Authorities, 38 Police and Crime Commissioners and 39 Police Forces. A total of 477 organisations were contacted. We received a 38 per cent response rate overall, and a 42 per cent response rate from councils.

15. The survey indicated:

- 15.1. 83 per cent of respondents said 'yes' their organisation would support extending the current contracts for external audit. In response, the LGA lobbied for an extension and we believe the extra year has locked in savings in the order of £24m for local government sector bodies and delivered additional time to put in place new arrangements.
- 15.2. 58 per cent of respondents said their organisation would prefer an 'opt-in' sector-wide body for collective procurement set up by the LGA and we have therefore started the work to establish sector led 'appointing person' arrangements in the form of establishing a Sector Led Body (SLB).

Development of a sector led body

16. In response to the survey work has commenced on the feasibility of establishing a national sector led offering. This will have the ability to negotiate high value contracts with the firms and the potential to secure the most economic and efficient approach to procurement of external audit on behalf of the whole sector. The feasibility work has identified some of the potential risks and rewards from such an approach.
17. By offering large contract values the audit firms would be able to offer better rates and lower fees than are likely to result from local negotiation. Firms would be better able to organise their work geographically which is likely to have an impact on quality and responsiveness and reflect the current arrangements where firms have developed 'centres of excellence'. Any independence issues at individual authorities, ie where an individual firm is prevented from being the auditor because of the level of advice or consultancy work already being undertaken at a council, would be managed by the SLB who would have a number of contracted firms to call upon.
18. The appointment process would not be ceded to locally appointed independent members. Instead a separate body set up to act in the collective interests of the 'opt-in' authorities would make decisions about individual appointments utilising the knowledge and experience acquired through the setting up of the transitional arrangements and the experience of staff and Board members of PSAA.
19. The costs of setting up the appointment arrangements and negotiating fees would be shared across all opt-in authorities although IDeA would need to provide the initial funding for the development and marketing of the body. In order for this to be viable and to achieve the strongest possible negotiating position, it will need councils to indicate their intention to opt-in before final contract prices are known. Initial estimates suggest that we would need around 50% - 60% of authorities to opt-in and be able to award a total minimum value of contracts in the order of £20 million to make this a financially viable proposition.
20. We propose that the Board of PSAA is asked to consider becoming the LGA's sector led body utilising the valuable skills and experience the company has in the area of audit appointments. The Board is Chaired by Steve Freer, former Chief Executive of CIPFA, and the other non-executive directors are Caroline Gardener, Auditor General Scotland, Dr Clive Grace, former Deputy Auditor General Wales and Stephen Sellers, former local authority solicitor and latterly Partner at Wragges and Co. PSAA staff have valuable skills and experience having all been transferred under TUPE from the Audit Commission. We

anticipate that 3 or 4 FTE posts will be required for the SLB compared with a current PSAA FTE establishment of 12.

Next steps

21. Members are asked to:

- 21.1 Note the review of performance from the Chair and the Chief Officer of PSAA;
- 21.2 Reconfirm support for developing a sector led body offering to local government bodies; and
- 21.3 Invite the PSAA Board to consider becoming the sector led body for the procurement of audit services once the current contracts come to an end.

Financial Implications

22. The costs of development work on a sector led body in this financial year are included in the IDeA's budget.

Legal implications

23. Amendments will be required to PSAA's Articles and Memorandum of Association. Appropriate governance arrangements will need to be established to ensure that PSAA is still able to maintain its independence from LGA with regard to undertaking delegated statutory functions as the transitional body. Under the MOU the Secretary of State needs to be consulted about any amendment to the company's founding documents, our understanding is that the Secretary of State is supportive of proposal to utilise PSAA as the SLB and the savings to the public purse that this may deliver.