

## **Appointing person: Frequently asked questions (updated 25 January 2017)**

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## The appointing person scheme and eligible bodies (questions 1-6)

Question	Response
<p>1. What is an appointing person and which bodies are eligible to opt in?</p>	<p>Public Sector Audit Appointments Limited (PSAA) has been specified as an appointing person under the Local Audit and Accountability Act 2014 and the Local Audit (Appointing Person) Regulations 2015, and has the power to make auditor appointments for audits of the accounts from 2018/19 on behalf of principal local government bodies that opt in, in accordance with the Regulations. PSAA is a not-for-profit company owned by the LGA's Improvement and Development Agency (IDeA) and was established to operate the transitional arrangements following closure of the Audit Commission. The 'appointing person' is sometimes referred to as the sector-led body.</p> <p>Eligible bodies are only those principal local government bodies listed in schedule 2 of the Local Audit and Accountability Act 2014. This includes county councils, district councils, London borough councils, unitary authorities, metropolitan councils, police bodies, fire and rescue authorities, joint authorities, combined authorities (covering elected regional mayors), national park authorities, conservation boards, passenger transport executives, waste authorities, and the GLA and its functional bodies. Smaller authorities (such as parish councils) and NHS bodies, including accountable care organisations, are not eligible to opt in.</p> <p>A list of the 493 local government bodies currently eligible for the appointing person scheme is available on the appointing person page of our website (<a href="http://www.psaa.co.uk/supporting-the-transition/appointing-person/">http://www.psaa.co.uk/supporting-the-transition/appointing-person/</a>).</p>
<p>2. What are the terms of reference of the appointing person?</p>	<p>PSAA is a not-for-profit company wholly owned by the IDeA (the IDeA is wholly owned by the LGA). PSAA will continue to operate as an independent company, although there will be changes to its governance arrangements and its founding documents to reflect the</p>

Question	Response
	fact that it will be an appointing person going forward rather than a transitional body.
3. In addition to the Code of Audit Practice requirements set out by the NAO, will the contracts include the audit of wholly owned companies and group accounts?	<p>Local authority group accounts are part of the accounts produced under the CIPFA SORP and are subject to audit in line with the NAO Code of Audit Practice. They will continue to be part of the statutory audit for which PSAA will make an auditor appointment for opted-in bodies.</p> <p>Local authority companies are not listed in the Local Audit and Accountability Act as bodies subject to audit under that act. Company audits are subject to the provisions of the Companies Act 2006 and are not covered by the Local Audit (Appointing Person) Regulations 2015 or the scope of PSAA's specification as the appointing person.</p> <p>Local authority companies must appoint an auditor themselves in accordance with Companies Act legislation. They are able to appoint the same audit firm as PSAA appoints to undertake the principal body audit, should they so wish, for example where this could support an efficient audit process.</p>
4. Will the appointing person arrangements cover the audit of an authority's pension fund where it is the administrative body responsible for preparing the pension fund accounts?	Pension funds are not separate legal entities from their administering local authority, and are therefore not listed as relevant authorities in schedule 2 of the Local Audit and Accountability Act 2014. The auditor appointment to an opted-in local authority will include the audit of the pension fund where the authority is the administering body. As is currently the case, the pension fund audit will be subject to a separate engagement and scale audit fee, but the auditor appointment will cover both the local authority and the pension fund.
5. We have a joint committee which no longer has a statutory requirement to have an external auditor but has agreed in the interests of all parties to continue to engage one. Is it	The requirement for joint committees to produce statutory accounts ceased after production of the 2014/15 accounts and they are therefore not listed in Schedule 2. Joint committees that have opted

Question	Response
possible to use this process as an option to procure the external auditor for the joint committee?	to produce accounts voluntarily and obtain non-statutory assurance on them will need to make their own local arrangements.
6. Will membership be free for existing members of the LGA?	The option to join the appointing person scheme will be open to all principal local government authorities listed under Schedule 2 of the Local Audit and Accountability Act 2014. There will not be a fee to join the sector-led arrangements. The audit fees that opted-in bodies will be charged will cover the costs to PSAA of appointing auditors and managing the arrangements. We believe that audit fees achieved through large contracts will be lower than the costs that individual authorities will be able to negotiate. In addition, by opting into the PSAA offer, authorities will avoid the costs of their own procurement and management of contracts and also the requirement to set up an auditor panel with independent members.

## The opt-in process (questions 7-11)

Question	Response
7. When will invitations to opt in be issued?	<p>The invitation to opt in was issued on 27 October 2016 with a closing date for acceptance of 9 March 2017. This allows considerably longer than the statutory minimum period of eight weeks, for the requirement under the regulations that authorities must make the decision to opt in at a full authority meeting. As corporations sole, the full authority requirement does not apply to police and crime commissioners.</p> <p>The aim is to award contracts to audit firms by June 2017, giving six months to consult with authorities and confirm appointments before the 31 December 2017 deadline to appoint auditors for the following financial year.</p> <p>In order to maximise the potential economies of scale from agreeing large contracts with firms, and to manage any auditor independence issues, PSAA needs as much certainty as possible about the volume and location of work it is able to offer to firms. Our timetable means that we will need to start preparing tender documentation early in 2017, so we will need to know which authorities have opted in.</p>
8. How do we have to make the decision to accept the invitation to opt in?	<p>In accordance with Regulation 19 of the Local Audit (Appointing Person) Regulations 2015, a principal authority will need to make the decision to opt in at full authority (authority meeting as a whole), except where the authority is a corporation sole (such as a police and crime commissioner), in which case the function must be exercised by the holder of the office.</p>
9. Can we join after it has been set up or do we have to join at the beginning?	<p>One of the main benefits of an appointing person approach is the ability to achieve economies of scale as a result of being able to offer larger volumes of work. The greater the number of participants we have signed up at the outset, the better the economies of scale</p>

Question	Response
	<p>we are likely to achieve. This will not prevent authorities from applying to join the appointing person scheme in later years (and PSAA must agree to the request unless there are reasonable grounds to refuse), but they will need to make their own arrangements to appoint an auditor in the interim, which will include establishing an auditor panel. In order to be in the best position we would encourage as many authorities as possible to commit by accepting the invitation within the specified timeframe, that is by 9 March 2017.</p>
<p>10. Will the appointing person take on all auditor panel roles and therefore mitigate the need for there to be one in each individual authority?</p>	<p>Opting into the appointing person scheme will remove the need to set up an auditor panel. This is set out in the Local Audit and Accountability Act 2014 and the Local Audit (Appointing Person) Regulations 2015.</p>
<p>11. How does the opt-in process work for police and crime commissioners and chief constables, given that chief constables cannot appoint their own auditor?</p>	<p>PSAA has issued the opt-in invitation to chief constables as well as police and crime commissioners because the Local Audit (Appointing Person) Regulations 2015, issued under the provisions of the Local Audit and Accountability Act 2014, require the appointing person to issue an invitation to “all principal authorities which fall within the class of authorities in relation to which the person has been specified” (Regulation 8). PSAA’s specification as an appointing person covers all relevant local government authorities that are principal bodies, as listed in Schedule 2 of the 2014 Act. Chief constables and police and crime commissioners are listed separately as relevant authorities.</p> <p>While the responsibility for the decision about appointing an auditor for the chief constable is reserved to the police and crime commissioner for a police area (under schedule 3 of the Local Audit and Accountability Act 2014), the police and crime commissioner will need to consider this decision with the chief constable. The opt-in invitation information sent by PSAA provides chief constables with essential information about the appointing person arrangements,</p>

Question	Response
	<p>including the timetable for the opt-in process. This should enable chief constables to engage with police and crime commissioners on this decision.</p> <p>Where a police and crime commissioner makes a decision to opt into PSAA's national auditor appointment arrangements and submits a notice of acceptance of the invitation, this notice must cover the chief constable as well. PSAA will need to confirm that the notice covers the chief constable if this is not explicitly stated. As separate legal entities, PSAA will subsequently need to make separate auditor appointments, albeit of the same audit firm, to the opted-in police and crime commissioner and chief constable for a police area.</p>

## PSAA's audit procurement (questions 12-19)

Question	Response
12. How will we be able to influence the development of the appointing person scheme and associated contracts with audit firms?	<p>We have established a stakeholder advisory panel which will comment on our proposals. Members of the panel are drawn from representative organisations for councils, police and fire bodies. The first meeting of the group was held on 30 September 2016. Further meetings are scheduled for 23 November 2016, 26 January 2017 and 25 May 2017.</p> <p>PSAA continues to work in partnership with the LGA in setting up the appointing person scheme and you can feed in comments and observations to PSAA by emailing <a href="mailto:appointingperson@psaa.co.uk">appointingperson@psaa.co.uk</a> and via the LGA and their principal advisors.</p>
13. Will there be standard contract terms and conditions?	The audit contracts between PSAA and the audit firms will require firms to deliver audits compliant with the National Audit Office (NAO) Code of Audit Practice. We are aware that authorities would like to understand how performance and delivery will be monitored and managed. This is one of the issues that could be discussed with the stakeholder advisory panel.
14. What will be the length of the contracts?	The length of contract between PSAA and firms will be five years.
15. Will bodies that opt in be able to seek information from potential suppliers and undertake some form of evaluation to choose a supplier?	PSAA will run the tendering exercise, and will evaluate bids and award contracts. PSAA will consult authorities on individual auditor appointments. The appointment of an auditor independently of the body to be audited is an important feature of the appointing person arrangements and will continue to underpin strong corporate governance in the public sector.
16. Will the price be fixed or will there be a range of prices?	The fee for the audit of a body that opts in will reflect the size, audit risk and complexity of the work required. PSAA will establish a system for setting the fee which is fair to all opted-in authorities. As



Question	Response
	a not-for-profit organisation, PSAA will be able to return any surpluses to opted-in authorities after all costs have been met.
17. How will the appointing person scheme ensure audit firms are not over-stretched and that the competition in the market place is increased?	<p>The number of firms eligible to undertake local public audit is regulated through the Financial Reporting Council and the recognised Supervisory Bodies (RSBs). Only appropriately accredited firms will be able to bid for appointments whether that is through PSAA or an auditor panel.</p> <p>PSAA is developing a procurement strategy which may include a limit on the total business available to any one firm.</p> <p>One of the advantages of the appointing person option is to make appointments that help to ensure that each successful firm has a sufficient quantum of work to make it possible for them to invest in public sector specific training, maintain a centre of excellence or hub that will mean:</p> <ul style="list-style-type: none"> <li>• firms have a regional presence;</li> <li>• greater continuity of staff input; and</li> <li>• a better understanding the local political, economic and social environment.</li> </ul>
18. Will the appointing person scheme contract with a number of different audit firms and how will they be allocated to authorities?	PSAA will organise the contracts to maximise the number of firms appointed nationally. The minimum number of audit firms is probably four or five (depending on the number of bodies that opt in). This is required, not just to ensure competition and capacity, but because each firm is required to comply with the FRC's ethical standards. This means that an individual firm may not be appointable for 'independence' reasons, for example, because they have undertaken consultancy work at an audited body. PSAA will consult on appointments that allow each firm a balanced portfolio of work subject to independence considerations.

Question	Response
19. What is the timetable for set up and key decisions?	<p>We expect the key points in the timetable to be broadly:</p> <ul style="list-style-type: none"> <li>• establish an overall strategy for procurement - by November 2016;</li> <li>• achieve 'sign-up' of opted-in authorities - by 9 March 2017;</li> <li>• invite tenders from audit firms - by April 2017;</li> <li>• award contracts - by 30 June 2017;</li> <li>• consult on and make final auditor appointments - by 31 December 2017; and</li> <li>• consult on, propose audit fees and publish fees - by 31 March 2018.</li> </ul>

## Auditor appointments (questions 20-21)

Question	Response
<p>20. We have shared service arrangements with our neighbouring bodies and we are looking to ensure that we share the same auditor. Will the appointing person scheme allow for this?</p>	<p>PSAA will be able to make appointments to all principal local government bodies listed in Schedule 2 of the Local Audit and Accountability Act 2014 that are 'relevant authorities' and not excluded as a result of being smaller authorities, for example parish councils.</p> <p>In setting up the new arrangements, one of our aims is to make auditor appointments that take account of joint working and shared service arrangements. Requests for the same auditor as other authorities will need to be balanced with auditor independence considerations. As we have set out in our prospectus, auditors must be independent of the bodies they audit. PSAA will have an obligation under the provisions of the Local Audit and Accountability Act 2014 to ensure that every auditor appointment it makes passes this test and auditors must comply with the requirements of the Ethical Standards issued by the Financial Reporting Council.</p> <p>We will need information from opted-in authorities on potential independence considerations and joint working arrangements, and will also need information on independence issues from the audit firms. Risks to auditor independence include, for example, an audit firm having previously been engaged to advise on a major procurement which could, of course, later be subject to audit.</p>
<p>21. In what circumstances can an auditor be changed during the five year opt-in period, and how does this differ from locally procured arrangements?</p>	<p>The main circumstances in which PSAA will consider changing an auditor appointment during the five year compulsory appointing period are either for independence reasons, for example the identification of a conflict of interest involving the existing audit firm, or because of the emergence of new joint working arrangements.</p> <p>An authority appointing its own auditor will find it more difficult to change their auditor appointment during the contracted period, as</p>

Question	Response
	this would require the authority to conduct a new selection and procurement exercise. The appointing person scheme will therefore provide more flexibility for opted-in bodies.

## Scale audit fees (question 22)

Question	Response
<p>22. How will audit fee levels be set for each individual body with the objective of recovering PSAA costs at the aggregate level?</p>	<p>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 currently 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.</p> <p>2018/19 scale fees will be determined by the prices achieved in the auditor procurement that PSAA will undertake during the early part of 2017. We expect to consult on the proposed scale of fees in autumn 2017 and to publish the fees applicable in March 2018. Where more or less work is required than is envisaged in the scale fee, a fee variation process will apply. The variations process will ensure that fees for additional work cannot be invoiced until agreed with the audited body and approved by PSAA.</p>

## Contract management (questions 23-25)

Question	Response
23. What will be the process to feed in opinions of current auditors if there are issues?	PSAA will seek feedback on its auditors as part of its engagement with the sector. PSAA will continue to have a clear complaints process and will also undertake contract monitoring of the firms it appoints.
24. What will be the arrangements for overseeing the quality of audit work undertaken by the audit firms appointed by the appointing person?	<p>PSAA will only contract with firms which have a proven track record in undertaking public audit work. In accordance with the Local Audit and Accountability Act 2014, firms must be registered with one of the chartered accountancy institutes acting in the capacity of a Recognised Supervisory Body (RSB). The quality of the firms' 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.</p> <p>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. PSAA will take a close interest in feedback from opted-in 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. We will liaise with the NAO to help ensure that guidance to auditors is updated when necessary.</p>
25. How will the appointing person scheme deal with an authority that is dissatisfied with its auditor and wants a change (e.g. because of quality, relationships, or a conflict of interest)?	As with the current arrangements, where an authority is dissatisfied with its auditor, concerns should be raised in the first instance with the firm's Engagement Lead and subsequently with the firm's PSAA Contact Partner (as indicated on communications between the firm and the authority).

Question	Response
	<p>If the authority is not satisfied with the response of the firm, then the matter should be raised with PSAA.</p> <p>As appointing person, PSAA appoints a firm as auditor to an authority. The firm is responsible for nominating an individual to act as the Engagement Leader on the audit of an authority.</p> <p>PSAA will consider changing an auditor appointment in extremis if an authority is dissatisfied, but would expect the authority and the firm to have exhausted all avenues for resolution before doing so. Maintaining the independence of the auditor is an important part of this consideration.</p> <p>PSAA will consider changing an auditor appointment during the five year compulsory appointing periods, if a conflict of interest involving the existing audit firm is identified, or because of the emergence of new joint working arrangements.</p> <p>The appointing person scheme will have the flexibility to provide an audit alternative if required in these cases.</p> <p>PSAA will be monitoring the quality of audit services provided as part of the contractual terms of appointment to be agreed with firms.</p>

## Non-audit work (questions 26-27)

Question	Response
26. Will an auditor be able to provide my authority with non-audit consultancy services?	<p>The independence requirements for all auditors within the local public audit regime are the same whether locally appointed, or part of the appointing person regime. These requirements are specified by the Financial Reporting Council in the Ethical Standard and applied to local public audit as determined by the NAO.</p> <p>The services that an auditor can provide are the same, whatever the appointment method.</p> <p>As the Appointing Person, PSAA will perform the role otherwise required of an auditor panel to advise the authority on the maintenance of the independence of the auditor [Local Audit and Accountability Act 2014 section 10(1)].</p> <p>PSAA will consider changing an auditor appointment during the five-year compulsory appointing period for independence reasons, if for example the identification of a conflict of interest involving the existing audit firm, or because of the emergence of new joint working arrangements.</p>
27. What will be the future arrangements under the appointing person scheme for certifying grant claims?	<p>PSAA's audit contracts from 2018/19 will cover the audit of accounts only. PSAA has no power under the Local Audit and Accountability Act 2014 to make arrangements or appointments for assurance on grant claims and returns, and its appointing person arrangements will cover opted-in bodies only.</p> <p>Where government departments require assurance as grant paying bodies, tripartite agreements are in place. Under the transitional arrangements made by DCLG, DWP has asked PSAA to continue making certification arrangements for this claim until 2018/19.</p> <p>The DWP is developing its own assurance arrangements from 2018/19 for the housing benefit subsidy claim on a tripartite</p>



Question	Response
	<p>agreement basis, and issued further guidance in Circular HB S1/2017 in January 2017. Local authorities will appoint a reporting accountant (auditor) themselves for this work (for which an auditor panel is not required), using the standardised terms of engagement provided by the DWP. Authorities may choose to use the same audit firm appointed by PSAA for the audit of the accounts, if they are opted-in bodies. Opted-in authorities may therefore wish to approach directly the audit firm that PSAA appoints to their authority by 31 December 2017, subject to the requirements of the authority's financial standing orders, in order to procure the necessary tripartite agreement services.</p>

## Appointment requirements for authorities that do not opt in (questions 28-29)

Question	Response
<p>28. If an authority chooses not to opt in to the appointing person arrangements, what local arrangements will they need to put in place?</p>	<p>All relevant authorities listed in schedule 2 of the Local Audit and Accountability Act 2014 (the Act), whether they opt in or not, are required to comply with Part 3 of the Act in relation to the appointment of local auditors. Section 7 of the Act requires a relevant authority to appoint a local auditor to audit its accounts for a financial year not later than 31 December in the preceding financial year. For the 2018/19 accounts, a local auditor must be appointed by 31 December 2017.</p> <p>For authorities that choose to opt into the appointing person arrangements, PSAA will appoint their auditor for them by 31 December 2017, having consulted the authority about the proposed appointment.</p> <p>For authorities that choose not to opt into the appointing person arrangements, there are two options available for appointing their own auditor. These are to:</p> <ul style="list-style-type: none"> <li>• undertake an individual auditor procurement and appointment exercise; or</li> <li>• undertake a joint audit procurement and appointing exercise with other bodies, those in the same locality for example.</li> </ul> <p>Both these options require the authority to consult and take into account 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.</p>

Question	Response
	<p><a href="#">A guide to auditor panels for local government authorities</a> has been issued by CIPFA.</p> <p>Within the period of 28 days beginning with the day on which the auditor appointment is made, section 8 of the Act requires an authority that has not opted into the national appointing person arrangements to publish a notice that:</p> <ul style="list-style-type: none"> <li>a) states that it has made the appointment,</li> <li>b) identifies the local auditor that has been appointed,</li> <li>c) specifies the period for which the local auditor has been appointed,</li> <li>d) sets out the advice, or a summary of the advice, of its auditor panel about the selection and appointment of a local auditor, and</li> <li>e) if it has not followed that advice, sets out the reasons why it has not done so.</li> </ul> <p>The notice must be published, if the authority has a website, on its website or in such manner as the authority thinks is likely to bring the notice to the attention of service users.</p> <p>Authorities that opt into the appointing person arrangements are not required to establish an auditor panel or to publish a notice under section 8 of the Act.</p>
<p>29. Can an eligible local government body still opt in if it misses the deadline for close of the opt-in period on 9 March 2017?</p>	<p>A body that received an invitation to opt in for the compulsory appointing period beginning 1 April 2018 but did not submit a formal notice of acceptance of the invitation before the close of the opt-in period, as specified in the Regulations, cannot opt in for the auditor appointments effective from 2018/19. It can, however, opt in for the subsequent years of the opt-in period, for financial years 2019/20 to 2022/2023.</p> <p><b>See also Q9</b></p>

## Changes during the appointing period (question 30)

Question	Response
30. Can an opted-in body opt out at a later date?	No, an authority's notice of acceptance of PSAA's invitation to opt in means it is opted-in for the duration of the compulsory appointing period (five years from 2018/19), unless the body ceases to exist or the body ceases to fall within the classes of authorities for which PSAA is the appointing person.