



Leicester  
City Council

WARDS AFFECTED: ALL

7.1

**Audit and Risk Committee  
Council**

**16 November 2016  
24 November 2016**

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**Procurement of the Council's External Audit Contract by Public Sector  
Audit Appointments Ltd (PSAA)**

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**Report of the Director of Finance**

**1. Purpose of Report**

To provide the Committee with an update on the process to appoint the Council's external auditors. Approval to proceed to procurement will then be sought from Council.

**2. Summary**

Since 1 April 2015 the Council has had its external audit provided by KPMG. KPMG was appointed through Public Sector Audit Appointments Ltd (PSAA) and had a contract up to and including the financial year 2016/17, later extended to cover the financial year 2017/18. The Council now needs to appoint its own independent external auditors for the next five year period, before 31 December 2017.

**3. Recommendations**

The Committee is recommended to:

- 3.1 Receive the report and note its contents.
- 3.2 Make any recommendations or comments it sees fit either to the Executive or Director of Finance.

Council is recommended to approve the procurement of the external audit contract by Public Sector Audit Appointments Ltd (PSAA) following a sector led procurement option.

## 4. Report

- 4.1 The Audit Commission (an independent public corporation that existed between 1 April 1983 and 31 March 2015) was replaced by Public Sector Audit Appointments Ltd (PSAA), National Audit Office, Financial Reporting Council and Cabinet Office in April 2015. A new local audit framework came into effect from 1 April 2015.
- 4.2 This framework included provision for those audit functions, previously delivered by the audit commission itself, to be moved to the private sector. This left Councils free to appoint their own independent external auditors from a more competitive and open market. This was intended to save council taxpayers' money and decentralise power.
- 4.3 The process of audit provision and delivery is overseen by the National Audit Office (NAO). The NAO is independent of government and the auditor of central government bodies. The NAO is, therefore, well placed to provide the oversight role for the audit of local government and health. Combined with its existing functions, the oversight role enables the NAO to report to Parliament on the quality of audit across the local government and health sectors, and on the economy, efficiency, effectiveness and productivity of these sectors.
- 4.4 On the 1 April 2015, contracts were already in place for local government external audit appointments that covered audits up to and including the financial year 2016/17. These contracts had an option to extend for a maximum of three years, up to and including the financial year 2019/20. Earlier this calendar year the Government decided that for local government bodies the contracts would be extended by one year, thus incorporating the financial year 2017/18.
- 4.5 Save as where the Sector Led Procurement Option is taken (as explained below) the new regulations require the Council to have an Audit Panel, which will be responsible for recommending who the external auditor should be. This Panel must include a majority of independent (i.e. not elected) members and have an independent Chair.
- 4.6 The Council, therefore, will need to appoint an external auditor to commence from the 2018/19 financial year – to comply with the regulations the new auditors need to be appointed by 31 December 2017. This means that the procurement exercise would need to start sometime between March and September 2017, with an Audit Panel being established early in 2017.

- 4.7 There are five procurement options available to the Council:
- Re-appoint the incumbent auditor for a short period. This would delay 'market testing' and avoid a 'rush to market' as large numbers of authorities undertake procurement exercises;
  - Stand Alone Tendering – we run our own procurement process.
  - Combined Procurement – we join together with one or more neighbouring authorities to undertake collective procurement.
  - Existing Frameworks – we use one of the many government or public sector frameworks; and,
  - Sector Led Procurement – our preferred and recommended option.
- 4.8 Following earlier discussion on this matter with the Audit and Risk Committee, when the 'pros and cons' of each of the options above were debated and considered, it was sector led procurement that appealed most. The new audit legislation allows for a sector-led body (referred to as a 'specified person' in the Regulations) to undertake a bulk procurement process. This option provides an administratively easy route and will, most likely, have the greatest element of specialist audit procurement expertise. It also provides good purchasing power, although with a little less autonomy than some other options, but should afford easier management of potential auditor independence issues than other combined procurement approaches. It is the most similar option to the current arrangements.
- 4.9 The Committee is requested to endorse this choice and Council will be requested to approve this.

## **5. Financial, Legal Implications**

### **5.1 Financial Implications**

The Council has an annual budget for audit fees of £200,000. We would want the procurement exercise to deliver some savings and will advise PSAA accordingly.

*Mark Noble, Head of Finance (Financial Strategy), ext. 37 4041*

### **5.2 Legal Implications**

Present information indicates that pursuing the sector led procurement option would not require the Council to appoint an audit panel whereas the other options require the Council to appoint, consult with and follow the advice of its appointed audit panel in relation to its proposals for selecting and appointing a local auditor.

Prior to accepting the PSAA Ltd's invitation, legal services and procurement will need to review a copy of the PSAA Ltd's invitation and terms of reference and a copy of the PSAA Ltd's procurement documents.

Subject to the above, the Audit and Risk Committee should note that the Local Audit (Appointing Person) Regulations 2015 require the need for approval from full Council to accept an invitation from PSAA Ltd to appoint an external auditor on behalf of the Council.

*Nilesh Tanna, Solicitor Commercial, Property and Planning, ext 37 1434*

**6. Other Implications**

7.	OTHER IMPLICATIONS	YES/NO	Paragraph References Within Supporting Information
	Equal Opportunities	No	
	Policy	No	
	Sustainable and Environmental	No	
	Climate Change	No	
	Crime and Disorder	No	
	Human Rights Act	No	
	Elderly/People on Low Income	No	
	Risk Management	Yes	All of the paper.

**Report Author/Officer to contact:**

Tony Edeson, Head of Internal Audit and Risk Management - 37 1621  
3 November 2016