



Appointing your external auditor

Next steps for local government bodies
November 2016



Time to make a choice



Local authorities now have the power to appoint their external auditor themselves

- This appointment will apply from the audit of the 2018/19 financial year
- Government regulations require that the appointment is made by 31 December 2017



Before deciding who the auditor should be, you need to decide how you want to make that decision

- There are a number of options for making this decision
- This includes deciding to pass that responsibility to a sector-led body

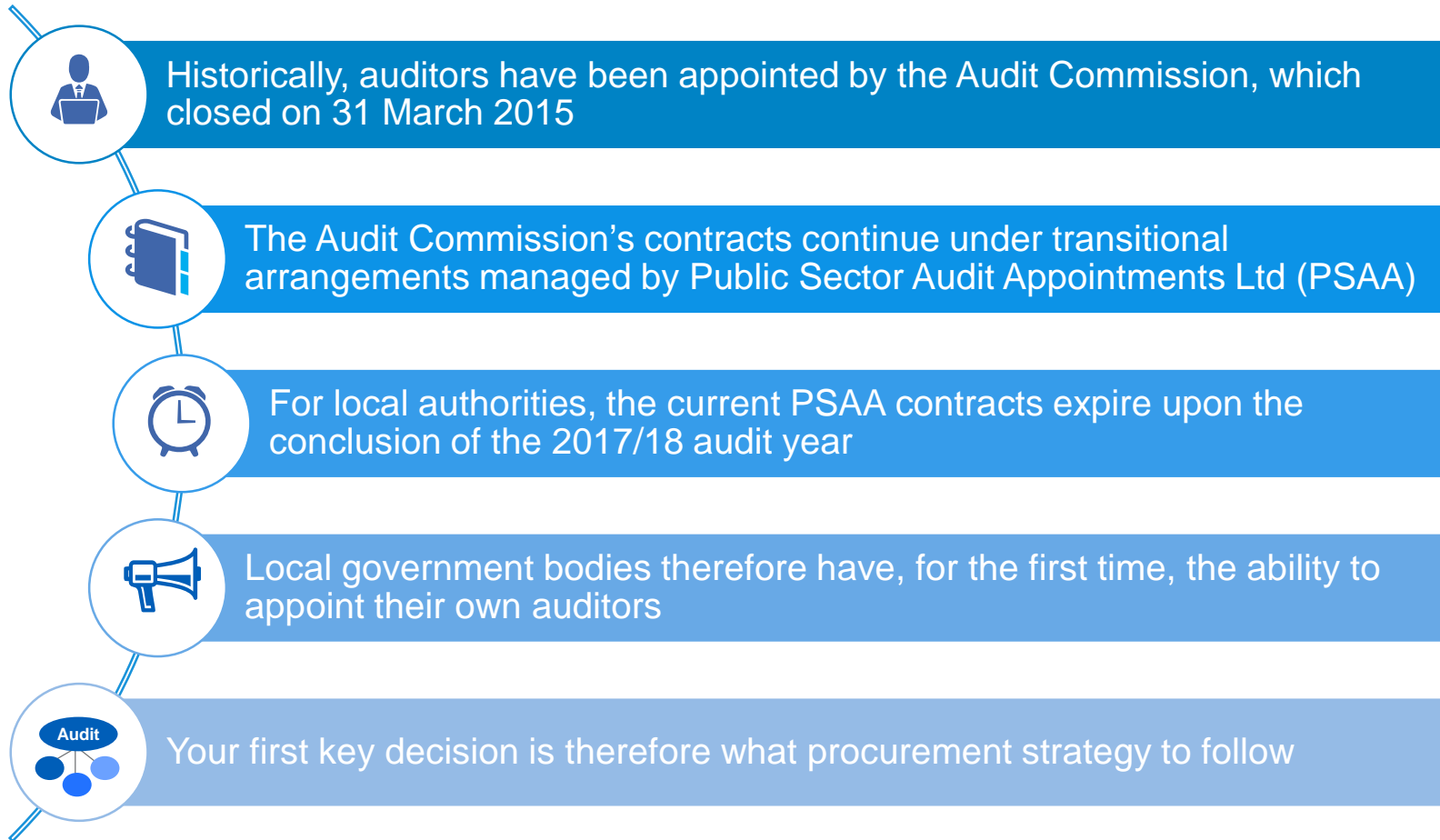


There are certain requirements you must follow

- Specific requirements apply should you run your own tender process
- There are also other requirements which apply to all approaches

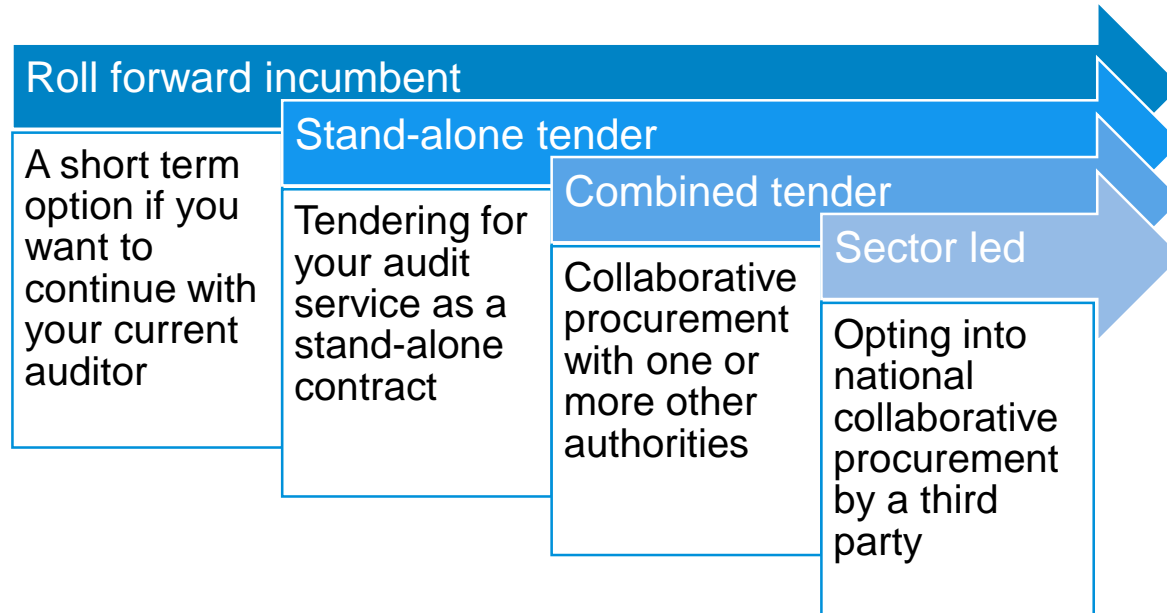
This paper summarises the key considerations for local government bodies when deciding on your preferred route to appointing your auditor

A brief recap



Procurement options

There are four main options available on how you can appoint your external auditor



The pros and cons of each are considered in the next few pages, although it is important to note that these are generic views as the circumstances and priorities of individual organisations will vary

While there are a number of important considerations for authorities, this is essentially about choice – how much freedom do you want to have over the appointment of your external auditor?

Option 1 – Roll forward incumbent auditor

What does this involve?

- Engaging your current auditor directly for a short period
- A short-term option for say one or two years prior to subsequent market testing
- A clear business case should be developed setting out the rationale for following this approach

Pros

- Provides short term continuity of audit service
- Particularly useful if your auditor is currently dealing with complex issues (e.g. elector challenge, investigations etc.)
- Allows for future tendering in a more settled and mature market (i.e. avoiding the initial ‘rush’ of tendering activity in first year of new arrangements)

Cons

- Delays market testing through a competitive process
- May limit opportunity to follow collaborative tendering (option 3) if potential partners have alternative timing

Points to note

- Important to obtain relevant professional advice to confirm that this is a viable option (e.g. compliance with EU procurement rules, if applicable, and the Authority’s own financial regulations)
- Your Audit Panel (see later) should be involved in deciding on this option
- Audit fees can be benchmarked for reasonableness against published data

Option 2 – Stand-alone tender

What does this involve?

- Tendering for your external audit service through the Authority's own procurement process
- The Authority will need to establish an Audit Panel, which will recommend who the auditor should be following the tender process

Pros

- Provides the Authority with the greatest discretion and autonomy over the approach to be followed and in decision making

Cons

- The Authority will incur additional costs (officer time) through running its own procurement process
- The establishment of an Audit Panel may increase costs and will involve recruiting independent members

Points to note

- The Audit Commission produced a [document](#) summarising learning points from its 2012 and 2014 procurements of audit services
- This may provide some useful pointers (although note that these procurements were unique to the Audit Commission's regime so the points may not all be relevant)
- CIPFA has published [guidance](#) on Auditor Panels

Option 3 – Combined tender

What does this involve?

- A variation of option 2, where two or more authorities undertake a joint procurement process
- This might operate on one or more of a location basis, within or across tiers of local government, or by type of authority

Pros

- Although not fully autonomous, this still offers a high degree of influence over the approach and decision making
- May provide a more competitive audit fee than a stand-alone tender (option 2) through offering a greater volume of work to bidding audit firms
- Procurement costs can be shared across participating authorities
- Audit Panels may also be shared across the authorities

Cons

- Less discretion and autonomy over approach and decision making than option 2
- The Authority will incur additional costs (officer time) through running a joint procurement process
- Establishing an Audit Panel (stand-alone or shared) may increase costs and will involve recruiting independent members

Points to note

- Dependent on identifying suitable partner organisations which have common objectives and similar ideas on the approach to follow
- Well-suited to authorities with established shared service, joint working or strategic partnership arrangements
- This options implies that all partner organisations would select a common auditor, but that need not be the case

Option 4 – Sector-led procurement

What does this involve?

- Opting into a sector-led procurement process
- The Secretary of State has designated Public Sector Audit Appointments Ltd (PSAA) as an ‘appointing person’
- PSAA will undertake the necessary procurement activity to contract with a number of audit firms
- PSAA will then propose an auditor to each participating authority, having considered issues such as auditor independence

Pros

- Avoids the costs and practicalities of running a stand-alone (option 2) or joint procurement (option 3) exercise
- The procurement process will be run by an organisation with experience of procuring external audit services
- Avoids the need to establish an Audit Panel

Cons

- The least discretion over the choice of auditor of all options (although PSAA is establishing an advisory panel of key audited body stakeholders)
- PSAA is still consulting over detailed elements of how the procurement will operate, so at this point in time there is not absolute clarity (it has issued a prospectus setting out expectations)

Points to note

- In simple terms, this option is the most similar to the current arrangements, albeit on an opt-in basis
- Further information on PSAA’s role and intended approach can be found on its [website](#)
- The deadline for opting into this option with PSAA is 9 March 2017
- PSAA’s costs would be absorbed into audit fees payable by participating authorities

Requirements to note

Regardless of the procurement option followed, there are a number of requirements which apply



Audit Panel

- The Panel's role (which can be fulfilled by PSAA) is to recommend which auditor to appoint and have oversight over any non-audit services provided by the auditor
- It must have an independent (unelected) Chair and a majority of independent members



Professional standards

- Regardless of the option followed to appoint them, your auditor must comply with the Code of Audit Practice issued by the National Audit Office



Timing

- Regardless of the procurement option followed, authorities must appoint an auditor for the 2018/19 financial year by 31 December 2017



Registered auditor

- You can only appoint an audit firm which is registered for local audit (ICAEW maintains a Local Audit [register](#))
- As a leading local government auditor, KPMG is registered with ICAEW for local audit and has a substantial number of registered Key Audit Partners

Key considerations when appointing auditors

When you are deciding who to appoint as your external auditor you will need to consider a range of factors

Key areas to consider are as follows

Quality



- This is the most important consideration and should be appropriately weighted in any scoring methodology for assessing tenders
- Relevant considerations include audit methodologies, systems and processes, staff training and expertise, and quality monitoring arrangements

Experience



- Local government auditing is a specialist business and your auditor must have the necessary skills and sector experience
- This is not just about understanding local authority financial reporting, but extends into auditors' value for money audit responsibilities and 'challenge' work

Key considerations (continued)

Independence



- You will need to consider possible relationships with audit firms via non-audit work such as consultancy and tax advice
- Independence is also an important mind-set for auditors to adopt, where you should be satisfied that your future auditor will be sufficiently challenging
- Your current auditor should not be constrained in exercising their duties by any tendering process

Organisational fit



- As with any service it is important to consider how the people you see in the audit team fit with your own organisational culture – i.e. can you work with these people

Price



- Like any other out-sourced service you need to obtain good value through a competitive audit fee
- However, best value does not mean the cheapest quote
- The fee must be sufficient to provide a good quality service taking account of the scale, nature and risk profile of your organisation, and also the requirement for your auditor to comply with auditing standards and other statutory duties

Other services



- Although ethical standards provide limitations, you should consider what other services you might want your auditor to perform
- This might include other assurance services (e.g. certifying grant claims) or more added-value services

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We are a leading firm in local government audit and assurance – in England we audit:

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- 21% of police bodies
- 26% of fire & rescue authorities



We use cutting edge technology and audit techniques

- our eAudit system embeds our audit methodology to drive quality
- we use Data & Analytics tools to enhance audit quality and provide insight



We contribute to and influence technical development and financial reporting

- we are represented on CIPFA/LAASAC and LAAP
- we are a member of the NAO's Local Auditor Advisory Group
- we actively participate in the CIPFA community



We have substantial specialist local government audit resource

- we have 22 Partners and Directors registered as Key Audit Partners with ICEAW
- our public sector audit teams operate in all regions providing national coverage
- our subject matter experts enhance our audit work



We provide thought leadership to challenge and support the sector

- through KPMG publications on key issues affecting the sector
- through articles and case studies in the trade press



We add value and support our clients

- through our highly regarded Audit Committee Institute
- through workshops, seminars and events for financial professionals and others
- through the challenge, insight and improvement focus of our audit work



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