

## Appendix 2 – Analysis of Appointment Options

<b>ANALYSIS OF OPTIONS FOR THE APPOINTMENT OF EXTERNAL AUDITORS</b>			
<b>Options</b>	<b>Description of Option</b>	<b>Possible advantages</b>	<b>Possible disadvantages</b>
<b>Option i)</b> Direct Appointment	Procuring a stand-alone, direct appointment overseen by a specially set up independent Audit Panel of the authority. The members of the Panel would need to be wholly or a majority of independent members (i.e. not current or former members of the authority).	<ul style="list-style-type: none"> <li>• Full ownership of the process</li> </ul>	<ul style="list-style-type: none"> <li>• Insufficient scale to manage or influence the market due to lack of scale;</li> <li>• Unlikely to be able to procure at a best value, e.g. risk of limited provider choice in the authority location and/or loss of economy of scale;</li> <li>• Therefore, this option may not be able to demonstrate value for money compared with other available options;</li> <li>• The market is very highly regulated and few smaller firms will have the necessary accreditations;</li> <li>• The need (and cost) to appoint appropriately skilled and knowledgeable independent Audit Panel members and an independent panel chair;</li> <li>• Covering the cost of panel expenses;</li> <li>• Additional legal, financial, procurement, contract management and administrative costs as there is no capacity to undertake this currently.</li> </ul>
<b>Option ii)</b> Joint Appointment (Joint Auditor Panel)	Joining with other council/s to set up a joint independent Auditor Panel. This option could potentially spread the cost across a number of local authorities.	<ul style="list-style-type: none"> <li>• Procurement can still be a relatively tailored process;</li> <li>• There may be a greater opportunity for negotiating some economies of scale by being able to offer a larger, combined contract value;</li> <li>• Less administration than a sole Auditor Panel and the ability to share administration expenses;</li> <li>• May be easier to attract suitable panel members;</li> <li>• Some sharing of legal, financial, procurement, contract management and administrative costs.</li> </ul>	<ul style="list-style-type: none"> <li>• Only 2% of authorities (less than 10) opted-out of the arrangements. This is highly likely to be repeated and therefore finding another council to work with is unlikely;</li> <li>• Less control over the process than Option i). However, this is a moot point as there would remain insufficient scale to manage or influence the market;</li> <li>• May not end up with first choice of auditor, compared to an individual Auditor Panel;</li> <li>• The need to agree appointment of members across multiple authorities and set up a joint decision-making process;</li> </ul>

			<ul style="list-style-type: none"> <li>• Unlikely to achieve competitive fees and may still not demonstrate value for money compared to other available options.</li> <li>• Although shared, there would still be additional legal, financial, procurement, contract management and administrative costs as there is no capacity to undertake this currently.</li> </ul>
<p><b>Option iii)</b> National Collective Appointment through Public Sector Audit Appointments Limited (PSAA)</p>	<p>A not-for-profit company established by the Local Government Association (LGA), PSAA Ltd, would appoint auditors and administer the audit contracts. PSAA 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. PSAA have established an advisory panel, drawn from representative groups of local government and police bodies, and undertaken surveys and consultation to gather councils' views on the design and operation of the forthcoming appointment scheme.</p> <p>PSAA have been specified by the Secretary of State (DLUHC) as the appointing person for principal local government bodies. This means that PSAA will make auditor appointments to principal local government bodies that choose to opt in to the national appointment arrangements.</p>	<ul style="list-style-type: none"> <li>• Opting-in to the national arrangement will help to ensure there is a competitive public audit market for the benefit of the whole sector;</li> <li>• By offering large contract values providers should be able to offer better rates and lower fees than are likely to result from local direct or joint negotiation;</li> <li>• The costs of setting up the appointment arrangements and negotiating fees would be shared across all opt-in authorities (i.e. will be nominal only);</li> <li>• The appointment process will be set up to act in the collective interests of all 'opt-in' authorities. This avoids the necessity for the Council to establish an Auditor Panel (or Joint Auditor Panel) or to undertake an auditor procurement (or joint procurement) avoiding higher legal, financial, administrative and procurement costs;</li> <li>• As a sector-led body, PSAA can have greater influence over the market which is supplier dominated;</li> <li>• Any conflicts at individual authorities can be more easily managed by the PSAA who would have a number of contracted firms to call upon avoiding higher local contract management costs and administration;</li> <li>• A scale of fees will be negotiated which will be able to reflect the organisational size, complexity and audit risk of opting-in authorities;</li> <li>• Distribution of surpluses to participating bodies (these have averaged £10,000 per annum for BHCC);</li> <li>• Demonstrates value for money as the approach most likely to achieve the best price and quality combination.</li> </ul>	<ul style="list-style-type: none"> <li>• Local authorities will have less opportunity for direct involvement in the appointment process other than through the LGA and/or stakeholder representative groups;</li> <li>• In order for the PSAA to be viable and to be placed in the strongest possible negotiating position, the PSAA will need councils to indicate their intention to opt-in before final contract prices are known.</li> </ul>