

New external audit regime for smaller authorities – Chairman's Communication No. 3 from SAAA

Dear Colleague

This is the third communication from SAAA, the body established to procure and appoint external auditors on behalf of smaller authorities, following the demise of the Audit Commission. Chairman's communications one and two can be found on our website: <http://www.localaudits.co.uk/Documents.html>

Key dates for action for authorities wishing to opt out of the SAAA arrangements

The deadline for authorities who wish to opt out of the SAAA arrangements and appoint their own auditors is drawing near. All smaller authorities are opted in by default. Any authorities who do not wish to be part of the SAAA arrangements must therefore formally opt out by **31 March 2016**. This decision must be communicated to SAAA via e mail to admin@localaudits.co.uk or by post to SAAA, (SLB Opt Out), Elizabeth House, Fulwood Place, London, WC1V 6HG

If notification of your decision to opt out is not received by 31 March 2016, your authority will be regarded as opted-in for the five-year period beginning on 1 April 2017 and ending on 31 March 2022 and you will not have another opportunity to opt out before the end of that period.

An authority that wishes to opt out must formally reach and record that decision in a way that meets the requirements of its own governance framework, for example, by convening a full council meeting or an extraordinary council meeting.

Opting out is a significant decision which requires careful consideration and it will have resourcing implications for authorities. In order to help authorities considering opting out we have developed further guidance to clarify what opting out means in practice. This detailed information can be found at www.localaudits.co.uk

Key implications are:

- an opted-out authority regardless of size (exempt or non exempt) **MUST** appoint an appropriate external auditor by **31 December 2016**;
- auditors must be eligible to be appointed. As a minimum the authority's auditor must be a registered auditor as defined by the Companies Act. Further criteria are being developed and will be shared as soon as possible;
- to appoint an external auditor an opted-out authority must convene an appropriate independent auditor panel which meets the requirements of the Local Audit and Accountability Act 2014. More detailed guidance on auditor panels is available in Schedule 4 of the Act and from CIPFA;

- an opted-out authority will need to develop its own specification for its external audit contract, will need to negotiate the price for this work on an individual basis and will need to manage the contract, including any disputes, and any independence issues that may arise;
- an opted-out authority must ensure full compliance with the relevant requirements of the Local Audit and Accountability Act and supporting regulations; and
- any opted-out authority that does not successfully appoint an appropriate external auditor in the correct manner will have an external auditor appointed for it by the Secretary of State through SAAA. This will result in additional costs which will have to be met by the authority.

SAAA procurement update

SAAA has begun work to identify its procurement partner. The chosen partner will provide expert end-to-end advice on the procurement process. Careful consideration will be given to how contracts are constructed and packaged so as to achieve a balance between encouraging competition and securing best value for money from the bulk procurement exercise.

SAAA roadshows and FAQs

We have now completed four roadshows across the country. The sessions were well attended, providing face to face opportunities to discuss the changes. The debates and questions from these events have been helpful in identifying areas that need greater clarification. Outputs have been distilled into a FAQ summary.

Clarifications regarding Chairman's Communication No.2

Following further legal review and advice there are a number of areas that have been clarified since Chairman's communication No. 2:

- opted-in smaller authorities cannot request a full audit from SAAA. Any authority that wishes to have a full audit instead of the required limited assurance review **must opt out** and appoint auditors through an independent panel
- All authorities, including those under the £25K threshold, must have an appointed auditor in place in case local electors raise questions or objections to the accounts. So even an exempt authority which has opted out must appoint an external auditor by 31 December 2016.

We have updated the flowchart included in Appendix 2 of Chairman's Communication No.2 to reflect these changes and the latest position. In response to the roadshows we have also separated out the flowchart into a series of

individual flowcharts for each authority type in order to make the requirements clearer for each authority type. These can be found at www.localaudits.co.uk

Kind Regards

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