

Dear Colleague.

## **EXTERNAL AUDIT FOR SMALLER AUTHORITIES**

Further to my letter of 18 December 2015, I am writing to give you some more detailed information to help your authority to decide whether or not to opt out of the external audit arrangements that Smaller Authorities' Audit Appointments Limited (SAAA) is putting in place. These arrangements will take effect from 1 April 2017.

As stated in my earlier letter, the deadline for making a decision to opt out is 31 March 2016.

### **Background**

Under the Local Audit (Smaller Authorities) Regulations 2015 ('the Regulations') ([http://www.legislation.gov.uk/ukdsi/2015/9780111126103/pdfs/ukdsi\\_9780111126103\\_en.pdf](http://www.legislation.gov.uk/ukdsi/2015/9780111126103/pdfs/ukdsi_9780111126103_en.pdf)), SAAA is required to make audit arrangements for all smaller authorities other than those that have given notice that they wish to make their own arrangements. The SAAA scheme will therefore cover all authorities that have not formally decided to opt out. Authorities covered by the SAAA scheme are referred to as 'opted-in' authorities.

By law, every authority will still have to complete and publish an annual financial return irrespective of whether it is opted-in or opted-out. This requirement has not changed.

If you are considering opting out, you must hold a properly constituted meeting and decide whether or not you wish to do so. This decision must be recorded.

**If you do decide to opt out of the SAAA scheme you must communicate that decision to [admin@localaudits.co.uk](mailto:admin@localaudits.co.uk) or SLB Opt Out, 109 Great Russell Street, London WC1B 3LD by 31 March 2016.**

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.

### **How do the Regulations affect different types of authority?**

The effect of the Regulations is to divide smaller authorities into five groups, depending on their financial turnover and on whether or not they decide to opt out of the SAAA scheme. Please see Appendix 2 for a flowchart of this process.

- Group 1 Opted-in authorities (those that have not formally decided to opt out) with income or expenditure exceeding £25k;
- Group 2 Opted-out authorities with income or expenditure exceeding £25k;
- Group 3 Opted-in authorities with neither income nor expenditure exceeding £25k;
- Group 4 Opted-out authorities with neither income nor expenditure exceeding £25k; and
- Group 5 Financially inactive authorities.

**Group 1 Opted-in authorities with income or expenditure exceeding £25k**

Arrangements for 2017/18 and subsequent years will be the same as they are now. The only difference will be that your auditor will be appointed by SAAA. After completing your annual return, you should submit it by the due date to the auditor appointed by SAAA, who will undertake the limited assurance audit review.

**Group 2 Opted-out authorities with income or expenditure exceeding £25k**

If you have opted out of the SAAA scheme you will need to appoint an independent audit panel. Guidance on appointing an audit panel is available from CIPFA and can be found at <http://www.cipfa.org/policy-and-guidance/publications/g/guide-to-auditor-panels-pdf>.

The audit panel will consider which auditor to appoint and will make a recommendation to the authority, which will have to ratify the audit panel's decision. Only accounting firms that meet certain licensing criteria can be appointed to undertake limited assurance audit reviews. Firms that do not meet those criteria cannot be considered for appointment. DCLG is working with the professional accountancy bodies to establish appropriate criteria, and we will inform all opted-out authorities as soon as we have more information about the firms that you can appoint.

You will need to agree the fees to be charged for undertaking the limited assurance audit review with the auditor you have appointed.

You will be required to complete an annual certification form (which SAAA will provide) and to submit this to SAAA by an agreed date. The certification form will include:

- details of the firm that you have appointed as your auditor;
- confirmation that the limited assurance audit review has been undertaken by the set date; and
- confirmation that you have complied with the Regulations.

SAAA will carry out independent checks to ensure that the information provided in the certification form is correct.

If you fail to appoint an auditor, the Secretary of State will make the appointment. You will be responsible for paying the auditor's fees and for any administrative costs.

### **Group 3 Opted-in authorities with neither income nor expenditure exceeding £25k**

With effect from 2017/18 very few of these authorities will be required to undergo a limited assurance audit review or to pay any audit fee. The circumstances in which a limited assurance audit review may be necessary are set out in Clauses 9(1)(b) and 9(3) of the Regulations (attached as Appendix 1).

All authorities will, however, need to complete and publish an annual return in accordance with the Transparency Code for Smaller Authorities ([https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/388541/Transparency Code for Smaller Authorities.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/388541/Transparency_Code_for_Smaller_Authorities.pdf)). You will also need to complete an annual exemption form (which SAAA will provide) and submit this to SAAA or an auditor specified by SAAA by an agreed date. By completing this form you certify that, under the Regulations, there is no requirement for a limited assurance audit review for the financial year in question.

If you wish to have a limited assurance audit review, despite not being required to do so, you will need to inform SAAA by the end of the financial year in question. SAAA will then appoint an auditor to undertake the review, for which a fee of £200 will be payable.

### **Group 4 Opted-out authorities with neither income nor expenditure exceeding £25k**

Unless required to submit their accounts for review in the circumstances set out in Appendix 1, these bodies will only need to complete and publish an annual return and to complete and submit to SAAA or an auditor specified by SAAA an annual exemption form in the same way as Group 3 authorities.

If you wish to have a limited assurance audit review, you will need to appoint an audit panel, consider the panel's recommendations and appoint an auditor in the same way as a Group 2 authority. You will need to agree the fees to be charged for undertaking the limited assurance audit review with the auditor that you have appointed.

### **Group 5 Financially inactive authorities**

If your authority has no income or expenditure you should continue to provide an 'inactive' certificate to the auditor appointed by SAAA.

## **Electors' rights**

If an elector wishes, within the prescribed time period, to ask a question about, or make an objection to an authority's accounts, he or she may need to contact the appointed auditor. For opted-in authorities (Groups 1 and 3) the auditor will be (in the case of Group 1 authorities, will already have been) appointed by SAAA. Fees for any additional audit or investigatory work will be charged in accordance with scales set by SAAA.

Questions about and objections to the accounts of authorities in Group 2 and those in Group 4 that have appointed an auditor will be considered by the appointed auditor, who will report the outcome to the authority. If a Group 4 authority needs to appoint an auditor, it should follow the procedure described above, appointing an audit panel and taking a decision based on that panel's recommendations.

If an auditor issues a public interest report in relation to a Group 3 or Group 4 authority, DCLG will require that authority either to commission a limited assurance audit review in the following year (on terms to be agreed between the authority and the auditor) or to opt in to the SAAA scheme for the remainder of the contract period (until 31 March 2022).

## **Full audit**

Any smaller authority can still choose to be treated as a full audit authority, as defined in the Local Audit and Accountability Act 2014, and to commission a full audit either from an auditor appointed by SAAA or (for authorities in Groups 2 and 4) from a licensed auditor appointed through proper processes, following a recommendation from a duly constituted audit panel.

## **Conclusion**

The decisions that are available to smaller authorities are set out in the flowchart at Appendix 2. We will in due course be publishing questions and answers on our website, but in the meantime I or any of my colleagues at SAAA would be happy to answer any questions that you might have.

**Please remember if you do decide to opt out of the SAAA scheme you must communicate that decision to [admin@localaudits.co.uk](mailto:admin@localaudits.co.uk) or SLB Opt Out, 109 Great Russell Street, London WC1B 3LD by 31 March 2016.**

Mike Attenborough-Cox

**Chairman - Smaller Authorities' Audit Appointments Limited**

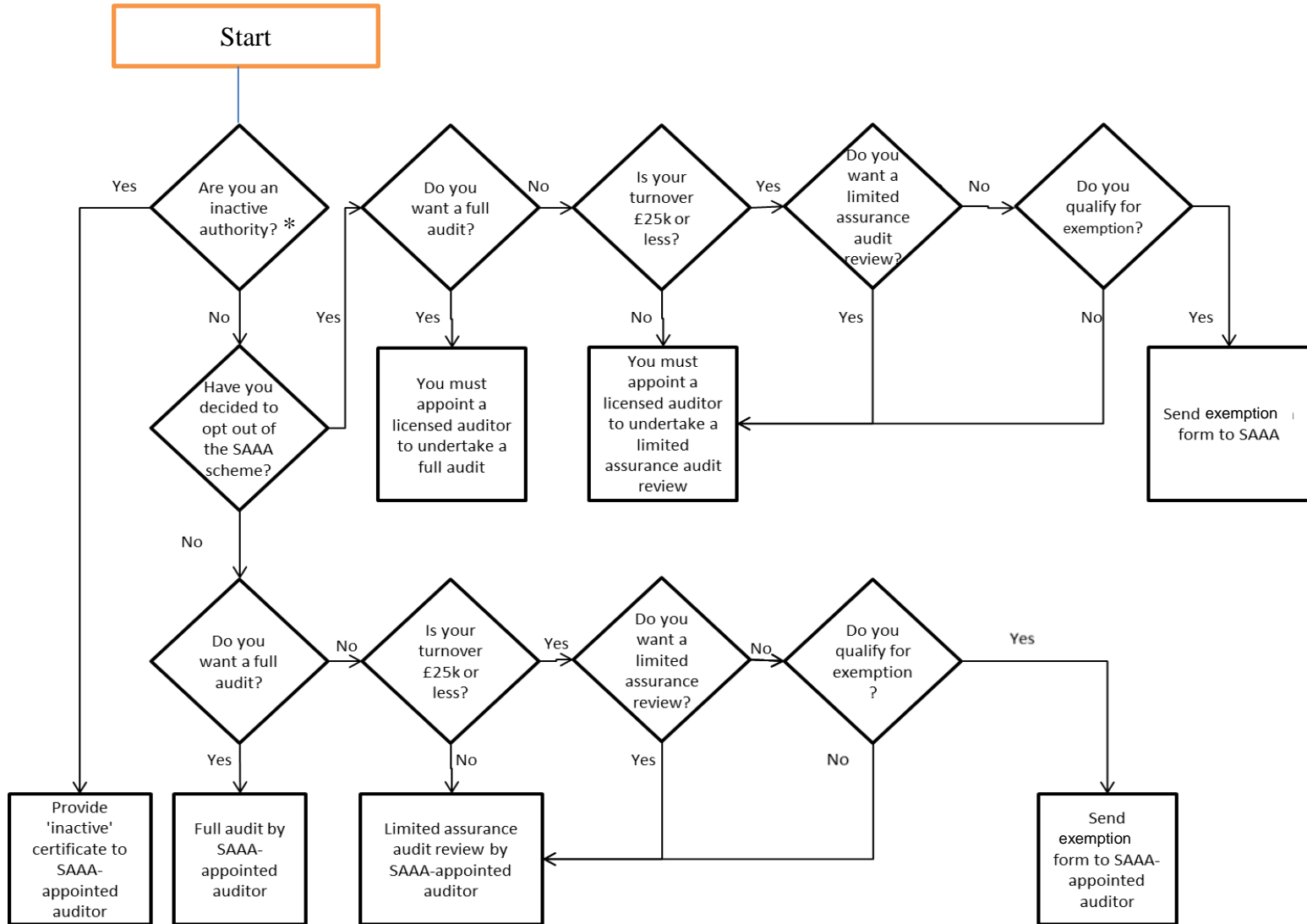
## Appendix 1

### Extract from the Local Audit (Smaller Authorities) Regulations 2015

#### Exempt authorities

- 9.—(1) A smaller authority may certify itself as an exempt authority for a financial year if—
- (a) the qualifying condition for that authority and that financial year in paragraph (2) is met; (b) the financial year is not one of the first three years of the authority's existence; and
  - (c) none of the relevant circumstances in paragraph (3) apply in relation to the keeping of the accounts for the preceding financial year or to the audit of those accounts.
- (2) The qualifying condition is met for an authority and a financial year if—
- (a) the higher of the authority's gross income for the year and its gross expenditure for the year does not exceed £25,000, or
  - (b) the higher of the authority's gross receipts and gross payments for the year does not exceed £25,000.
- (3) The relevant circumstances are—
- (a) the local auditor has made a public interest report(a) in respect of the authority or any entity connected with it;
  - (b) the local auditor has made a recommendation to the authority, relating to the authority or any entity connected with it;
  - (c) the local auditor has issued an advisory notice under paragraph 1(1) of Schedule 8 to the Act, and has not withdrawn the notice;
  - (d) the local auditor has commenced judicial review proceedings under section 31(1) of the Act, and the proceedings have not been withdrawn nor has the court found against the auditor;
  - (e) the local auditor has made an application under section 28(1) of the Act for a declaration that an item of account is unlawful, and the application has not been withdrawn nor has the court refused to make the declaration; or
  - (f) the court has declared an item of account unlawful after a person made an appeal under section 28(3) of the Act.

**Appendix 2**



\* An inactive authority is one that has no income or expenditure