



AUDIT COMMITTEE

29 November 2016

Subject Heading:

Decision to opt in to the National Scheme for Auditor Appointments

CMT Lead:

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Policy context:

The Local Audit & Accountability Act 2014 sets out the arrangements for the appointment of Auditors. The Council has been invited to opt into the sector led option by Public Sector Appointments.

Financial summary:

Current audit fees are £189k per annum. Fees for 18/19 onwards will be dependent on market forces but large scale contracts procured through PSAA are expected to bring economies of scale and attract keener prices than a smaller scale competition.

The subject matter of this report deals with the following Council Objectives

SUMMARY

This report sets out the proposals for appointing the external auditor to the Council for the 2018/19 accounts and beyond, as the current arrangements only cover up to and including 2017/18 audits. The auditors are currently working under a contract originally let by the Audit Commission and the contract was novated to Public Sector Audit Appointments (PSAA) following the closure of the Audit Commission.

It is likely that a sector-wide procurement conducted by PSAA will produce better outcomes for the Council than any procurement undertaken locally. Use of PSAA will also be less resource intensive than establishing and operating an auditor panel and conducting a direct local procurement.

RECOMMENDATIONS

For the reasons set out in this report, the Audit Committee recommends to Council:

- (a) It accepts Public Sector Audit Appointments' (PSAA) invitation to 'opt in' to the sector led option for the appointment of external auditors commencing 1 April 2018, for the financial years of the contracts let in accordance with their procurement strategy. (5 years is currently proposed).
- (b) If (a) is agreed, delegates to the Section 151 Officer, authority to give notice to the PSSA that the invitation is accepted.

REPORT DETAIL

The Local Audit and Accountability Act 2014 (the Act) brought to a close the Audit Commission and established transitional arrangements for the appointment of external auditors and the setting of audit fees for all local government and NHS bodies in England. On 5 October 2015 the Secretary of State Communities and Local Government (CLG) determined that the transitional arrangements for local government bodies would be extended by one year to also include the audit of the accounts for 2017/18.

The Act also set out the arrangements for the appointment of auditors for subsequent years, with the opportunity for authorities to make their own decisions about how and by whom their auditors are appointed. Regulations made under the Act allow authorities to 'opt in' for their auditor to be appointed by an 'appointing person'.

In July 2016 PSAA were specified by the Secretary of State as an appointing person under regulation 3 of the Local Audit (Appointing Person) Regulations 2015. The appointing person is sometimes referred to as the sector led body and PSAA has wide support across local government. PSAA was originally established to operate the transitional arrangements following the closure of the Audit Commission under powers delegated by the Secretary of State. PSAA is an independent, not-for-profit company limited by guarantee and established by the LGA.

PSAA is inviting the Council to opt in, along with all other authorities, so that PSAA can enter into a number of contracts with appropriately qualified audit firms and appoint a suitable firm to be the Council's auditor.

The principal benefits from such an approach are as follows:

- PSAA will ensure the appointment of a suitably qualified and registered auditor and expects to be able to manage the appointments to allow for appropriate groupings and clusters of audits where bodies work together;
- PSAA will monitor contract delivery and ensure compliance with contractual requirements, audit quality and independence requirements;
- Any auditor conflicts at individual authorities would be managed by PSAA who would have a number of contracted firms to call upon;

- It is expected that the large scale contracts procured through PSAA will bring economies of scale and attract keener prices from the market than a smaller scale competition;
- The overall procurement costs would be expected to be lower than an individual smaller scale local procurement;
- The overhead costs for managing the contracts will be minimised through a smaller number of large contracts across the sector;
- There will be no need for the Council to establish alternative appointment processes locally, including the need to set up and manage an 'auditor panel', see below; and
- A sustainable market for audit provision in the sector will be easier to ensure for the future.

The Council's current external auditor is Ernst and Young, this appointment having been made under a contract let by the Audit Commission. Following closure of the Audit Commission the contract was novated to PSAA. Over recent years authorities have benefited from a reduction in fees in the order of 55% compared with fees in 2012. This has been the result of a combination of factors including new contracts negotiated nationally with the audit firms and savings from closure of the Audit Commission. The Council's current external audit fees are £168,022 per annum for the main accounts, and £21,000 for the pension fund.

The proposed fees for the subsequent years cannot be known until the procurement process has been completed, as the costs will depend on proposals from the audit firms.

The scope of the audit will still be specified nationally, the National Audit Office (NAO) is responsible for writing the Code of Audit Practice which all firms appointed to carry out the Council's audit must follow. Not all audit firms will be eligible to compete for the work, they will need to demonstrate that they have the required skills and experience and be registered with a Registered Supervising Body approved by the Financial Reporting Council.

If the Council did not opt in there would be a need to establish an independent auditor panel. In order to make a stand-alone appointment the auditor panel would need to be set up by the Council itself. The members of the panel must be wholly or a majority of independent members as defined by the Act. Independent members for this purpose are independent appointees, this excludes current and former elected members (or officers) and their close families and friends. This means that elected members will not have a majority input to assessing bids and choosing which audit firm to award a contract for the Council's external audit.

Alternatively, the Act enables the Council to join with other authorities to establish a joint auditor panel. Again this will need to be constituted of wholly or a majority of independent appointees (members). Further legal advice would be required on the exact constitution of such a panel having regard to the obligations of each Council under the Act and the Council would need to liaise with other local authorities to assess the appetite for such an arrangement.

Neither of these options is recommended. Both options would be more resource intensive processes to implement and without the bulk buying power of the sector led procurement, would be likely to result in a more costly service. It would also be more difficult to manage quality and independence requirements through a local appointment process.

PSAA has now formally invited this Council to opt in. Details relating to PSAA's invitation are provided in an Appendix to this Report.

In summary the national opt-in scheme provides the following:

- The appointment of a suitably qualified audit firm for each of the contracted financial years commencing 1 April 2018;
- Appointing the same auditor to other opted in bodies that are involved in formal collaboration or joint working initiatives to the extent this is possible with other constraints;
- Managing the procurement process to ensure both quality and price criteria are satisfied. PSAA will seek views from the sector to help inform its detailed procurement strategy;
- Ensuring suitable independence of the auditors from the bodies they audit and managing any potential conflicts as they arise;
- Minimising the scheme management costs and returning any surpluses to scheme members;
- Consulting with authorities on auditor appointments;
- Consulting with authorities on the scale of audit fees and ensuring these reflect scale, complexity and audit risk; and
- Ongoing contract and performance management of the contracts once these have been let.

IMPLICATIONS AND RISKS

The principal risks are that the Council fails to appoint an auditor in accordance with the new frameworks or does not achieve value for money in the appointment process. These risks are considered best mitigated by opting in to the sector led approach through PSAA.

Financial implications and risks:

There is a risk that current external fees levels could increase when the current contracts end in 2018.

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Opting-in to a national scheme provides maximum opportunity to ensure fees are as low as possible, whilst ensuring the quality of audit is maintained by entering in to a large scale collective procurement arrangement.

If the national scheme is not used some additional resource may be needed to establish an auditor panel and conduct a local procurement. Until a procurement exercise is completed it is not possible to state what, if any, additional resource may be required for audit fees for 2018/19. However, any such financial implications arising will be raised through the appropriate channels as the needs arise.

Legal implications and risks:

Under the Local Audit and Accountability Act 2014, the Council is under a duty to appoint a local auditor and have an auditor panel (s.7 and s.9). The body of the report sets out the legal framework for the appointment of a local auditor, the establishment of PSSA as an appointing person by the Secretary of State and the alternatives to “opting in” to the PSSA option under the 2014 Act).

The Committee is asked to recommend to full Council that it exercises its power under Regulation 9 of the Local Audit (Appointing Person) Regulations 2015 to accept the invitation of PSSA (made under regulation 8) to be the appointing person for this Council. Under regulation 19, the decision to accept an invitation made under Regulation 8 must be made by the Council and cannot be delegated.

The Council must exercise this power rationally taking into account the relevant information; the report clearly the benefits and risks of this option and the alternative options if the invitation is not accepted. Section 12 makes provision for the failure to appoint a local auditor: the Council must immediately inform the Secretary of State, who may direct the Council to appoint the auditor named in the direction or appoint a local auditor on behalf of the Council.

Under regulation 9, the Council accepts the invitation by giving notice to the PSSA by the closing date within the invitation. If so, the Council becomes an opted in authority from the date of the notice and for the period stated in the invitation. For the avoidance of doubt, it is advised that Committee recommend to Council delegate the function of giving notice to an officer.

Human Resources implications and risks:

N/A

Equalities implications and risks:

This is a statutory requirement with no equalities implications.

BACKGROUND PAPERS

None.