

FUTURE EXTERNAL AUDIT APPOINTMENT

1. PURPOSE OF THE REPORT

- 1.1 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.

2. BACKGROUND

- 2.1 The Council's external auditors are currently working under a contract originally let by the Audit Commission. The contract was novated to Public Sector Audit Appointments (PSAA) following the closure of the Audit Commission.
- 2.2 The Local Audit and Accountability Act 2014 (the Act) brought a close to 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 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.
- 2.3 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 under the Act allow authorities to 'opt in' for their auditor to be appointed by an 'appointing person'.
- 2.4 In July 2016 PSAA were specified by the Secretary of State as an appointing person (sometimes referred to as the sector led body). 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.
- 2.5 The Council's current external auditor is Ernst & Young LLP, this appointment having been made under a contract let by the Audit Commission, since novated to the PSAA. The PSAA has demonstrated its capability in terms of auditor appointment, contract management, and monitoring audit quality. Over recent years authorities have benefitted from a significant reduction in fees 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 the closure of the Audit Commission. The Council's indicative external fees for 2016/17 are £59,735.

3. SECTOR LED APPROACH

- 3.1 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 Councils auditor.

- 3.2 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 appointment to allow for appropriate groupings and clusters of audits where bodies work together;
 - PSAA will monitor contract delivery and ensure compliance with contractual, 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 smaller scale competition; and
 - 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 section 4 below.
- 3.3 The proposed fees for the subsequent years cannot be known until the procurement process has been completed, as the costs will depend on the proposals from the audit firms.
- 3.4 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.
- 3.5 Currently there are only nine providers that are eligible to audit local authorities and other relevant bodies; all of these firms being firms with a national presence. This means a local procurement exercise, as described in section 4 below, would seek tenders from these same firms. Local firms could not be invited to bid.

4. OTHER OPTIONS

- 4.1 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 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.
- 4.2 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. Further legal advice would be required on the exact constitution of such a panel having regard to the obligations of each Council/Authority under the Act. Initial discussions with neighbouring authorities suggest there isn't a strong appetite for such an arrangement.
- 4.3 Neither of these options are recommended. Both these options would be more resource intensive processes to implement and without the bulk buying 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.

5. THE INVITATION AND WAY FORWARD

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

5.2 In summary the national opt in scheme provides the following;

- The appointment of a suitably qualified audit firm for each of the five 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, giving the Council the opportunity to influence which auditor is appointed;
- 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.

5.3 Regulation 19 of the Local Audit (Appointing Person) Regulations 2015 requires that a decision to opt in must be made by a meeting of Full Council. The Council then needs to formally respond to PSAA's invitation in the form specified by PSAA by early March.

5.4 PSAA will commence the formal procurement process after this date. It expects to award contracts in summer 2017 and consult with authorities on the appointment of auditors so that it can make an appointment by the statutory deadline of December 2017.

6. RISK MANAGEMENT

6.1 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.

7. LEGAL IMPLICATIONS

7.1 Section 7 of the Local Audit and Accountability Act 2014 requires a relevant Council to appoint a local auditor to audit its accounts for a financial year not later than 31 December in the preceding year.

- 7.2 Section 8 governs the procedure for appointment including that the Council must consult and take account of the advice of its auditor panel on the selection and appointment of a local auditor.
- 7.3 Section 12 makes provision for the failure of 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.

8. FINANCIAL IMPLICATIONS

- 8.1 There is a risk that the current external fees levels could increase when the contract ends in 2018. Until a procurement exercise is completed it is not possible to state what, if any, additional budget may be required for audit fees for 2018/19.
- 8.2 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.
- 8.3 If the national scheme is not used, additional budget and resource may be needed to establish an auditor panel and conduct a local procurement.

9. RECOMMENDATION

- 9.1 The Council accepts Public Sector Audit Appointments' (PSAA) invitation to 'opt in' to the sector led option for the appointment of external auditors for five years commencing 1 April 2018.

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