

22 February 2017		ITEM: 15
Council		
Appointment of External Auditor		
Wards and communities affected: All		Key Decision: No
Report of: Councillor Shane Hebb, Portfolio Holder for Finance and Legal		
Accountable Head of Service: N/A		
Accountable Director: Sean Clark, Director of Finance and IT		
This report is Public		

Executive Summary

The Local Audit and Accountability Act 2014 sets out new arrangements for the appointment of the external auditor. This applies to principal local government bodies from 2018/19 onwards and Auditor appointments must be made for 2018/19 audits by 31 December 2017. Appointments may be made by the audited body itself, by groups of appointing bodies, or by a specified appointing person.

This report sets out the options and a preferred approach for the local appointment of the external auditor for 2018/19.

1. Recommendation(s)

- 1.1 That the Council opts in to the appointing person arrangements made by Public Sector Audit Appointments (PSAA) for the Council's local auditor appointments from 2018/19.**

2. Introduction and Background

- 2.1** The closure of the Audit Commission on 31 March 2015 heralded the start of the process of devolving the responsibility for making external audit appointments to all local public bodies.
- 2.2** Public Sector Audit Appointments Limited (PSAA), an independent company established by the Local Government Association (LGA), was tasked with managing the existing appointments under transitional arrangements. For the Council they appointed Ernst and Young for a period of 5 years to 2016/17.
- 2.3** In May to June 2015, the LGA conducted a short online survey to ascertain the level of interest across the sector for extending external audit contracts for

up to three years, and also the level of support for the LGA setting-up a sector-led body to procure external audit services on behalf of councils and other bodies in the future. In response to this survey, the LGA lobbied for an extension of the transitional arrangements and started making arrangements to support councils during the transition.

- 2.4 In October 2015, the Secretary of State confirmed that the transitional provisions would be amended to allow an extension of the audit contracts for a period of one year for audits of principal local government bodies only. Consequently, the audit contracts novated to PSAA have been extended for one year for the principal local government bodies and will end with the completion of the audits of the 2017/18 accounts.
- 2.5 PSAA has subsequently been specified as the 'appointing person' for principal local government bodies under the provisions of the Local Audit and Accountability Act 2014. This means PSAA will make auditor appointments to relevant principal local government bodies that choose to opt into the national appointment arrangements they are developing.
- 2.6 If the Council chooses not to opt into these arrangements then the Council will need to make their own arrangements to:
- Determine whether to complete their own procurement exercise or consider approaching other authorities with a view to a group procurement exercise;
 - Manage the risk of the accredited external audit firms not bidding to secure the Council's external audit contract;
 - Establish an audit panel with independent members;
 - Manage the procurement process to appoint an external auditor;
 - Monitor the independence of the appointed auditor for the duration of the appointment;
 - Be responsible for the replacement of any auditor if required; and
 - Manage the contract in place with the external auditor.

3. Issues, Options and Analysis of Options

- 3.1 Officers have considered the options for the procurement of external audit since the arrangements required were first announced. However the alternative option offered by the PSAA has been developing simultaneously and it was therefore important to wait for confirmation of this option before proceeding further. There has subsequently been further clarification on the scope of this work which also needed to be considered.
- 3.2 In undertaking a sole procurement exercise it is clear the Council would be exposed to some inherent risks in the process. These include the risk of not making an appointment within the agreed timescales and the wider risks of managing the ongoing contract. To date, Councils have not been directly exposed to these risks as they were taken on by the Audit Commission and then the PSAA respectively. It is also noted the arrangements required to

appoint the external auditors will likely be complicated by the need to identify a pool of independent members.

- 3.3 The key drivers in any procurement process remain value for money and quality. The quality of the external auditor should be assured to some degree as the National Audit Office has already identified a list of accredited bidders for the contract which only includes recognised large audit firms in the market.
- 3.4 In terms of value for money the outcome is less certain and it is not unreasonable to consider the Council would be in a much weaker bargaining position in isolation and hence unlikely to secure the financial benefits available as part of either a group or national procurement exercise.
- 3.5 Initial discussions with other Local Authorities, in particular those within the Essex boundary, have identified that the majority of authorities are recommending to opt in to the appointed person regime. In fact the expectation is that most authorities will opt in to the PSAA process and this has been borne out by informal national surveys showing take up in the region of 97%. As such the ability for the Council to consider joint procurement with other authorities is very limited.
- 3.6 Further it is likely that sector wide procurement conducted by PSAA will produce better outcomes for the Council than any procurement exercise undertaken by ourselves or with a limited number of partners. Use of the PSAA will also be less resource intensive and less costly than establishing an auditor panel and conducting our own procurement exercise.
- 3.7 The main advantages of using PSAA are summarised as follows:
 - Assure timely auditor appointments;
 - Manage independence of auditors;
 - Secure competitive prices;
 - Save on procurement costs;
 - Save time and effort needed on auditor panels;
 - Focus on audit quality; and
 - Operates on a not for profit basis and distributes any surplus funds to scheme members.
- 3.8 There is more detail included within both the PSAA opt-in letter attached at Appendix 1 and in their frequently asked questions attached at Appendix 2. The benefits clearly align with the Council's desire to achieve value for money, receive a quality service and to provide an effective contract management service. The ability to achieve this is enhanced by the widespread opt in to this process from other principle local authorities.
- 3.9 As a result, it is recommended that the most efficient and cost effective approach for the Council would be to opt in to the appointing person arrangements for local auditor appointment for 2018/19.

- 3.10 Regulation 19 of the Local Audit (Appointing Person) Regulations 2015 requires that a decision to opt in must be made by Full Council. The date by which authorities will need to opt in to the appointing person arrangements is the 9 March 2017.

4. Reasons for Recommendation

- 4.1 To ensure the Council has a process in place for the appointment of the external auditors.

5. Consultation (including Overview and Scrutiny, if applicable)

- 5.1 There has been consultation with the current external auditors, the PSAA and other local authorities.

6. Impact on corporate policies, priorities, performance and community impact

- 6.1 The Council continues to deliver the corporate priorities that underpin the work of the Council. Strong Governance arrangements form part of these core principles and external audit provide the authority with independent assurance over the Council's governance arrangements in relation to the production of the opinion of the final accounts and value for money conclusion.

7. Financial Implications

- 7.1 Implications verified by: **Jonathan Wilson**
Chief Accountant

The Council has an established budget for the provision of external audit and current officer resources are considered appropriate to facilitate participation in the appointing person arrangements. If PSAA are not used then additional resource may be needed to establish an auditor panel and conduct the Council's own procurement exercise.

Until the procurement exercise is completed it is not possible to state whether the exercise will create efficiencies in terms of the budget or generate a budget pressure. It is, however, anticipated that any increase will be minimised through using PSAA.

7.2 Legal

Implications verified by: **David Lawson**
Deputy Head of Legal Services

The process as set out above and the recommendation should ensure compliance with the requirements of the Local Audit and Accountability Act 2014.

7.3 Diversity and Equality

Implications verified by: **Rebecca Price**
Community Development Officer

There are no specific implications from this report.

7.4 Other implications (where significant) – i.e. Staff, Health, Sustainability, Crime and Disorder)

There are no specific implications from the report

8. Background papers used in preparing the report (including their location on the Council's website or identification whether any are exempt or protected by copyright):

- None

9. Appendices to the report

- Appendix 1 – PSAA Opt-in Letter
- Appendix 2 – PSAA Appointing Person Frequently Asked Questions

Report Author:

Jonathan Wilson
Chief Accountant, Corporate Finance