

TITLE OF REPORT: External Auditor Appointments Beyond 1 April 2018

REPORT OF: Darren Collins, Strategic Director, Corporate Resources

Purpose of the Report

- 1 This report informs Committee of the optional arrangements for the appointment of external auditors for the financial year beginning on 1 April 2018.

Background

- 2 The Local Audit and Accountability Act 2014 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 for Communities and Local Government determined that the transitional arrangements for local government bodies would be extended by one year and would also include the audit of the Accounts for 2017/18.
- 3 The Council's contract with its existing external auditor, Mazars is currently managed by Public Sector Audit Appointments Limited (PSAA), the transitional body set up by the Local Government Association (LGA).
- 4 When the current transitional arrangements come to an end on 31 March 2018 the Council will be able to move to a local appointment of an external auditor. There are a number of routes by which this can be achieved, each with varying risks and opportunities. Current fees are based on discounted rates offered by the firms in return for substantial market share across NHS and Local Government bodies.
- 5 The scope of the audit will still be specified nationally by the National Audit Office which all firms appointed to carry out the Council's external audit must follow. Not all accounting firms will be eligible to compete for the work, they will need to demonstrate that they have the required skills and experience to be registered with a Registered Supervising Body approved by the Financial Reporting Council. The registration process has not yet commenced and so the number of firms is not known but it is reasonable to expect that the list of eligible firms may include the top 10 or 12 firms in the Country, including our current auditor. It is unlikely that small independent firms will meet the eligibility criteria.

Options

- 6 The broad options for the local appointment of external auditors are:
- Make a stand alone appointment by setting up an Independent Auditor Appointment Panel;
 - Joining with other councils to set up a Joint Independent Auditor Appointment Panel / local joint procurement arrangements; or
 - Opting-in to a sector led body that will negotiate contracts and make the appointment on behalf of councils, removing the need to set up an Independent Auditor Panel.

Option 1 Make a Stand Alone Appointment

- 7 In order to make a stand alone appointment the Council will need to set up an Auditor Panel. This could be a sub-committee of the current Audit and Standards Committee. The members of the Panel must be wholly or a majority independent members as defined by the Local Audit and Accountability Act 2014. Independent members for this purpose are independent appointees, this excludes current and former elected members (or officers) and their close family 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.
- 8 The advantages / benefits of setting up an Auditor Panel are that it would allow the Council to take advantage of the new local appointment regime and have local input into that decision.
- 9 The disadvantages / risks of setting up an Auditor Panel are:
- The Council will not benefit from reduced fees that are available through increased purchasing power and economies of scale provided by joint or national procurement contracts;
 - The Council will have to bear the complexity, administrative costs and risks associated with establishing and servicing the Audit Panel; and
 - May experience difficulties in appointing majority independent panel members and independent panel chair as per the Regulations.

Option 2 – Joining with other councils to set up a Joint Independent Auditor Appointment Panel / local joint procurement arrangements

- 10 The Act enables the Council to join with other authorities to establish a joint Auditor Panel. As with Option 1, 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.

11 The advantages / benefits of a joint arrangement with other local authorities are:

- The costs of setting up the Panel and running the procurement exercise will be shared across a number of authorities; and
- There is greater purchasing power providing potential for negotiating some economies of scale by being able to offer a larger combined contract value to the firms.

12 The disadvantages / risks of a joint arrangement are:

- The decision making body will be further removed from local input, with potentially no input from elected members where a wholly independent Auditor Panel is used, depending on the constitution agreed with the other bodies involved. It should be noted that the procurement process is largely however a technical exercise; and
- The choice of auditor could be complicated where individual Councils have independence issues. An independence issue occurs where the auditor has recently or is currently carrying out work such as consultancy or advisory work for a Council. Where this is the case, some auditors may be prevented from being appointed by the terms of their professional standards. There is a risk that if the joint auditor panel chose a firm that is conflicted for this Council then the Council may still need to make a separate appointment with all the attendant costs and loss of economies of scale possible through joint procurement.
- Initial discussions have indicated that there is not an appetite across the Region or Sub Region for a joint arrangement.

Option 3 - Opting-in to a sector led body that will negotiate contracts and make the appointment on behalf of councils, removing the need to set up an Independent Auditor Panel

13 The DCLG has recently named PSAA as the body authorised to make future audit appointments on behalf of principal local authorities in England. The sector led body will have the ability to negotiate contracts with the firms nationally, maximising the opportunities for the most economic and efficient approach to procurement of external audit on behalf of the whole sector. It is reported that nearly 270 councils have already expressed an interest in joining the national scheme.

14 If the Council is to become an opted-in authority then the closing date to give our formal acceptance of the invitation to PSAA is 5pm on Thursday 9 March 2017.

15 The benefits / advantages of opting-in according to PSAA 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, 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 reasonable to expect that 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 lower than individual smaller scale 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 requirement to set up and manage an independent Auditor Panel;
- It will satisfy the requirement for an independent auditor appointment through a collective approach; and
- It will ensure a sustainable market for all future audit provision in the Sector.

16 The disadvantages / risks of opting-in according to PSAA are:

- Individual elected members will have less opportunity for direct involvement in the appointment process other than through LGA and / or stakeholder representative groups, although this is no different to historic arrangements and as set out earlier in the report even with other options this opportunity is limited; and
- In order for PSAA to be viable and placed in the strongest possible negotiating position Councils will need to indicate their intention to opt-in before final contract prices are known.

Proposal

17 The Committee is asked to review the Options set out in the report to ensure that the Council can make the necessary arrangements for the appointment of external auditors for the financial year beginning on 1 April 2018. The preferred option is Option 3 on the basis of deliverability and cost.

Recommendation

18 The Committee is asked to review the Options set out in the report and submit any comments to Cabinet.

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