

**Title of report: External Auditor Appointments Beyond 1 April 2018**

**Report of: Darren Collins – Strategic Director, Corporate Resources**

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### **Purpose of the Report**

1. Cabinet is asked to recommend that Council approve the proposed arrangement for appointing an external auditor for the financial year beginning on 1 April 2018.

### **Background**

2. The Council's contract with its existing external auditor, Mazars comes to an end on 31 March 2018, at which point the Council will move to a local appointment of an external auditor.
3. There are a number of routes by which this can be achieved, each with different implications. The broad options for the local appointment of external auditors are:
  - a. Make a stand alone appointment by setting up an Independent Auditor Appointment Panel;
  - b. Joining with other councils to set up a Joint Independent Auditor Appointment Panel / local joint procurement arrangements; or
  - c. 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.
4. The Council's Audit and Standards Committee considered this issue on 30 January 2017. The Committee supported the proposed approach recommended within this Cabinet report. The minute of the Committee meeting is attached as Appendix 2 to this report.

### **Proposals**

5. The report identifies the options available to the Council to appoint an external auditor for the financial year commencing on 1 April 2018, with a proposed option to opt-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.

### **Recommendation**

6. Cabinet is asked to recommend to Council the proposal to opt-in to a national sector led body that will undertake the appointment of an external auditor on behalf of the Council.

For the following reasons:

- (i) To ensure the Council can make the necessary arrangements for the appointment of external auditors for the financial year beginning on 1 April 2018 in compliance with the requirements of the Local Audit and Accountability Act 2014: and
- (ii) The optimum arrangement for the achievement of value for money and deliverability.

### Policy Context

1. The proposals in this report are consistent with the Council's vision and medium term priorities as set out in Vision 2030 and the Council Plan and in particular they ensure that effective use is made of the Council's resources to ensure a sustainable financial position.

### 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. PSAA is an independent, not-for-profit-company limited by guarantee and established by the LGA. It is wholly owned by the Improvement and Development Agency for local government (IDeA), which in turn is wholly owned by the LGA. It already carries out a number of functions in relation to auditor appointments under powers delegated by the Secretary of State for Communities and Local Government. However these powers are time-limited and will cease when current contracts with audit firms expire with the completion of the 2017/18 audits for local government bodies.
5. When the current transitional arrangements come to an end on 31 March 2018 the Council will move to a local appointment of the 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.
6. 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

7. 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**

8. 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 would not have a majority input to assessing bids and choosing which audit firm to award a contract for the Council's external audit.
9. 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.
10. 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 appointing the 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**

11. The Act enables the Council to join with other authorities to establish a joint Auditor Panel. As with Option1, 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.
12. 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.

13. 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;
- 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; and
- 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**

14. 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.
15. 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 9 March 2017.
16. 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.

17. 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.

### **Consultation**

18. The Council's Audit and Standards Committee has been consulted on this report and was supportive of the proposed option.

### **Alternative Options**

19. The alternative options are set out in the report.

### **Implications of recommended options**

20. **Resources:**

**a) Financial Implications** - The Strategic Director, Corporate Resources confirms that the financial implications are set out in this report. There are no additional financial implications associated with the report itself.

**b) Human Resources Implications** - There are no human resources implications arising from this report.

**c) Property Implications** – There are no property implications arising from this report.

21. **Risk Management Implications**

External Audit activity provides the Council and residents with an independent opinion on the Council's financial statements and performance.

22. **Equality and Diversity Implications**

There are no equality and diversity implications arising from this report.

23. **Crime and Disorder Implications**

There are no crime and disorder implications arising from this report.

24. **Health Implications**

There are no health implications arising from this report.

25. **Sustainability Implications**

There are no sustainability implications arising from this report.

26. **Human Rights Implications**

There are no human rights implications arising from this report.

27. **Area and Ward Implications**

There are no direct area and ward implications arising from this report.

28. **Background Information**

The following document has been used in the preparation of this report:

- Local Audit and Accountability Act 2014

**Minute from Audit and Standards Committee Meeting Monday, 30 January 2017**

**ASC 35 External Auditor Appointments Beyond 1 April 2018**

The Committee received a report informing of the optional arrangements for the appointment of external auditors for the financial year beginning on 1 April 2018.

The advantages and disadvantages for each of the three options were outlined.

The Committee reviewed the options and commented that Option 3, opting in to a sector led body that will negotiate contracts and make the appointment on behalf of Councils (thus removing the need to setup an Independent Auditor Panel) was the preferred option.

**RESOLVED:** That the Committee's preference for Option 3, as detailed in the report, be reported to the Cabinet at its meeting on 7 February 2017.