

Meeting:	Audit & governance committee
Meeting date:	22 September 2016
Title of report:	Changes to arrangements for appointment of external auditors
Report by:	Head of corporate finance

Classification

Open

Key decision

This is not a key decision.

Wards affected

Countywide

Purpose

This report summarises the changes to the arrangements for appointing external auditors following the closure of the Audit Commission and the end of the transitional arrangements at the conclusion of the 2017/18 audits.

The council will need to consider the options available and put in place new arrangements in time to make a first appointment by 31 December 2017.

Recommendation

THAT: the committee is requested to consider recommending to council the preferred approach of:

- a) Supporting the Local Government Association (LGA) in setting up a national sector led body by indicating intention to “opt-in”.**

Alternative options

- 1 The council has the following alternative options that are not recommended for the reasons detailed in this report:
 - a) Establishing a stand-alone auditor panel to advise on the appointment of a local auditor.
 - b) Commencing work on exploring the establishment of local joint procurement arrangements with neighbouring authorities.
 - c) Using an existing independent panel of the authority (this will only be applicable where a suitably constituted panel already exists).

Reasons for recommendations

- 2 The LGA are working on developing a sector led body appointing person (SLB). In a recent survey, 58% of respondents expressed an interest in this option. Greatest economies of scale will come from the maximum number of councils acting collectively and opting-in to a SLB. In order to the strengthen the LGA's negotiating position and enable it to more accurately evaluate the offering the committee is asked to register an interest in the option of opting in to a SLB. A formal decision to opt-in will be required at a later stage.

Key considerations

Background

- 3 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 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.
- 4 The council's current external auditor is Grant Thornton, this appointment having been made under a contract let by the Audit Commission. Following closure of the Audit Commission the contract is currently managed by Public Sector Audit Appointments Limited (PSAA), the transitional body set up by the LGA with delegated authority from the Secretary of State CLG. Over recent years the council has benefited from reduction in fees in the order of 50% compared with historic levels. This has been the result of a combination of factors including new contracts negotiated nationally with the firms of accountants and savings from closure of the Audit Commission. The council's current external audit fees are £124k per annum.
- 5 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 its 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. When the contracts were last negotiated nationally by the Audit Commission they covered NHS and local government bodies and offered maximum economies of scale.

- 6 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 accounting 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. 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 local independent firms will meet the eligibility criteria.
- 7 The council have until December 2017 to make an appointment. In practical terms this means one of the options outlined in this report will need to be in place by spring 2017 in order that the contract negotiation process can be carried out during 2017.

Options for local appointment of External Auditors

- 8 There are three broad options open to the council under the Local Audit and Accountability Act 2014 (the Act), these are detailed below and option 3 is the recommended option:

Option 1 - To make a stand-alone appointment

- 9 In order to make a stand-alone appointment the council will need to set up an Auditor Panel who can advise on the appointment. 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 firm of accountants to award a contract for the council's external audit. A new independent auditor panel established by the council will be responsible for selecting the auditor and advising the council.

Advantages

- 10 Setting up an auditor panel allows the council to take maximum advantage of the new local appointment regime and have local input to the decision. Its creation is established in statute and can be replicated. The appointment is by the council.

Disadvantages

- 11 Recruitment and servicing of the Auditor Panel and, running the bidding exercise and negotiating the contract is estimated by the LGA to cost in the order of £15k plus on going expenses and allowances.
- 12 The council will not be able to take advantage of reduced fees that may be available through joint or national procurement contracts.
- 13 The assessment of bids and decision on awarding contracts will be taken by independent appointees and advice given to elected members.

Option 2 - Set up a Joint Auditor Panel / local joint procurement arrangements

- 14 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 will 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.

Advantages

- 15 The costs of setting up the panel and running the bidding exercise will be shared across a number of authorities.
- 16 There is greater opportunity for achieving economies of scale by being able to offer a larger combined contract value to the firms.

Disadvantages

- 17 The decision making process will be further removed from local input, with potentially no input from elected members where a wholly independent auditor panel is used or only one elected member representing each council, depending on the constitution agreed with the other bodies involved.
- 18 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 the council. Where this occurs 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 choose 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 possible through joint procurement.

Option 3 - Opt-in to a sector led body

- 19 In response to the consultation on the new arrangement the LGA successfully lobbied for councils to be able to 'opt-in' to a sector led appointing person arrangement appointed by the Secretary of State. This would have the ability to negotiate contracts with accountancy firms nationally, maximising the opportunities for the most economic and efficient approach to procurement of external audit on behalf of the whole sector.

Advantages

- 20 The costs of setting up the appointment arrangements and negotiating fees would be shared across all opt-in authorities.
- 21 By offering large contract values the firms would be able to offer better rates and lower fees than are likely to result from local negotiation.
- 22 Any conflicts at individual authorities would be managed by the SLB who would have a number of contracted firms to call upon.
- 23 The appointment process would not be ceded to locally appointed independent members. Instead a separate body set up to act in the collective interests of the 'opt-in' authorities. The LGA are considering setting up such a body utilising the knowledge and experience acquired through the setting up of the transitional arrangements.
- 24 An auditor panel is not required.

Disadvantages

- 25 Individual elected members will have less opportunity for direct involvement in the appointment process other than through the LGA and/or stakeholder representative groups.
- 26 In order for the SLB to be viable and to be placed in the strongest possible negotiating position the SLB will need councils to indicate their intention to opt-in before final contract prices are known.

Conclusion

- 27 The council will need to take action to implement new arrangements for the appointment of external auditors by 31 December 2017 for the financial year commencing April 2018. In order that more detailed proposals can be developed the committee is asked to give early consideration to the preferred approach.
- 28 The council has been asked by the LGA for an indication of the preferred approach in order that it can invest resources in providing appropriate support to councils. The LGA is strongly supportive of the SLB approach as it believes this offers best value to councils by reducing set-up costs and having to potential to negotiate lowest fees.

Community impact

- 29 Effective audit helps ensure the council is transparent about the way in which it conducts business and that it does so efficiently and effectively in line with the values of the council and the corporate plan priority to secure better services, quality of life and value for money.

Equality duty

- 30 As this is a decision on back office functions we do not believe that it will have an impact on our Equality duty.

Financial implications

- 31 Current external fees levels are likely to increase when the current contracts end in 2018.
- 32 The cost of establishing a local or joint Auditor Panel outlined in options 1 and 2 above will need to be estimated and included in the council's budget. This will include the cost of recruiting independent appointees (members), servicing the Panel, running a bidding and tender evaluation process, letting a contract and paying members fees and allowances.
- 33 Opting-in to a national SLB provides maximum opportunity to limit the extent of any increases by entering in to a large scale collective procurement arrangement and would remove the costs of establishing an auditor panel. There will not be a fee to join the sector led arrangements.

Legal implications

- 34 Section 7 of the Local Audit and Accountability Act 2014 (the Act) requires a relevant authority to appoint a local auditor to audit its accounts not later than 31 December in the preceding financial year.
- 35 If the council is to appoint the local auditor itself then section 8 governs the procedure for appointment including the requirement for an auditor panel who must be consulted and able to advise council e on the selection and appointment of a local auditor.
- 36 The alternative way in which a local auditor can be appointed is utilising a person (an “appointing person” as specified by the secretary of state) to appoint a local auditor to audit the accounts of an authority who has chosen to opt in. Before appointing a local auditor to an opted in authority, an appointing person must consult the authority about the proposed appointment.
- 37 Due to express provision in schedule three of the Act, the appointment of the local auditor is a matter for council and cannot be delegated.

Risk management

- 38 There is no immediate risk to the council, however, early consideration by the council of its preferred approach will enable detailed planning to take place so as to achieve successful transition to the new arrangement in a timely and efficient manner.
- 39 Providing the LGA with a realistic assessment of our likely way forward will enable the LGA to invest in developing appropriate arrangements to support the council.

Consultees

- 40 Consultation with neighbouring authorities indicate that they intend to follow the PSB option recommended in this report.

Appendices

None.

Background papers

None identified.