

FUTURE APPOINTMENT OF EXTERNAL AUDITORS

Council - 22 November 2016

Report of Chief Finance Officer

Status: For Decision

Key Decision: No

Executive Summary: This report details the arrangements for appointing external auditors following the abolition of the Audit Commission and the end of the transitional arrangements at the conclusion of the 2017/18 audits. It recommends that opting into a Sector Led Body (Public Sector Audit Appointments Limited) to negotiate and make the external auditor appointment be agreed as the preferred procurement route. The appointment of the external auditor is a decision of the Full Council

Portfolio Holder Cllr. John Scholey

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Recommendation to Council:

That the Council opts in to the appointing person arrangements made by Public Sector Audit Appointments (PSAA) for the appointment of external auditors.

Introduction and Background

- 1 A report was presented to the Audit Committee on 15 March 2016 detailing the changes to the arrangements for appointing external auditors following the abolition of the Audit Commission and the end of the transitional arrangements at the conclusion of the 2017/18 audits.
- 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 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.
- 3 The Council's current external auditor is Grant Thornton, this appointment having been made under a contract let by the Audit Commission. Following the 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. Over

recent years there has been a significant reduction in audit fees compared with historic levels. This has been the result of a combination of factors including new contracts negotiated nationally and savings from the closure of the Audit Commission. The Council's external audit fees for 2015/16 were £43,156 (excluding grant certification work).

- 4 When the current transitional arrangements come to an end on 31 March 2018 the Council will be able to move to local appointment of the 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.
- 5 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. 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.
- 6 A further report was presented to the Audit Committee on 27 September 2016 and they recommended to Full Council that the Sector Led Body approach to the negotiation and appointment of the external auditor be approved as the preferred procurement route.

Options for local appointment of External Auditors

- 7 There are three broad options open to the Council under the Local Audit and Accountability Act 2014:

Option 1 - Make a stand-alone appointment

- 8 Procuring a stand-alone appointment overseen by a specially set up independent Audit Panel. The members of the Panel would need to be wholly or a majority of independent members. This option would therefore incur costs associated with the recruitment of independent members and of maintaining the panel. Under this option, the Council would not be able to take advantage of reduced fees that may be available through joint or national procurement contracts.

Option 2 - Set up a Joint Auditor Panel

- 9 Joining with other councils to set up a joint independent Auditor Panel. This option would spread the cost across a number of local authorities (for example, this could be a joint procurement across Kent). There would be a

greater opportunity for negotiating some economies of scale by being able to offer a larger, combined contract value, however, the decision making body would be further removed from local input.

Option 3 - Opt-in to a Sector Led Body

- 10 A Sector Led Body who would negotiate contracts and make the appointment on behalf of councils, thus removing the need to set up an independent Auditor Panel. Public Sector Audit Appointments Ltd (PSAA) has been appointed by the Secretary of State to be the sector led body. PSAA is an independent, not-for-profit company limited by guarantee and established by the Local Government Association (LGA). PSAA already administers the current audit contracts nationally. Under the Sector Led Body option, elected members would have less opportunity for direct involvement in the appointment process, other than through the LGA and/or stakeholder groups. However, PSAA would have the ability to negotiate contracts with audit firms nationally, maximising the opportunities for the most economic and efficient approach to procurement of external audit on behalf of the whole sector. PSAA would pool scheme costs and charge fees to audited bodies in accordance with a fair scale of fees which would have regard to size, complexity and audit risk. This is in line with how the current scale of audit fees are set. As a not-for-profit company, any surplus funds would be returned to scheme members.
- 11 The LGA are keen for local authorities to support the Sector Led Body approach. The LGA therefore asked councils to express an interest in this procurement option. It was agreed by the Audit Committee on 15 March 2016 that officers would express an interest in working with the LGA as a Sector Led Body for the future appointment of external auditors. Therefore, an expression of interest was made by the deadline of 30 April 2016. This was a non-binding commitment. In excess of 200 authorities signalled positive interest - the greater the level of participation, the better the value that would be represented by the scale of fees under the Sector Led Body option.

Invitation to Opt into the National Scheme for Auditor Appointments

- 12 An invitation to opt into the national scheme for auditor appointments was received from the PSAA on 27 October 2016. The invitation letter and further details are included at Appendix A.
- 13 It is recommended that Full Council accept this invitation as it will ensure the following benefits:
 - Avoiding the necessity for the Council to establish an auditor panel and to undertake an auditor procurement.
 - Savings from one major procurement as opposed to running an individual or Kent-wide procurement exercise.
 - Securing highly competitive prices from audit firms through economies of scale.

- A scale of fees which reflects size, complexity and audit risk.
- Distribution of surpluses to participating bodies.
- Appointment of the same auditors to bodies involved in significant collaboration/joint working initiatives or across regions (for example, across Kent) where the parties believe that it will enhance efficiency and value for money.

Key Implications

Financial

The external audit fees for 2016/17 are expected to be £43,156 (excluding grant certification work). The level of external audit fees levels may increase when the current contract ends in 2018. Options 2 and 3 would allow the Council to take advantage of economies of scale through a larger joint procurement exercise.

The cost of establishing a local or joint Auditor Panel outlined in options 1 and 2 above are not known at this stage but are likely to include recruiting independent appointees (members), servicing the Panel, running a bidding and tender evaluation process, letting a contract and paying members' fees and allowances.

Opting-in to a national Sector Led Body 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. In excess of 200 authorities have expressed an interest in the sector led approach.

Legal Implications and Risk Assessment Statement.

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 for a financial year not later than 31 December in the preceding year. Section 8 governs the procedure for appointment including that the authority must consult and take account of the advice of its auditor panel on the selection and appointment of a local auditor. Section 8 provides that where a relevant authority is a local authority operating executive arrangements, the function of appointing a local auditor to audit its accounts is not the responsibility of an executive of the authority under those arrangements.

Section 12 makes provision for the failure to appoint a local auditor: the authority must immediately inform the Secretary of State, who may direct the authority to appoint the auditor named in the direction or appoint a local auditor on behalf of the authority.

Section 17 gives the Secretary of State the power to make regulations in relation to an 'appointing person' specified by the Secretary of State. This power has been exercised in the Local Audit (Appointing Person) Regulations 2015 (SI 192) and this gives the Secretary of State the ability to enable a Sector Led Body to become the appointing person.

Equality Assessment

The decisions recommended through this paper have a remote or low relevance to the substance of the Equality Act. There is no perceived impact on end users.

Appendices

PSAA invitation letter and information on the national scheme

Background Papers:

[Report to the Audit Committee 15 March 2016 - External Auditor Relationship and Future Appointments](#)

[Report to the Audit Committee 27 September 2016 - Future Appointment of External Auditors](#)

Adrian Rowbotham
Chief Finance Officer