

EXTERNAL AUDITOR RELATIONSHIP AND FUTURE APPOINTMENTS

Audit Committee - 15 March 2016

Report of Chief Finance Officer

Status: For Consideration

Key Decision: No

Executive Summary: The Audit Committee has requested the opportunity to discuss the relationship with Grant Thornton, the council's external auditors, prior to a decision being made on future external auditor appointments.

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

Portfolio Holder Cllr. Searles

Contact Officer Adrian Rowbotham Ext. 7153

Recommendation to Audit Committee: That Members note the future implications for external audit procurement arrangements.

External Auditor Relationship

- 1 Grant Thornton were appointed as the Council's external auditors to replace the Audit Commission with effect from 1 November 2012. This followed a procurement exercise to outsource the work of the Commission's in-house audit practice into five regional contracts.
- 2 The work Grant Thornton carry out each year consists of:
 - Audit of the accounts (financial statements).
 - Value for Money
 - Whole of Government Accounts
 - Certification of housing benefit grant claim.
- 3 Officers from Grant Thornton attend the Audit Committee to present the findings from their work.
- 4 The Chief Finance Officer, Head of Finance and the Audit, Risk & Anti-Fraud Manager meet Grant Thornton on a regular basis to plan work and discuss

any relevant issues. This works well as good relationships have been built over the past three years. It has recently been announced that Andy Mack, the Engagement Lead from Grant Thornton is changing roles and will be replaced by Sarah Ironmonger. It is hoped that Sarah will be introduced to the Audit Committee at the June meeting.

- 5 In the 'Review of the Effectiveness of the Audit Committee' report to this Committee, Members responses to the questionnaire are included which may contain comments on Grant Thornton.

Future Appointments

Introduction and Background

- 6 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.
- 7 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 have 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 planned external audit fees for 2015/16 are £43,156 (excluding grant certification work).
- 8 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.
- 9 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.

Options for local appointment of External Auditors

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

Option 1 - Make a stand-alone appointment

- 11 In order to make a stand-alone appointment the Council will need to set up an Auditor Panel. 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.
- 12 This option does result in local input to the decision. However, this route would be a costly exercise in terms of recruitment of independent members and maintaining the panel. The Council would also 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

- 13 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 will need to liaise with other local authorities to assess the appetite for such an arrangement.
- 14 This option has the advantage of spreading the cost across a number of local authorities (e.g. a joint procurement across Kent). There would also be a greater opportunity for negotiating some economies of scale by being able to offer a larger combined contract value. The disadvantages of this option are that the decision making body will be further removed from local input with potentially no input from elected members and it could be further complicated where individual councils have independence issues.

Option 3 - Opt-in to a sector led body

- 15 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 Body (SLB) appointed by the Secretary of State under the Act. An SLB would 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.

- 16 The costs of setting up the appointment arrangements and negotiating fees would be shared across all opt-in authorities. 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. However, elected members will have less opportunity for direct involvement in the appointment process other than through the LGA and/or stakeholder representative groups.

The way forward

- 17 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.
- 18 The LGA are working on developing a Sector Led Body as greatest economies of scale will come from the maximum number of councils acting collectively and opting-in to a SLB. When more details are known regarding the Sector Led Body option, a further report will be presented to the Audit Committee in order for a recommendation to be made to Council as to the most appropriate way forward.

Key Implications

Financial

Current external fees levels may increase when the current contract end 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 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.

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;

