

Summary Sheet

Council Report

Audit Committee – 8th February 2017

Title

Procurement and Appointment of External Auditors - 2018/19 onwards

Is this a Key Decision and has it been included on the Forward Plan?

This is not a key Decision on the basis that no approval is being sought to vary the Council's budget nor has any impact on local communities living.

Strategic Director Approving Submission of the Report

Judith Badger – Strategic Director for Finance & Customer Services

Report Author(s)

Stuart Booth (Assistant Director of Financial Services)

Finance & Customer Services Directorate

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Ward(s) Affected

All

Executive Summary

The Local Audit and Accountability Act 2014 introduced new arrangements for the procurement and appointment of external auditors from 2018/19.

There are three options for meeting this objective – making a standalone appointment; making an appointment with one or more other authorities, or, opting in to a sector-led national scheme.

The preferred option is considered to be option 3 (opting into a sector led national scheme) as this will minimise the financial and administrative burden on the Council and likely secure a high quality audit at competitive fees. Under this arrangement, the procurement and appointment will be led by Public Sector Audit Appointments (PSAA) as the designated “appointing person”.

Accordingly, Audit Committee is asked to commend this option to full Council so that a decision can be made at its meeting on 8 March 2017 thereby enabling the deadline for opting into the proposed sector-led national scheme by the 9th March 2017, to be met.

Recommendation

That Audit Committee:

- **supports the sector-led option for the procurement and appointment of external audit from 2018/19 onwards; and**
- **recommends to full Council that the opt in form (Appendix A) is completed and submitted to PSAA by the Council's Strategic Director of Finance and Customer Services by the deadline of the 9th March 2017.**

List of Appendices Included

Appendix A - PSAA opt in form

Background Papers

None

Consideration by any other Council Committee, Scrutiny or Advisory Panel

No

Council Approval Required

Yes

Exempt from the Press and Public

No

Procurement and Appointment of External Auditors - 2018/19 onwards

1. Recommendation

That Audit Committee:

- **supports the sector led option for the procurement and appointment of external audit from 2018/19 onwards; and**
- **recommends to full Council that the opt in form (Appendix A) is completed and submitted to PSAA by the Council's Strategic Director of Finance and Customer Services by the deadline of the 9th March 2017.**

2. Background

2.1 The Local Audit and Accountability Act 2014 introduced new arrangements for the audit of authorities, superseding the previous arrangements in which the Audit Commission was responsible for making audit appointments. These new arrangements come into effect for 2018/19 when the existing contract expires. Statutorily, a decision on the appointment of the external auditor needs to be made by full Council no later than 31 December 2017. However, should the Council wish to take advantage of the sector led option to use Public Sector Audit Appointments Limited (PSAA) to make the appointment – the preferred option supported by the Local Government Association (LGA) – a much earlier decision is required. The deadline for opting into the PSAA sector led procurement and appointment is the 9th March 2017.

3. Key Issues

3.1 The Local Audit and Accountability Act 2014 transfers responsibility for the appointment of external auditors to the Council with effect from 2018/19.

3.2 There are three options on how an authority can discharge its responsibility set out below.

4. Options considered and recommended proposal

4.1 The three options available to appoint an external auditor are as follows:

- **Option 1** – undertake an individual auditor procurement and appointment exercise on a standalone basis.
- **Option 2** – undertake a joint auditor procurement and appointment exercise in collaboration with one or more other local authorities.
- **Option 3** – opt into the sector led national scheme arranged through PSAA for procuring and appointing external auditors to local councils - the Local Audit (Appointing Person) Regulations 2015 enables the Secretary

of State to specify an Appointing Person to appoint a local auditor to audit the accounts of an opted in authority, that organisation being the continuation of PSAA.

- 4.2 Under both Option 1 and Option 2, the Council would need to establish an Auditor Panel to advise it on:
- Selecting and appointing an auditor;
 - Whether to adopt a policy on obtaining non-audit services from the auditor;
 - Maintaining an independent relationship with its auditor; and
 - The outcome of any investigation into an auditor's resignation or removal from office.
- 4.3 Members of the Auditor Panel would need to be wholly or by majority independent members, and an independent member must chair the Panel. Under Option 2 the Council could set up an Auditor Panel with one or more other authorities or ask another authority's Auditor Panel to carry out its functions.
- 4.4 Options 1 and 2 provide greater scope for the audit contract to be tailored but would incur higher costs from setting up and administering the Auditor Panel either in isolation or jointly and the staff time involved in the procurement exercise.
- 4.5 The preferred option (supported by the LGA) is Option 3. The benefits of opting into the sector led national scheme are that it:
- reduces the financial and administrative burden on the Council as there would, for example, be no requirement for an Auditor Panel.
 - will enhance the procurement exercise by offering a high volume of work likely to be of greater interest to the main accountancy firms and therefore lead to more competitive audit fees. Audit fees, as is currently the case, will be linked to size, complexity and risk associated with each local council. PSAA have indicated that they will only contract with accountancy firms with a proven track record keeping the focus on audit quality and improving the likelihood of securing auditors with the necessary expertise in public sector audit. There may also be potential for efficiency savings through the appointment of the same auditor to public bodies involved in significant collaboration or joint working arrangements.

5. Consultation

- 5.1 The Council has contacted neighbouring authorities to see which option they intend to take, in particular, whether there is any appetite to undertake a joint procurement and appointment exercise under option 2. To the best of our knowledge all the authorities consulted have opted for option 3.

6. Timetable and Accountability for Implementing this Decision

- 6.1 Under option 3, the opt in form needs to be submitted to PSAA no later than 9 March 2017 for it to be effective.
- 6.2 The deadline to appoint an auditor under options 1 and 2 is 31 December 2017.

7. Financial and Procurement Implications

- 7.1 Under the PSAA sector led scheme (option 3), the procurement would be undertaken nationally by PSAA. Under options 1 and 2, local procurement arrangements would need to be put in place.
- 7.2 There has been no indication as yet what the 2018/19 audit fee scales for each type of local authority might be. Under the Council's current external audit arrangement, the cost to the Council in 2016/17 is £140,828 plus a fee for the certification of specific government grant claims and returns (c£15k).

8. Legal Implications

- 8.1 The Council will meet its statutory requirements provided it appoints an external auditor no later than 31 December 2017.

9. Human Resources Implications

- 9.1 There are no Human Resource implications arising from this report.

10. Implications for Children and Young People and Vulnerable Adults

- 10.1 There are no implications arising from the proposals to Children and Young People and Vulnerable Adults.

11. Equalities and Human Rights Implications

- 11.1 There are no implications arising from this report to Equalities and Human Rights.

12. Implications for Partners and Other Directorates

- 12.1 There are no implications arising from this report to Partners or other directorates.

13. Risks and Mitigation

- 13.1 None.

14. Accountable Officer(s)

Judith Badger - Strategic Director of Finance & Customer Services

Approvals Obtained from:-

Assistant Director of Financial Services - Stuart Booth

Form of notice of acceptance of the invitation to opt in

(Please use the details and text below to submit to PSAA your authority's formal notice of acceptance of the invitation to opt into the appointing person arrangements)

To: appointingperson@psaa.co.uk

Subject: [Name of authority]

Notice of acceptance of the invitation to become an opted-in authority

This email is notice of the acceptance of your invitation dated 27 October 2016 to become an opted-in authority for the purposes of the appointment of our auditor under the provisions of the Local Audit and Accountability Act 2014 and the requirements of the Local Audit (Appointing Person) Regulations 2015.

I confirm that [name of authority] has made the decision to accept your invitation to become an opted-in authority in accordance with the decision making requirements of the Regulations and that I am authorised to sign this notice of acceptance on behalf of the authority.

Name: [Name of signatory]

Title: [Role title] (authorised officer)

For and on behalf of: [Name of authority]

Date: