

AUDIT AND GOVERNANCE COMMITTEE

11 December 2015

PUBLIC SECTOR AUDITOR APPOINTMENTS - UPDATE

Report of the Director of Finance

1. Purpose of Report

- 1.1. 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.

2. Background

- 2.1. 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 to also include the audit of the accounts for 2017/18.
- 2.2. The Council's contract with Mazars is currently managed by Public Sector Audit Appointments Limited (PSAA), the transitional body set up by the Local Government Association (LGA). 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 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.
- 2.3. 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 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.

3. Options for local appointment of External Auditors

- 3.1. The Council has until December 2017 to appoint its external auditors. In reality, this means deciding on a process and implementing it by Spring 2017 in order for the appointment to be made in good time. There are a number of options open to the Council under the Local Audit and Accountability Act 2015 (the Act):

Option 1 - Make a stand-alone appointment

- 3.2. 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 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 could be a sub-committee of the current Audit and Governance Committee.

Advantages/benefit

- 3.3. 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.

Disadvantages/risks

- 3.4. The Council will not be able to take advantage of reduced fees that may be available through joint or national procurement contracts.
- 3.5. The assessment of bids and decision on awarding contracts will be taken by independent appointees and not solely by elected members.

Option 2 - Joint Auditor Panel/local joint procurement arrangements

- 3.6. 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. This option could also be exercised through the North East Purchasing Organisation.

Advantages/benefits

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

Disadvantages/risks

- 3.9. 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 or possible only one elected member representing each Council, depending on the constitution agreed with the other bodies involved. It should be noted that the procurement process is largely however a technical exercise.
- 3.10. 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. This could be avoided by appointing a second 'fall-back' company in these cases.

Option 3 - Opt-in to a sector led body

- 3.11. The LGA are working on developing a sector led body which 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. Councils are being asked whether they would be interested in the option of opting into a sector led body

Advantages/benefits

- 3.12. The costs of setting up the appointment arrangements and negotiating fees would be shared across all opt-in authorities
- 3.13. 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
- 3.14. Any conflicts at individual authorities would be managed by the sector led body who would have a number of contracted firms to call upon.

Disadvantages/risks

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

4. Conclusion and Next Steps

- 4.1. The Council will need to take action to implement new arrangements for the appointment of external auditors from April 2018. Although it is a Council decision, the Committees views on its preferred approach are welcomed.
- 4.2. 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.

5. Recommendations

- 5.1. Members are requested to consider their preferred approach of either:
 - a) Supporting the Local Government Association (LGA) in setting up a national Sector Led Body by indicating intention to “opt-in”
 - b) Establishing a stand-alone Auditor Panel to make the appointment on behalf of the Council.
 - c) Commencing work on exploring the establishment of local joint procurement arrangements with neighbouring authorities
- 5.2. A report is to be taken to the Council on the preferred approach.