

	Council 31st January 2017
Title	Invitation to opt-in to the national scheme for auditor appointments
Report of	Interim Chief Executive and Section 151 Officer
Wards	All
Status	Public
Enclosures	None
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Summary

This paper recommends a sector-led approach to the procurement of external audit services on the basis of cost, resource availability and value for money.

Recommendations

1. That Full Council approves the decision to accept the invitation for the Authority to opt into the sector-led procurement of external audit services.

1. WHY THIS REPORT IS NEEDED

- 1.1 The Local Audit and Accountability Act 2014 received Royal Assent on 30th January 2014. The Act abolished the Audit Commission and the associated arrangements for appointing local authority external auditors and placed the responsibility on local authorities to appoint their own external auditor having taken account of the advice of an Auditor Panel. The new arrangements for future appointments will need to be in place by no later than 31st December 2017.
- 1.2 The Act requires that the appointment of the external auditor is a decision for Full Council following advice from an Auditor Panel. Appointments to the Panel (if appropriate) for this authority is also a decision for Full Council.
- 1.3 Since the introduction of the Act, further developments have included the issuing of guidance for local authorities on establishing Independent Auditor Appointment Panels as well as work by the Local Government Association (LGA) to establish a sector-led appointments body, Public Sector Audit Appointments Limited (PSAA). Authorities have the choice to opt into such a body, which would negate the requirement to establish an Auditor Panel. The decision whether to opt into a sector-led procurement exercise will be required to be taken by Full Council.
- 1.4 This paper provides a summary of the options available to the Authority and makes a recommendation that the Authority opts in to sector-led procurement arrangements with PSAA.

2. REASONS FOR RECOMMENDATIONS

- 2.1 The Local Government Association (LGA) established PSAA, the organisation it considered best placed to be the sector-led body. To act as a sector-led body, PSAA needed to be specified as an 'Appointing Person' by the Secretary of State, which it has been. This means that PSAA will make auditor appointments to principal local government bodies that choose to opt into the national appointment arrangements for the 2018/19 financial year onwards.
- 2.2 PSAA will appoint an auditor for all opted in authorities for each of the five financial years beginning 1 April 2018, unless the Secretary of State chooses to terminate the role of PSAA as the appointing person beforehand. He or she may only do so after first consulting opted in authorities and the LGA.
- 2.3 The PSAA appointing person scheme will offer a way that will save time and resources for local government bodies. It is thought that a collective procurement, which PSAA will carry out on behalf of all opted in authorities, will secure the best prices and keep the cost of audit as low as possible for the bodies which choose to opt in. Through their current role, they will also offer unique experience and understanding of auditor procurement and the local public audit market. Using the scheme will avoid the need for authorities to:

- establish an auditor panel with independent members;
 - manage audit procurement and cover its costs;
 - monitor the independence of appointed auditors for the duration of the appointment;
 - deal with the replacement of any auditor if required; and
 - manage the contract with the auditor.
- 2.4 The PSAA appointing person scheme will endeavour to appoint the same auditor to other opted in bodies that are involved in formal collaboration or joint working initiatives, under the notion that a common auditor will enhance efficiency and value for money.
- 2.5 PSAA will also try to be flexible about changing auditor during the five year appointing period if there is good reason.
- 2.6 The Local Audit and Accountability Act 2014 provides that firms must be registered as local public auditors with one of the chartered accountancy institutes acting in the capacity of a Recognised Supervisory Body (RSB). The quality of registered firms' work will be subject to scrutiny by both the RSB and the Financial Reporting Council (FRC), under arrangements set out in the Act. PSAA will:
- only contract with audit firms that have a proven track record in undertaking public audit work;
 - include obligations in relation to maintaining and continuously improving quality of contract terms and in the quality criteria in tender evaluations;
 - ensure that firms maintain the appropriate registration and will liaise closely with RSBs and the FRC to ensure that any quality concerns are detected at an early stage; and
 - take a close interest in the Authority's feedback and in the rigour and effectiveness of firms' own quality assurance arrangements.
- 2.7 In developing its procurement strategy for the contracts with audit firms, PSAA will have input from the advisory panel it has established. The panel will assist PSAA in developing arrangements for the national scheme, provide feedback on proposals as they develop and help maintain effective channels of communication. PSAA recognise it is particularly important to understand opted in authorities' preferences and priorities, to ensure they develop a strategy that reflects these needs within the constraints set out in legislation and in professional requirements. In order to secure the best prices PSAA are minded to let audit contracts:
- for five years;
 - in two large contract areas nationally, with three or four contract lots per area, depending on the number of bodies that opt in; and
 - to a number of firms in each contract area to help manage independence issues.
- 2.8 PSAA intends to award larger amounts of work to the firms offering the best value but also having contracts with a number of firms, PSAA will be able to manage issues of independence and avoid dominance of the market by one

or two firms. Limiting the national volume of work available to any one firm will encourage competition and ensure the plurality of provision.

- 2.9 Auditors must be independent of the bodies they audit, to enable them to carry out their work with objectivity and credibility, and in a way that commands public confidence. In order to uphold this 'independence' test, prior to the appointment of auditors, PSAA will consult with the Authority on:
- any potential constraints on the appointment of the Authority's auditor because of a lack of independence;
 - any joint working or collaboration arrangements that could possibly influence the appointment; and
 - other local factors that the Authority deems relevant to making the appointment.
- 2.10 The closing date for formal acceptance for the invitation to opt in is 9 March 2017. If the Council decides not to accept the invitation to opt in by the closing date, the Authority may still subsequently make a request to opt in, but only after 1 April 2018. The earliest an auditor appointment can be made for authorities that opt in after the closing date is therefore for the audit of the accounts for 2019/20. PSAA are required to consider such requests, and agree to them unless there are reasonable grounds for their refusal.

3. ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED

- 3.1 CIPFA guidance recently issued sets out an alternative option available to the Authority. If the Authority does not opt in to a sector-led body it will have to establish an auditor panel to advise on the appointment of the external auditor. There are four sub-options available:
- establish a separate and individual auditor panel solely for the Authority;
 - set up a panel jointly with one or more other authorities;
 - use an existing committee or sub-committee to act as the auditor panel (subject to compliance with the other provisions and regulations relating to auditor panels);
 - ask another authority's auditor panel to carry out the required functions.
- 3.2 These options are not being recommended primarily due to the following issues most relevant to the Authority:
- the likelihood of lower costs in terms of the procurement exercise through the sector-led body approach and, conversely, likely higher procurement costs should another option be chosen;
 - the likelihood of lower costs in terms of the resulting on going audit fees through the sector-led body approach and, conversely, likely higher on going audit fees should an alternative option be chosen;
 - significantly less call on Authority staff resources through the sector-led approach than the other options in terms of the procurement exercise;
 - lower risk of contractual/relationship difficulties during the audit term should the sector-led option be chosen.

4. POST DECISION IMPLEMENTATION

4.1 PSSA expect the timetable for the new arrangements to be as follows:

- closing date for receipt of notices to opt in 9 March 2017
- contract notice published 20 February 2017
- award audit contracts by end of June 2017
- consult on and make auditor appointments by end of December 2017
- consult on and publish scale fees by end of March 2018

5. IMPLICATIONS OF DECISION

5.1 Corporate Priorities and Performance

5.1.1 The external audit of the Authority's accounts is a statutory requirement and a key element of the Authority's Assurance Framework. The Assurance Framework supports the delivery of all of the Authority's priorities and objectives through providing independent assurance to Members over the arrangements for governance, risk management, internal control and financial management and reporting.

5.2 Resources (Finance & Value for Money, Procurement, Staffing, IT, Property, Sustainability)

5.2.1 The work of the external auditor supports the achievement of best value in the Authority. Our auditors provide supportive challenge for our work, as well as broader knowledge of other organisations that allows us to compare our practice with best practice elsewhere.

5.2.2 The 2016/17 budget for external audit fees for the Authorities' accounts and the pension fund is c£200k, which is contained within the Authority's Central Expenses budgets.

5.2.3 The report supports effective financial management at the Authority. There are no further financial implications as a direct result of this report.

5.3 Social Value

5.3.1 There are no implications as a direct result of this report.

5.4 Legal References

5.4.1 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 9 sets out the requirement to have an auditor panel.

5.4.2 Section 17 of the Act 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) ('the Regulations') and this gives the Secretary of State the ability to enable a Sector Led Body to become the appointing person. The Regulations also make certain modifications to the Act to dis-apply or modify the provisions of the Act in relation to opted in authorities, including that the requirement to have an auditor panel does not apply to such an authority and similarly that the authority does not have to consult and take into account the advice of the auditor panel.

5.4.3 Regulation 19 of the Regulations requires that a decision for the Council to join the sector led approach must be made by Full Council and cannot be delegated.

5.4.4 Council Constitution, Responsibility for Functions sets out the terms of reference of Council including under paragraph 1.17 'All other matters which, by law, must be reserved to the Council.'

5.5 Risk Management

5.5.1 The work undertaken by the external auditor helps to minimise financial and control risks to the Authority and the implementation of their recommendations will strengthen the internal control environment.

5.6 Equalities and Diversity

5.6.1 There are no implications as a direct result of this report.

5.7 Consultation and Engagement

5.7.1 There are no implications as a direct result of this report.

5.8 Insight

5.8.1 There are no implications as a direct result of this report.

6. BACKGROUND PAPERS

6.1 None.