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| <b>Report of:</b>        | <b>Head of Finance</b>   |
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| <b>Portfolio Leader:</b> | <b>Leader of Council</b> |
| <b>Key Decision:</b>     | <b>No</b>                |
| <b>Report Track:</b>     | <b>Council: 22/02/17</b> |

**COUNCIL**  
**22 FEBRUARY, 2017**  
**APPOINTMENT OF EXTERNAL AUDITORS**

**1 Purpose of Report**

- 1.1 To determine the arrangements for the appointing of External Auditors in relation to the Audit of the 2018-19 accounts.

**2 Recommendations**

- 2.1 That Council approves the opting in to national Sector Led Body, Public Sector Audit Appointments Ltd (PSAA) procurement of External Auditors for five years with effect from 1 April 2018.

**3 Key Issues and Reasons for Recommendation**

- 3.1 Transitional arrangements for the appointment of an External Auditor cease on the 31 March 2018 and all Local Authorities must appoint an External Auditor by the 31 December 2017 in relation to the audit of the 2018/19 accounts
- 3.2 Three options exist to the Council as follows:
- Establishing a stand-alone Auditor Panel to make the appointment on behalf of the Council;
  - Commencing work on exploring the establishment of local joint procurement arrangements with neighbouring authorities; or
  - Opt-in to the national Sector Led Body, Public Sector Audit Appointments Ltd (PSAA).
- 3.3 The three procurement options have been reviewed by officers of the Council and Staffordshire Chief Finance Officers Group; and the preferred option is to Opt in to the National Scheme.

**4 Relationship to Corporate Priorities**

- 4.1 The appointment of External Auditors is a Statutory Requirement.

**5 Report Detail**

- 5.1 External auditors have been traditionally appointed by the Audit Commission, under the Audit Commission Act 1998. The Audit Commission was abolished on 31 March 2015 and the existing External Audit contracts transferred to the Public Sector Audit Appointments Limited (PSAA).
- 5.2 PSAA is an independent, not-for-profit company limited by guarantee and established by the Local Government Association. It was originally established, under powers delegated by the Secretary of State, to operate the transitional arrangements of existing contracts that were scheduled to terminate in March 2017.
- 5.3 The Council's current external auditor Grant Thornton UK LLP were initially appointed by the Audit Commission with the existing contract transferred to PSAA.
- 5.4 In October 2015 the Secretary of State confirmed that the transitional provisions would be amended to allow an extension of the existing contracts for a period of one year to include 2017/18. This meant that for the audit of the 2018/19 accounts it would be necessary for authorities to either undertake their own procurements or to opt-in to the appointed person regime.
- 5.5 In July 2016 PSAA were specified by the Secretary of State as an 'appointing person' under regulation 3 of the Local Audit (Appointing Person) Regulations 2015. PSAA will make auditor appointments to relevant principal local government bodies that choose to opt-in to the national appointment arrangements for external audit from 2018/19.
- 5.6 Three options therefore exist in relation to the appointment with a requirement to make the appointment for 2018/19 by 31 December 2017.
- a. Establishing a stand-alone Auditor Panel to make the appointment on behalf of the Council;
  - b. Commencing work on exploring the establishment of local joint procurement arrangements with neighbouring authorities; or
  - c. Opt-in to the national Sector Led Body, Public Sector Audit Appointments Ltd (PSAA).
- 5.7 There are benefits and disadvantages for each of the options however options a) and b) will be considerably more resource intensive for the Council and potentially more expensive. Due to
- a. the requirement to establish an Audit Panel and undertake a procurement exercise; and

- b. the lack of the ability to offer a suitably large contract value to the market place

The Council's procurement regulations support the use of framework agreements reflecting the increased contract value available to the market.

- 5.8 In the context of procuring a service the Council's influence in determining service provision is severely limited. The specification or 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, the scope of public audit is wider than for private sector organisations with as an example the external auditor being required to form a conclusion on the body's arrangements for securing value for money. Potential providers 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
- 5.9 Details of the three options are included at Appendix A. The options have been discussed at the Staffordshire Chief Finances Officers Group and the preferred option is to opt in to the national sector led scheme.

## **6 Implications**

### **6.1 Financial**

Provision exists within the Indicative Budget for 2018/19 for External Audit Fees. There are no direct Financial Implications of the recommendation to Opt In to the National led scheme and this provides the best opportunity to ensure value for money in the appointment process. There will be no fee to join the sector led arrangements. The other options available for consideration would include the cost of establishing an Audit Panel and procuring an External Auditor via Tender process for which there is no budget provision.

### **6.2 Legal**

Local Audit and Accountability Act 2014 states a relevant authority must appoint an auditor (a "local auditor") to audit its accounts for a financial year not later than 31 December in the preceding financial year and that a relevant authority must consult and take into account the advice of its auditor panel on the selection and appointment of a local auditor.

Regulation 19 of the Local Audit (Appointing Person) Regulations 2015 enables the appointment of an External auditor to be made by a person specified by the Secretary of State ("an appointing person") to audit the accounts of those authorities that choose to opt in to such arrangements. The decision to opt in to the sector led procurement process, instead of an Audit Panel, must be made by a meeting of the full Council

### **6.3 Human Resources**

None

**6.4 Section 17 (Crime Prevention)**

None

**6.5 Human Rights Act**

None

**6.6 Data Protection**

None

**6.7 Risk Management**

The Opt In proposal minimises the risk of the appointment process. This includes both the appointment by the due date and ensuring value for money in the procurement exercise.

**6.8 Equality & Diversity**

None

**6.9 Best Value**

The recommended option should ensure the council achieves best value. PSAA will 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.

**7 Appendices to the Report**

Appendix A

Options for Appointment of External Auditor

**Previous Consideration****Background Papers**

Options for Appointment of External Auditor**Option 1: To make a stand-alone appointment**

In order to make a stand-alone appointment the Council would 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 family and friends. This means that elected Members would not have a majority input into assessing bids and recommending which firm of accountants to award a contract for the Council's external audit. The role of an Auditor Panel would be to advise the Council on:

- The selection and appointment of a local auditor
- The maintenance of an independent relationship with the local auditor appointed to audit its account
- Any proposal by the Council to enter into a liability limitation agreement
- Whether to adopt a policy on purchasing non-audit services from the local auditor
- The outcome of any investigation of an auditor's resignation from office, if this occurs, or on any proposal to remove a local auditor from office.

*Advantages/benefit*

Setting up an auditor panel allows the Council to ensure that there is local input into the decision.

*Disadvantages/risks*

Recruitment and servicing of the Auditor Panel, running the bidding exercise and negotiating the contract is estimated by the LGA to cost in the order of £15,000 plus on going expenses and allowances.

The Council would not be able to take advantage of reduced fees that may be available through joint or national procurement contracts.

The assessment of bids and decision on awarding contracts would be taken by independent appointees and not solely by elected Members.

**Option 2: Set up a Joint Auditor Panel/local joint procurement arrangements**

The Act enables the Council to join with other authorities to establish a joint auditor panel. Again this would need to be constituted of wholly or a majority of independent appointees (Members). Further legal advice would be required on the exact constitution of such a panel having regard to the obligations of each Council under the Act.

*Advantages/benefits*

The costs of setting up the panel, running the bidding exercise and negotiating the contract would be shared across a number of authorities.

There would be greater opportunity for negotiating some economies of scale by being able to offer a larger combined contract value to the firms.

#### *Disadvantages/risks*

The decision making body would be further removed from local input, with potentially no input from elected Members (where a wholly independent auditor panel is used) or possibly only one elected Member representing each Council, depending on the constitution agreed with the other bodies involved.

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

There is currently no appetite across Staffordshire for this option

#### **Option 3: Opt-in to a sector led body**

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. In July 2016, the Secretary of State for Communities and Local Government specified Public Sector Audit Appointments (PSAA) as an appointing person under regulation 3 of the Local Audit (Appointing Person) Regulations 2015. This means that PSAA can make auditor appointments for audits of the accounts from 2018-19 of authorities that choose to opt into its arrangements. Before an authority opts into these arrangements it must formally accept an invitation to become an opted in authority. This decision would be a matter for Full Council. PSAA will 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.

If the Council was to decide on this option then there is no requirement to establish an Auditor Panel.

#### *Advantages/benefits*

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.

Any conflicts at individual authorities would be managed by PSAA who would have a number of contracted firms to call upon.

The appointment process would not be ceded to locally appointed independent Members. Instead PSAA would act in the collective interests of the 'opt-in' authorities.

*Disadvantages/risks*

Individual elected Members will have less opportunity for direct involvement in the appointment process other than through the LGA and/or stakeholder representative groups.

In order for PSAA to be viable and to be placed in the strongest possible negotiating position, they will need Councils to indicate their intention to opt in before final contract prices are known.