

Audit and Standards Committee – 26 September 2016

Future External Audit Procurement

Recommendation

1. To recommend to Full Council to 'opt-in' to the Local Government Association Sector Led Body approach via Public Sector Audit Appointments Ltd for the procurement of the External Audit contract for the financial year commencing April 2018.

Report of the Director of Finance and Resources

Background

2. 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. In October 2015 the Secretary of State -Communities and Local Government (DCLG) 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.
3. 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. Under the existing regulations the County Council, including the pension fund, must have appointed its External Auditor for the 2018/19 financial year by December 2017. There are three broad options open to the Council under the Local Audit and Accountability Act 2014 (the Act); to make a stand alone appointment; set up a Joint Auditor Panel/local joint procurement arrangements; or opt-in to a sector led body arrangement.
4. The Local Government Association had lobbied for the Local Audit & Accountability Act 2014 to include provision for the establishment of a sector led body (SLB) to procure future audit contracts. A 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.
5. During July 2016 it was announced by DCLG that Public Sector Audit Appointments Ltd (PSAA) has been named as the body authorised to make future audit appointments on behalf of principal local authorities in England. The first appointments made under the agreement will commence in relation to the financial year 2018/19.

Options for local appointment of External Auditors

6. There are three broad options open to the Council under the Local Audit and Accountability Act 2014:

- Option 1 – to make a stand alone appointment;
- Option 2 - set up a joint Auditor Panel/ local joint procurement arrangements; and
- Option 3 – opt-in to a sector led body.

Option 1 – To make a Stand Alone Appointment

7. 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. For this purpose independent members are independent appointees, which 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 the bid submissions and determining which firm of accountants will be awarded the Councils external audit contract. A new independent auditor panel, established by the Council will fulfil this role.
8. 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. The recruitment and servicing of the Auditor Panel, running the bidding exercise and negotiating the contract has been estimated by the LGA to cost approximately £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 and the assessment of bids and decision on awarding contracts will be taken by independent appointees and not solely by elected members. Auditor independence requirements would be straight forward to manage and control.

Option 2 – Set up a Joint Auditor Panel/ Local Joint Procurement Arrangements

9. 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. 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 in order to assess the appetite for such an arrangement.
10. The costs of setting up the panel, running the bidding exercise and negotiating the contract will be shared across a number of authorities and there is greater opportunity for negotiating some economies of scale by being able to offer a larger combined contract value to firms.
11. 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 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 firms 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 the Council then

there will be a need to make a separate appointment with all the attendant costs and loss of economies possible through joint procurement.

Option 3 – Opt-in to a Sector Led Body

12. Following the announcement in July 2016 by DCLG, naming Public Sector Audit Appointments Ltd (PSAA) as the sector-led body authorised to make future audit appointments on behalf of principal local authorities in England. 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.
13. The latest information available from PSAA Ltd, which is subject to consultation with the local authorities, outlines a number of benefits for participating bodies including:
 - Assured appointment of a qualified, registered, independent auditor;
 - Appointment, if possible, of the same auditor to bodies involved in significant collaboration/joint working, if the parties believe it will enhance efficiency and value for money;
 - Avoidance of independence issues.
 - On-going management of independence issues;
 - Securing highly competitive prices from audit firms;
 - Minimising scheme overhead costs;
 - Savings from one major procurement as opposed to a multiplicity of small procurements;
 - A scale of fees which reflects size, complexity and audit risk for each body;
 - Avoiding the necessity for individual bodies to establish an auditor panel and to undertake an auditor procurement.
14. Individual elected members will have less opportunity for direct involvement in the appointment process other than through the LGS and/or stakeholder representative groups. In order for PSAA Ltd 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. PSAA Ltd has published a list of frequently asked questions regarding the process and these are attached at appendix 1 for information.
15. Regulation 19 of the Local Audit (Appointing Person) Regulations 15 states that a principal authority may only decide to accept an invitation from PSAA Ltd to opt-in 'by the members of the authority meeting as a whole'

The way forward

16. The Council has until December 2017 to make an appointment. In practical terms this means that one of the options outlined in this report will need to be agreed as the preferred route by December 2016 as PSAA Ltd has indicated that they will look to issue their invitation to opt in to the SLB route by early December 2016. This will then allow the contract negotiation process to commence spring 2017. When principal bodies were consulted as to whether they would be interested in using a sector led body to undertake a collective

procurement over 270 Councils and other Public Bodies responded and confirmed that they would.

17. The Council is required to take action to appoint its external auditors from April 2018. The analysis undertaken in this paper suggests the approach that will offer the best value for money is to participate in the PSAA Ltd led procurement initiative. This decision will require approval from full Council.

Equalities and Legal and Climate Change Implications

18. Section 7 of the Local Audit and Accountability Act 2014 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 the authority must consult and take account of the advice of its auditor panel on the selection and appointment of a local auditor.
19. Section 12 makes provision for the failure to appoint a local auditor. The authority must immediately inform the Secretary of State, who may direct the authority to appoint the auditor named in the direction or appoint a local auditor on behalf of the authority.
20. Section 17 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) Regulation 2015 (SI 192) and this gives the Secretary of State the ability to enable a sector led body to become the appointing person.

Resource and Value for Money Implications

21. Opting-in to a national SLB (i.e. PSAA Ltd) provides maximum opportunity to limit the extent of any increase in fees by entering into a large scale collective procurement arrangement and would remove the costs of establishing an auditor panel.

Risk Implications

22. There is no immediate risk to the Council however early consideration by the Council of its preferred approach will enable detailed planning to take place so as to achieve successful transition to the new arrangement in a timely and efficient manner. Providing the LGA with a realistic assessment of the Councils likely way forward will enable the PSAA Ltd to invest in developing their offer.
23. There is a financial risk that the current fees could increase when the present External Audit contract ends in March 2018.

Report author

Author's Name: Lisa Andrews Ext No. 276402.

List of Background Documents:

The Local Audit and Accountability Act 2014
CIPFA's Auditor Panels guidance

