

**Cabinet  
Council**

**3rd January 2017  
24th January 2017**

**Name of Cabinet Member:**

Cabinet Member for Strategic Finance & Resources – Councillor J Mutton

**Director Approving Submission of the report:**

Executive Director of Resources

**Ward(s) affected:**

City Wide

**Title:**

External Auditor Appointment Process – 2018/19 onwards

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**Is this a key decision?**

No – Although the proposals affect the whole city, it is not expected that the impact would be significant.

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**Executive Summary:**

This report sets out the options for appointing the external auditor to the Council for the 2018/19 accounts and beyond, as the current arrangements only cover up to and including 2017/18 audits. The report compares these options and seeks approval for its recommended approach.

**Recommendations:**

Cabinet is requested to:-

1. Recommend that Council approves Option 3, as described in this report, which is to accept Public Sector Audit Appointments' (PSAA) invitation to 'opt in' to the sector led option for the appointment of external auditors for the five financial years commencing 1 April 2018

Council is requested to:-

1. Approve Option 3, as described in this report, which is to accept Public Sector Audit Appointments' (PSAA) invitation to 'opt in' to the sector led option for the appointment of external auditors for five financial years commencing 1 April 2018.

**List of Appendices included:**

None

**Other useful background papers:**

None

**Has it been or will it be considered by Scrutiny?**

No

**Has it been or will it be considered by any other Council Committee, Advisory Panel or other body?**

No

**Will this report go to Council?**

Yes – 24th January 2017

**Report title:**

External Auditor Appointment Process – 2018/19 onwards

**1. Context (or background)**

- 1.1 This report sets out the options for appointing the external auditor to the Council for the 2018/19 accounts and beyond, as the current nationally regulated arrangements only cover up to and including 2017/18 audits.
- 1.2 The Council's current auditors are Grant Thornton UK LLP working under a contract originally let by the Audit Commission. The audit fees for 2016/17 are £189,158.
- 1.3 Responsibility for this contract was transferred to Public Sector Audit Appointments (PSAA) following the abolition of the Audit Commission. The PSAA is inviting the Council to opt in, along with all other authorities, so that the PSAA can enter into a number of contracts with appropriately qualified audit firms and appoint a suitable firm to be the Council's auditor.

**2. Options considered and recommended proposal**

- 2.1. There are three main options available to the Council:

- Option 1 – Stand Alone Appointment
- Option 2 – Joint Auditor Panel
- Option 3 – Sector Led Body (PSAA)

The key elements of these alternative options are outlined below.

**2.2. Option 1 – Stand Alone Appointment**

- 2.2.1. In order to make a stand-alone appointment, the Council would need to set up an Auditor Panel. The panel must be made up wholly of, or a majority of, independent members as defined by the Local Audit and Accountability Act 2014 (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 means that elected members would not have a majority input to assessing bids and choosing which firm of accountants to award a contract for the Council's external audit. A new independent auditor panel established by the Council would be responsible for selecting the auditor.

- 2.2.2. Setting up an Auditor Panel would allow the Council to take maximum advantage of the new local appointment regime and have local input to the decision. However, this option would involve additional officer time setting up the panel, running the bidding exercise and negotiating the contract. It would also incur some expense for the payment of members of the independent auditor panel. 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 the decision on awarding contracts would be taken by independent appointees and not solely by elected members.

**2.3. Option 2 – Joint Auditor Panel**

- 2.3.1. The Act enables the Council to join with other authorities to establish a Joint Auditor Panel. Again this would need to be constituted wholly of, or a majority of, independent appointees. Legal advice would 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.

- 2.3.2. The costs of setting up the panel, running the bidding exercise and negotiating the contract would 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 the firms.
- 2.3.3. However, the decision making body would be further removed from local input, with potentially no input from elected members where a wholly independent auditor panel was 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 a council.
- 2.3.4. 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 chooses 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.

#### 2.4. Option 3 – Sector Led Body (PSAA)

- 2.4.1. In response to the consultation on the new arrangements, the government have appointed a national provider, Public Sector Audit Appointments Ltd (PSAA) to make auditor appointments to opted-in local government bodies. The PSAA is an independent company limited by guarantee and incorporated by the Local Government Association in August 2014. The (PSAA) will have the ability to negotiate contracts with audit firms nationally, maximising the opportunities for the most economic and efficient approach to procurement of external audit on behalf of the whole sector. The costs of setting up the appointment arrangements and negotiating fees would be shared across all opt-in authorities and, by offering large contract values, the firms should be able to offer better rates and lower fees than are likely to result from local negotiation.
- 2.4.2. Any conflicts at individual authorities would be managed by the PSAA who would have a number of contracted firms to call upon. In addition to the economies of scale, which could be achieved under the national scheme, other benefits include:
- assured appointment of a qualified, registered, independent auditor;
  - appointment, if possible, of the same auditors to bodies involved in significant collaboration and joint working initiatives or combined authorities;
  - distribution of surpluses to participating authorities;
  - avoiding the necessity for individual authorities to establish an auditor panel and to undertake an auditor procurement.
- 2.4.3. Option 3 is recommended as the Council's preferred option. It should be borne in mind that, with this option, individual elected members will have less opportunity for direct involvement in the appointment and the final fee structure from the PSAA will require councils to indicate their intention to opt-in before final contract prices are known.

### 3. **Results of consultation undertaken**

None

#### **4. Timetable for implementing this decision**

- 4.1 Regulation 19 of the Local Audit (Appointing Person) Regulations 2015 requires that a decision to opt in must be made by a meeting of the Council. The Council then needs to formally respond to the PSAA's invitation in the form specified by the PSAA by early March 2017.
- 4.2 The PSAA will commence the formal procurement process after this date. It expects to award contracts during the summer of 2017 and consult with authorities on the appointment of auditors so that it can make an appointment by the statutory deadline of December 2017.

#### **5. Comments from Executive Director, Resources**

##### **5.1 Financial implications**

There is a risk that current external fees levels could increase when the current contracts end in 2018. Opting-in to a national scheme provides maximum opportunity to ensure fees are as low as possible, whilst ensuring the quality of audit is maintained by entering in to a large scale collective procurement arrangement.

If the national scheme is not used some additional resource may be needed to establish an auditor panel and conduct a local procurement. Until a procurement exercise is completed it is not possible to state what, if any, additional resource may be required for audit fees for 2018/19.

##### **5.2 Legal implications**

Section 7 of the Local Audit and Accountability Act 2014 (the Act) requires a relevant Council to appoint a local auditor to audit its accounts for a financial year not later than 31 December in the preceding year.

Section 8 of the Act governs the procedure for appointment including that the Council must consult and take account of the advice of its auditor panel on the selection and appointment of a local auditor.

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 2015/192) and this gives the Secretary of State the ability to enable a Sector Led Body to become the appointing person. In July 2016 the Secretary of State specified the PSAA as the appointing person.

#### **6. Other implications**

##### **6.1 How will this contribute to achievement of the Council's key objectives?**

External audit of the Council provides an independent assessment of whether the Council's financial statements have been prepared in accordance with statutory requirements and whether the Council has secured value for money through the efficient and effective use of its resources. This report facilitates a required decision on the process to be followed for future external auditor appointments.

##### **6.2 How is risk being managed?**

The Council needs to take a decision on the preferred option for the future appointment of its external auditor. There is no immediate risk to the Council; however, early

consideration of the preferred option of the three available will enable detailed planning to take place to achieve successful transition to the new arrangement in a timely and efficient manner.

**6.3 What is the impact on the organisation?**

Determining the process for external auditor appointment will ensure compliance with statutory requirements and continuity of audit processes.

**6.4 Equalities / EIA**

No impact

**6.5 Implications for (or impact on) the environment**

No impact

**6.6 Implications for partner organisations?**

Under the recommended option, the PSAA will seek, wherever possible, to make appointments of the same auditors to bodies involved in significant collaboration and joint working initiatives or combined authorities.

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