

**Committee: Council**

**Date: 23 November 2016**

Wards: All

**Subject: Procurement of External Auditors**

Lead officer: Caroline Holland, Director of Corporate Services

Lead Member: Councillor Mark Allison, Deputy Leader and Cabinet Member for Finance

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**Recommendation:**

- A. To recommend that this Council opts in to the appointing person arrangements made by Public Sector Audit Appointments Limited (PSAA) for the appointment of external auditors.
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**1 PURPOSE OF REPORT AND EXECUTIVE SUMMARY**

- 1.1. The Local Audit and Accountability Act 2014 abolished the Audit Commission and put in place a new local audit and accountability framework for local public bodies in England. This framework allows local bodies the freedom to appoint their own auditors from an open and competitive market and to manage their own audit arrangements, with appropriate safeguards to ensure independence.
- 1.2. This report outlines the options available and recommends utilising Public Sector Audit Appointments Limited for appointing the Council's auditors.

**2 DETAILS**

**2.1. BACKGROUND**

- 2.2. The Local Audit and Accountability Act 2014 abolished the Audit Commission and put in place a new local audit and accountability framework for local public bodies in England. This framework allows local bodies the freedom to appoint their own auditors from an open and competitive market and to manage their own audit arrangements, with appropriate safeguards to ensure independence.
- 2.3. As part of closing the Audit Commission, the Government novated external audit contracts to PSAA on 1 April 2015. The audit contracts had been due to expire upon conclusion of the audits of the 2016/17 accounts, but could be extended for a period of up to three years by PSAA, subject to approval from the Department for Communities and Local Government.
- 2.4. Under these provisions, the Council's existing contract with Ernst & Young was extended to the conclusion of the audit of the 2017/18 accounts.

- 2.5. Beyond this contract, under the 2014 Act the Council will have to appoint its own auditor at least once every five years and may need to consult the advice of an independent auditor panel, publishing information about the appointment of an auditor within 28 days of making the appointment.
- 2.6. The 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 audits must follow. Not all audit firms will be eligible to compete for the work, firms 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.

### **3 OPTIONS**

- 3.1. The Council's existing contract with Ernst & Young will expire at the end of 2017/18. Subsequent appointments must be made by 31 December of the preceding financial year, for a maximum period of five years. The Council must make its first appointment by 31 December 2017 for 2018/19 onwards.
- 3.2. In making the appointment the Council will have two options:
- a) Conduct its own procurement. This would require the Council to appoint an Independent Auditor Appointment Panel (The Panel). The Panel would be responsible for advising the Council on the procurement of external auditors and overseeing and advising on the maintenance an independent relationship between the Council and the external auditor. The Panel would need to comprise of a majority of independent members and have an independent chair. The definition of independence excludes any person who has been a member or officer of the Council within the last five years. This would lead to additional costs as the current constitution of the Standards/General Purposes Committee does not meet these requirements and therefore The Panel would be separate from it. The Council would have the option of not following the advice of The Panel, however, it would need to publish the reasons for not doing so and therefore expose itself to challenge. The Council would not be able to take advantage of reduced audit fees that may be available through national procurement contracts (see option b) and the assessment of bids and decision on awarding contracts would be taken by independent appointees and not solely by elected members. There is a risk that the small size of the audit contract may not be attractive to bidders.
  - b) Procure through Public Sector Audit Appointments Limited (PSAA). The Local Audit (Appointing Person) Regulations enables an appointing body to procure on behalf of a number of principal authorities. The LGA set up the PSAA to be responsible for appointing auditors to local government, police and local NHS bodies, for setting audit fees and for making arrangements for the certification of housing benefit subsidy claims. If the PSAA was used for procuring the Council's external auditors, there would be no requirements to have a Panel. To obtain the best price, audit appointments are expected to be made on three year contracts, with an option to extend to five years. Using PSAA as the Appointing Person is attractive as it removes a great deal of administration and arrangements that will otherwise need to be put in

place and improves the effectiveness of procuring in what is a specialised activity area.

The PSAA has a framework in place and would appoint an auditor from one of the following:

- BDO LLP
- Ernst & Young LLP
- Grant Thornton UK LLP
- KPMG LLP
- Mazars LLP

The principal benefits from such an approach are as follows:

- PSAA will ensure the appointment of a suitably qualified and registered auditor and expects to be able to manage the appointments to allow for appropriate groupings and clusters of audits where bodies work together;
- PSAA will monitor contract delivery and ensure compliance with contractual requirements, audit quality and independence requirements;
- Any auditor conflicts at individual authorities would be managed by PSAA, who would have a number of contracted firms to call upon;
- It is expected that the large scale contracts procured through PSAA will bring economies of scale and attract keener prices from the market than a smaller scale competition;
- The overall procurement costs would be expected to be lower than an individual smaller scale local procurement;
- The overhead costs for managing the contracts will be minimised through a smaller number of large contracts across the sector
- A sustainable market for audit provision in the sector will be easier to ensure for the future.

3.3. The following table summarises the advantages and disadvantages of either option:

Option	Requires an Audit Panel of independent members?	Advantages	Disadvantages
a) Council conducts its own procurement	Yes	I) Full local input to the appointment.	I) Time and resources needed for procurement process; II) More expensive; III) Burden of managing contract; IV) Must establish a panel of independent members with associated costs of recruitment and running the panel; V) Risk of receiving none or a low number of tender bids, due to the smaller size of audit contract; VI) Risk of receiving none or lower quality tender bids; VII) The assessment of bids and decision on awarding contracts will be taken by independent appointees and not solely by elected members.
b) Council opts-in to the sector lead procurement, run by Public Sector Audit Appointments, of the external audit service.	No	I) Assured appointment of a qualified, registered, independent auditor; II) The cheaper option, through economies of scale; III) Time and resources saved on procurement; IV) Convenient; V) No requirement to establish an auditor panel of independent members to manage audit contract.	I) Less local input to the appointment, though still some input (as Councils will be consulted by PSAA).

## 4 CONCLUSIONS

- 4.1. Members are recommended to pursue Option b, as this offers the potential for economies of scale and importantly the highest probability of securing auditors with the necessary experience to effectively audit this local authority. If Members approve this option, during the compulsory appointing period, which is not yet specified, Officers will give notice to PSAA of the decision to become an opted-in authority.

## **5 CONSULTATION UNDERTAKEN OR PROPOSED**

- 5.1. Early indications are that neighbouring local authorities either have or are looking to opt in to the PSAA framework.

## **6 TIMETABLE**

- 6.1. This report was presented to Standards/General Purposes Committee on 3 November and they recommended the council use PSAA to appointment the external auditors.
- 6.2. The formal invitation to join PSAA's sector led scheme was received on the 27<sup>th</sup> October 2016. The Authority has until the end of March to express an interest.

## **7 FINANCIAL, RESOURCE AND PROPERTY IMPLICATIONS**

- 7.1. None for the purposes of this report.

## **8 LEGAL AND STATUTORY IMPLICATIONS**

- 8.1 In July 2016, the Secretary of State for Communities and Local Government specified PSAA as an appointing person under regulation 3 of the Local Audit (Appointing Person) Regulations 2015.
- 8.2 For audits of the accounts from 2018/19, PSAA will be able to appoint an auditor to relevant principal authorities that choose to opt into its national collective scheme. Appointments for 2018/19 must be made by 31 December 2017.
- 8.3 The current audit contracts were procured by the Audit Commission and novated to the PSAA.

## **8.4 HUMAN RIGHTS, EQUALITIES AND COMMUNITY COHESION IMPLICATIONS**

- 8.4.1 None for the purposes of this report.

## **8.5 CRIME AND DISORDER IMPLICATIONS**

- 8.5.1 None for the purposes of this report.

## **8.6 RISK MANAGEMENT AND HEALTH AND SAFETY IMPLICATIONS**

- 8.6.1 None for the purposes of this report.

## **8.7 BACKGROUND PAPERS**

- 8.7.1 Local Audit (Appointing Person) Regulations 2015
- 8.7.2 Local Audit and Accountability Act 2014
- 8.7.3 PSAA National Audit Scheme Prospectus.