

**REPORT TO:** Business Efficiency Board  
**DATE:** 23 November 2016  
**REPORTING OFFICER:** Operational Director – Finance  
**SUBJECT:** Procurement Strategy – External Auditor  
**PORTFOLIO:** Resources  
**WARD(S):** Borough-wide

## **1.0 PURPOSE OF REPORT**

- 1.1. This report summarises the changes to the arrangements for appointing external auditors following the closure of the Audit Commission and the end of the transitional arrangements at the conclusion of the 2017/18 audits.
- 1.2. The Council will need to consider the options available and put in place an appropriate procurement strategy in time to make an appointment by 31 December 2017.

## **2.0 RECOMMENDATION: That Council be recommended to opt into the sector-led procurement of external auditors that will be undertaken by Public Sector Audit Appointments Limited (PSAA).**

## **3.0 BACKGROUND**

- 3.1 The Local Audit and Accountability Act 2014 abolished 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.
- 3.2 The Council's current external auditor is Grant Thornton, this appointment having been made under a contract let by the Audit Commission. Following closure of the Audit Commission the contract is managed by PSAA. The PSAA is an independent, not-for-profit company limited by guarantee, established by the Local Government Association.
- 3.3 The transitional arrangements for the Council's external audit will expire at the end of the 2017/18 accounts. The Council will then assume responsibility for the local appointment of its auditor. Alternatively, the Council can opt into arrangements to have the external auditor appointed on its behalf.
- 3.4 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's audit must follow. Not all accounting firms will be eligible to compete for the work, as they 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.

## **4.0 OPTIONS FOR THE LOCAL APPOINTMENT OF EXTERNAL AUDITORS**

4.1 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**

4.2. 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 excluding current and former elected members (or officers) and their close families and friends. The panel must also be chaired by an independent member. This means that elected members would have limited input to assessing bids and selecting the auditor.

#### Advantage/benefit

- Setting up an Auditor Panel allows elected members to have some input to the appointment 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 ongoing expenses and allowances
- The Council would not be able to take advantage of the economies of scale available through joint or national procurement contracts, which would be likely to result in lower fees.
- The assessment of bids and the decision on awarding contracts will be taken by independent appointees and not solely by elected members.

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

4.3. The Act also 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. The Council would also need to liaise with other local authorities to assess the appetite for such an arrangement.

#### Advantages/benefits

- The costs of setting up the Auditor Panel, running the bidding exercise and negotiating the contract could be shared across a number of authorities.
- There is greater opportunity for achieving lower fees by being able to offer a larger combined contract value.

#### Disadvantages/risks

- The decision making body will be further removed with less potential for input from elected members.

- There may also be increased risk of independence issues arising where an auditor has recently, or is currently, carrying out work for one of the participating organisations. This would prevent the audit firm from being eligible to act as auditor for that organisation and would necessitate that organisation having to make a separate appointment.

### **Option 3 – Opt into a sector-led procurement arrangement**

- 4.4. Public Sector Audit Appointments Limited (PSAA) has been specified as an appointing person under the provisions of the Local Audit and Accountability Act 2014 (the 2014 Act) and the Local Audit (Appointing Person) Regulations 2015. This means that PSAA will make auditor appointments to relevant principal local government bodies that choose to opt into the national appointment arrangements being developed. Opted-in arrangements will be for a compulsory specified period, currently indicated to be for three or five years.

#### Advantages/benefits

- The costs of setting up the appointment arrangements and negotiating fees would be shared across all opt-in authorities.
- A sector-led approach allows for the negotiation of contracts with the audit firms on a national basis thereby providing the most economic and efficient approach to procurement. By offering large contract values the firms are likely to be able to offer lower fees.
- Any conflicts at individual authorities would be managed by the PSAA who would have a number of contracted firms to call upon.
- The PSAA would act in the collective interests of all the 'opt-in' authorities.

#### Disadvantages/risks

- Elected members will have less opportunity for direct involvement in the appointment process other than through the PSAA and/or stakeholder representative groups. However, the PSAA will consult an individual authority about any proposed auditor appointment.
- The success of a sector-led approach would be dependent on the level of uptake. It is however understood that around 270 councils and local bodies have expressed an interest in joining the national scheme which the PSAA is developing.

## **5.0 THE WAY FORWARD**

- 5.1 The Council has until December 2017 to make an appointment. In practical terms this means one of the options outlined in this report will need to be in place by spring 2017 in order that the contract negotiation process can be carried out during 2017.
- 5.2 The date by which principal local government bodies will need to opt into the appointing person arrangement is not yet finalised. The PSAA aims to award contracts to audit firms by June 2017, giving six months to consult on appointments

with authorities before the 31 December 2017 deadline. PSAA anticipate that invitations to opt in will be issued before December 2016.

- 5.3 The PSAA option offers economic benefits from a far larger procurement exercise and reduced procurement and management overheads. It is expected that these advantages would outweigh any potential benefits arising from increased engagement in the process by establishing an Auditor Panel.

## **6.0 FINANCIAL IMPLICATIONS**

- 6.1 Current external audit fee levels are likely to increase when the current contracts end in 2018. The Council's external audit fee for the audit of the 2015/16 financial statements was £112,752.
- 6.2 Establishing a local or joint Auditor Panel outlined in options 1 and 2 would incur additional costs. These costs would include the cost of recruiting independent appointees, servicing the panel, running a bidding and tender evaluation process, letting the contract, and paying members' fees and allowances.
- 6.3 Opting into the PSAA sector led approach provides maximum opportunity to limit the extent of any increases by entering into a large scale collective procurement arrangement. It would also remove the costs associated with establishing and maintaining an Auditor Panel.

## **7.0 LEGAL IMPLICATIONS**

- 7.1 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 8 provides that where a relevant authority is a local authority operating executive arrangements, the function of appointing a local auditor to audit its accounts is not the responsibility of an executive of the authority under those arrangements.
- 7.2 The Local Audit (Appointing Person) Regulations 2015 require that a principal authority may only make the decision to opt into the appointing person arrangement by the members of the authority meeting as a whole.
- 7.3 If the Board determines to recommend that the Council opts into the PSAA sector-led arrangement formal approval must be sought from full Council.

## **8.0 IMPLICATIONS FOR THE COUNCIL'S PRIORITIES**

### **8.1 Children and Young People in Halton**

There are no specific implications for any of the Council's priorities.

### **8.2 Employment, Learning and Skills in Halton**

See 8.1

### **8.3 A Healthy Halton**

See 8.1

### **8.4 A Safer Halton**

See 8.1

### **8.5 Halton's Urban Renewal**

See 8.1

## **9.0 RISK ANALYSIS**

9.1 The appointment of a robust external auditor is an important decision as high quality, independent audit is one of the cornerstones of public accountability, providing assurance that taxpayers' money has been well managed and properly expended. It also inspires trust and confidence in the organisations and people responsible for managing public money

9.2 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.

9.3 The recommended option is that the Council opts into the sector led procurement to be undertaken by PSAA. Risk in regard to the appointment of the auditor is to be managed by PSAA only contracting with firms that have a proven track record in undertaking public audit work.

## **10.0 EQUALITY AND DIVERSITY ISSUES**

None

## **11.0 LIST OF BACKGROUND PAPERS UNDER SECTION 100D OF THE LOCAL GOVERNMENT ACT 1972**

None