

AGENDA ITEM:
SUMMARY



Report for:	Audit Committee
Date of meeting:	8 February 2017
PART:	1
If Part II, reason:	

Title of report:	Appointment of Auditors 2018 and beyond
Contact:	Cllr Graeme Elliot, Portfolio Holder for Finance & Resources James Deane, Corporate Director (Finance & Operations)
Purpose of report:	To seek Committee's opinions on the appointment of the Council's external auditors for financial year 2018/19 and beyond.
Recommendations	That Committee approve the recommendation for the Council to opt into the PSAA procurement arrangement for the appointment of the Council's next auditors
Corporate objectives:	Modern and Efficient Council
Implications:	<u>Financial</u> Contained within the body of the report.
'Value For Money Implications'	<u>Value for Money</u> Contained within the body of the report.
Risk Implications	Contained within the body of the report.
Equalities Implications	None
Health And Safety Implications	There are no health and safety implications

Executive Summary

1. Current auditor appointments are managed by Public Sector Audit Appointments Limited, an independent company established by the Local Government Association to manage existing appointments under transitional arrangements after the winding down of the Audit Commission. The existing audit appointments will end with the completion of the 2017/18 audits.
2. The Council must appoint a new auditor by December 2017, and can choose one of three options to procure the appointment. In summary, these options are:
 - The Council acts alone to carry out a procurement exercise independent from other local authorities or external bodies;
 - The Council joins with other authorities to undertake a joint procurement; or,
 - The Council opts in to a Sector Led Body (SLB) acting on behalf of authorities across the country to procure appointments.
3. Officers recommend that the Council pursues Option 3 for the appointment of its next auditor on the basis of the efficiency, resource, and financial savings available as a result of being a part of a larger procurement with greater buying power.
4. The views of Audit Committee will be reported back to Cabinet at its meeting of 14 February 2017, to inform Cabinet's recommendation to Council. Legislation requires that the Council's opting into a SLB is a decision of Full Council.

Background

5. In August 2010 the then Secretary of State for Communities and Local Government, Eric Pickles, announced that he intended to close the Audit Commission, the body that appointed external auditors to Local Government and NHS organisations. As part of this announcement, he also stated that organisations whose appointments were previously controlled by the Audit Commission should have the freedom to appoint their own external auditors.
6. The Local Audit & Accountability Act 2014 ('the Act') abolished the Audit Commission, which closed on 31 March 2015. At the time of closure, contracts were already in place for local government and NHS external audit appointments that covered audits up to and including the financial year 2016/17. Within these contracts there was an option to extend for a maximum of three further years, i.e. up to and including the financial year 2019/20.
7. A consultation exercise with key stakeholder groups was undertaken, and the Government decided that for local government bodies the contracts will be extended by one year, i.e. to incorporate the audit of the 2017/18 financial year. After this, local authorities must make arrangements to appoint the external auditors themselves.

Options for appointing External Auditors

8. The appointment of external auditors is tightly regulated and local authorities must comply with a range of controls to ensure that appointments are, and are

seen to be, independent. Within the framework laid out, there are three options available to local authorities to appoint auditors for the period beginning 2018/19:

- Establish an independent auditor panel. The panel must be made up of a majority, or of wholly independent members and must be chaired by an independent member;
 - Jointly establish an auditor panel with other authorities; or,
 - Opt in to an approved sector led body (SLB) to be specified by DCLG to act as the Appointing Person on behalf of opted-in authorities.
9. The Local Government Association (LGA) has been working with the PSAA in order to develop a SLB which offers an alternative to each council setting up its own, separate Auditor Panel. Formal invitations to opt in were issued in December 2016 and opt in will require Full Council Approval (*Regulation 19, Local Audit (Appointing Person) Regulations 2015*). A response to the formal invitation will be required by March 2017.
10. The LGA is supporting the sector led approach because of the benefits for the sector as a whole (which also apply to this Council independently). These benefits include:
- Purchasing power to negotiate competitive audit fees worth an estimated £30m annually;
 - A more cost-efficient approach to tendering – avoiding the costs of every authority incurring costs associated with an individual tendering exercise;
 - Economies of scale to be achieved from collective procurement, enabling the winning bidders to plan and resource audits more efficiently and effectively;
 - Quality monitoring and other information sharing across contracts (subject to protections over confidentiality);
 - Sensible distribution of audit appointments taking into consideration joint working between individual Councils and other public bodies, managing rotations where conflicts of interest arise.
11. In July 2016, PSAA was specified by the Secretary of State as an Appointing Person. A national collective scheme for appointment has now been published by PSAA and an invitation to opt in has been issued, with a response required by 9 March 2017. Initial interest has been expressed by 200 authorities, suggesting significant economies of scale.

Evaluation of the options available to the Council

12. Officers have considered the advantages and disadvantages of the options available:
13. **Option 1:** Establish an independent Auditor Panel - Whilst option 1 would give the Council complete autonomy over the whole process, the cost and resource involved in setting up a new panel and carrying out a procurement exercise are expected to be significant. In addition, it is unlikely that the Council acting alone

would have sufficient purchasing power to obtain best value, relative to sharing the purchasing power of a larger procurement body.

14. **Option 2:** Jointly establish an Auditor Panel with other authorities - A joint set-up and procurement with other partners would still require the Council to incur significant cost and resource in order to set up a compliant panel and carry out a procurement exercise. Whilst this option is preferable to Option 1, and would offer an opportunity to benefit from combined purchasing power, even a shared procurement with all authorities in Hertfordshire would be unlikely to achieve material economies of scale relative to those available to a national body. (For example, Audit Commission procurements in 2012 and 2014 were for 750 and 260 audited bodies, and achieved savings of 40% and 25% respectively.)
15. **Option 3:** Opt in to an approved sector led body (SLB) - Use of a SLB (PSAA) to act as the Appointing Person would allow the Council access to the benefits of a national procurement exercise (also enabling local procurement resources to remain focused on core business activities), whilst also ensuring that the actual and perceived independence of auditors is protected through the separation of the Council from the decision-making process.

Recommendation

16. Having considered the relative merits of each option, it is recommended that the Council opt into the PSAA Appointing Person arrangement (Option 3), subject to confirmation of the final details of the scheme.