
Report to: Cabinet
Council

Date of Meeting: 1 December 2016
26 January 2017

Subject: National Scheme for Auditor Appointments

Report of: Head of Corporate Resources

Wards Affected: All Wards

Is this a Key Decision? No

Is it included in the Forward Plan? No

Exempt/Confidential: No

Purpose/Summary

This report sets out the proposals for appointing an external auditor to the Authority for the 2018/19 accounts and beyond. The Councils current auditors are working under a contract originally let by the Audit Commission which was subsequently novated to Public Sector Audit Appointments (PSAA) following the closure of the Audit Commission. This contract will cease at the end of 2017/18.

There is now the opportunity for the Council to enter into a sector-wide procurement conducted by PSAA which will result in a more economic and effective outcome than if the Council procured external audit services on an individual basis. If the Authority is to take advantage of the national scheme for appointing auditors to be operated by PSAA for subsequent years, then it has to accept the invitation by 9 March 2017. Under the relevant regulations this decision needs to be made by full Council. However, legal advice is that as this is a procurement issue which is an executive function the decision also needs to be made by Cabinet.

This report requests Cabinet and Council to accept the Public Sector Audit Appointments (PSAA) invitation to opt in to the national scheme.

Recommendation

Cabinet is asked to:

- i) 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.

Council is asked to:

- i) 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.

How does the decision contribute to the Council's Corporate Objectives?

<u>Corporate Objective</u>		<u>Positive Impact</u>	<u>Neutral Impact</u>	<u>Negative Impact</u>
1	Creating a Learning Community		✓	

2	Jobs and Prosperity		✓	
3	Environmental Sustainability		✓	
4	Health and Well-Being		✓	
5	Children and Young People		✓	
6	Creating Safe Communities		✓	
7	Creating Inclusive Communities		✓	
8	Improving the Quality of Council Services and Strengthening Local Democracy		✓	

Reasons for the Recommendation:

The Council's arrangements with its current auditors will end following the approval of the 2017/18 Statement of Accounts. New external auditors for 2018/19 and beyond will need to be appointed by 31 December 2017.

Approval will ensure PSAA can appoint auditors on the Council's behalf for the five financial years from 1 April 2018.

What will it cost and how will it be financed?

(A) Revenue Costs

The Council has a budget for the annual cost of external audit. It is anticipated that this process will enable costs to be contained within this budget.

(B) Capital Costs

N/A

Implications:

The following implications of this proposal have been considered and where there are specific implications, these are set out below:

Legal This report complies with legislation, particularly the Local Audit and Accountability Act 2014 and the Local Audit (Appointing Person) Regulations 2015.	
Human Resources None	
Equality	
1. No Equality Implication	<input checked="" type="checkbox"/>
2. Equality Implications identified and mitigated	<input type="checkbox"/>
3. Equality Implication identified and risk remains	<input type="checkbox"/>

Impact on Service Delivery:

None

What consultations have taken place on the proposals and when?

The Head of Corporate Resources is the author of the report (FD4400/16).

The Head of Regulation and Compliance has been consulted and comments have been incorporated in the report (LD3683/16).

Are there any other options available for consideration?

Council could choose to set up an independent Auditor Panel, or join with other authorities to set up a Joint Auditor Panel, to enable an external auditor to be appointed.

Implementation Date for the Decision

Immediately following the call-in period following the publication of the Council minutes.

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Background Papers:

None

1. Introduction / Background

- 1.1 The Local Audit and Accountability Act 2014 (the Act) 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.
- 1.2 On 5 October 2015 the Secretary of State for Communities and Local Government (CLG) 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. The Act also set out the arrangements for the appointment of auditors for subsequent years, with the opportunity for authorities to make their own decisions about how and by whom their auditors are appointed.
- 1.3 Regulations made under the Act allow authorities to 'opt in' for their auditor to be appointed by an 'appointing person'. In July 2016 Public Sector Audit Appointments (PSAA) were specified by the Secretary of State as an appointing person under regulation 3 of the Local Audit (Appointing Person) Regulations 2015. The appointing person is sometimes referred to as the sector led body and PSAA has wide support across local government. PSAA was originally established to operate the transitional arrangements following the closure of the Audit Commission under powers delegated by the Secretary of State.

2. Sector Wide Procurement

- 2.1 PSAA is an independent, not-for-profit company limited by guarantee and established by the Local Government Association (LGA). PSAA is inviting Sefton to opt in, along with all other authorities, so that PSAA can enter into a number of contracts with appropriately qualified audit firms and appoint a suitable firm to be the Authority's auditor. 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, 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 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;
 - There will be no need for the Authority to establish alternative appointment processes locally, including the need to set up and manage an 'auditor panel';
 - The new regime provides both the perception and reality of independent auditor appointment through a collective approach; and

- A sustainable market for audit provision in the sector will be easier to ensure for the future.

- 2.2 The Authority's current external auditor is Ernst and Young LLP, this appointment having been made under a contract let by the Audit Commission. Following closure of the Audit Commission the contract was novated to PSAA, and since this date PSAA has demonstrated its capability in terms of auditor appointment, contract management, and monitoring audit quality. Over recent years authorities have benefited from a reduction in fees in the order of 55% compared with fees in 2012. This has been the result of a combination of factors including new contracts negotiated nationally with the audit firms and savings from closure of the Audit Commission. The Authority's current external audit fees for 2016/2017 are expected to be £137,195 which includes certification of the Council's Housing Benefit claim.
- 2.3 The proposed fees for subsequent years cannot be known until the procurement process has been completed, as the costs will depend on proposals from the audit firms. 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 Authority's audit must follow. Not all audit firms will be eligible to compete for the work, 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.
- 2.4 Currently, there are only nine providers that are eligible to audit local authorities and other relevant bodies; all of these being firms with a national presence. This means that a local procurement exercise, would seek tenders from these same firms, subject to the need to manage any local independence issues. Local firms could not be invited to bid.

3. Other Options

- 3.1 If the Authority did not opt in there would be a need to establish an independent auditor panel. The members of the panel must be wholly or a majority of independent members as defined by 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 will not have a majority input to assessing bids and choosing which audit firm to award a contract for the Authority's external audit.
- 3.2 Alternatively the Act enables the Authority 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 (members). Further legal advice would be required on the exact constitution of such a panel having regard to the obligations of each Authority under the Act and the Authority would need to liaise with other local authorities to assess the appetite for such an arrangement.
- 3.3 Both of these options would be more resource-intensive to implement and without the bulk buying power of the sector led procurement and would therefore be likely to result in a more costly service. It would also be more difficult to manage quality and independence requirements through a local appointment process.

4. The Invitation

4.1 PSAA has now formally invited the Authority to opt in to the sector wide procurement arrangement. In summary the national opt-in scheme provides the following:

- The appointment of a suitably qualified audit firm for each of the five financial years commencing 1 April 2018;
- Appointing the same auditor to other opted in bodies that are involved in formal collaboration or joint working initiatives to the extent this is possible with other constraints;
- Managing the procurement process to ensure both quality and price criteria are satisfied. PSAA will seek views from the sector to help inform its detailed procurement strategy;
- Ensuring suitable independence of the auditors from the bodies they audit and managing any potential conflicts as they arise;
- Minimising the scheme management costs and returning any surpluses to scheme members;
- Consulting with authorities on auditor appointments, giving the Council/Authority the opportunity to influence which auditor is appointed;
- Consulting with authorities on the scale of audit fees and ensuring these reflect scale, complexity and audit risk; and
- Ongoing contract and performance management of the contracts once these have been let.

5. The way forward

5.1 Regulation 19 of the Local Audit (Appointing Person) Regulations 2015 requires that a decision to opt in must be made by a full meeting of the Authority. The Authority then needs to formally respond to PSAA's invitation in the form specified by PSAA by early March 2017. PSAA expects to award contracts in summer 2017 and consult with authorities on the appointment of auditors so that it can make an appointment by the statutory deadline of December 2017.

6. Financial implications

6.1 There is a risk that current external audit fee 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.