

25 April 2016

Agenda Item: 5

REPORT OF SERVICE DIRECTOR, FINANCE, PROCUREMENT AND IMPROVEMENT

CHANGES TO THE ARRANGEMENTS FOR APPOINTING EXTERNAL AUDITORS

Purpose of the Report

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.
2. The Council will need to consider the options available and put in place new arrangements in time to make a first appointment by 31 December 2017. In advance of that, the Council is asked to consider opting in to a Sector-Led Body being set up by the Local Government Association (LGA).

Information and Advice

3. The Local Audit and Accountability Act 2014 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. These transitional arrangements come to an end following the audit of the accounts for 2017/18.
4. The Council's current external auditor is KPMG, under a contract let by the Audit Commission. Following closure of the Audit Commission the contract is currently managed by Public Sector Audit Appointments Limited (PSAA), the transitional body set up by the LGA with delegated authority from the Secretary of State CLG. Current fees are based on discounted rates offered by the firms in return for substantial market share. When the contracts were last negotiated nationally by the Audit Commission they covered NHS and local government bodies and offered significant economies of scale.
5. When the current transitional arrangements come to an end on 31 March 2018 the Council will be able to move to local appointment of the auditor. There are a number of routes by which this can be achieved, each with varying risks and opportunities.
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's audit must follow. Not all accounting firms will be eligible to compete for the work; they will need to demonstrate that they have the required skills and experience. The

registration process for this has not yet commenced and so the number of firms is not known. It is expected that the list of eligible firms may include the top 10 or 12 firms in the country, including our current auditor. It is unlikely that small, local, independent firms will meet the eligibility criteria

Options for local appointment of External Auditors

7. There are three broad options open to the Council under the Local Audit and Accountability Act 2014 (the Act).

Option 1 To make a stand-alone appointment

8. In order to make a stand-alone appointment the Council would need to set up an Auditor Panel. The majority of the members of the panel must be independent appointees, which precludes current and former elected members (or officers) and their close families and friends.

Advantages/benefit

- Setting up an auditor panel allows the Council to take maximum advantage of the new local appointment regime and have local input to the 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 on-going expenses and allowances.
- The Council would not be able to take advantage of reduced fees that may be available through joint or national procurement contracts. The assessment of bids and decision on awarding contracts would be taken by independent appointees and not solely by elected members.

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

9. The Act enables the Council to join with other authorities to establish a joint auditor panel. Again this would need to be constituted of a majority of independent appointees. The Council would need to liaise with other local authorities to assess the appetite for such an arrangement.

Advantages/benefits

- The costs of setting up the panel, running the bidding exercise and negotiating the contract would be shared across a number of authorities.
- There is greater opportunity for negotiating some economies of scale by being able to offer a larger combined contract value to the firms.

Disadvantages/risks

- The decision-making body would be further removed from local input.
- 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 the Council. Where this occurs some auditors may be prevented from being appointed by the terms of their professional standards. Should this occur, the Council might still need to make a separate appointment with all the attendant costs and loss of economies possible through joint procurement.

Option 3 Opt-in to a sector led body

10. In response to the consultation on the new arrangement the LGA successfully lobbied for Councils to be able to 'opt-in' to a Sector Led Body (SLB) appointed by the Secretary of State under the Act. An SLB would have the ability to negotiate contracts with the firms nationally, maximising the opportunities for the most economic and efficient approach to procurement of external audit on behalf of the whole sector.

Advantages/benefits

- The costs of setting up the appointment arrangements and negotiating fees would be shared across all opt-in authorities.
- By offering large contract values the firms would be able to offer better rates and lower fees than are likely to result from local negotiation.
- Any conflicts at individual authorities would be managed by the SLB who would have a number of contracted firms to call upon.
- The appointment process would not be ceded to locally appointed, independent members. Instead a separate body would be set up to act in the collective interests of the 'opt-in' authorities.

Disadvantages/risks

- Individual elected members would have less opportunity for direct involvement in the appointment process.
11. In order for the SLB to be viable and to be placed in the strongest possible negotiating position, the LGA needs Councils to indicate their intention to opt in before final contract prices are known.

Next Steps

12. The Council has until December 2017 to make an appointment. In practical terms this means one of the options outlined in this note will need to be in place by spring 2017 in order that the contract negotiation process can be carried out during 2017.
13. The LGA highlights that, in a recent survey, 58% of respondents expressed an interest in the SLB option. The LGA believes that the greatest economies of scale will come from the maximum number of councils acting collectively through the SLB.
14. The Council is asked to consider whether it is interested in opting in to a SLB. Expressions of interest are requested **by the end of April 2016**, with a formal decision to opt-in being required at a later stage. This will enable the LGA to more accurately evaluate the offering, to strengthen its negotiating position, and to invest resources in providing appropriate support to Councils.

Other Options Considered

15. The range of options available to the Council are set out in this report.

Reason/s for Recommendation/s

16. Best value for money in the appointment of external auditors is most likely to be secured by being part of the SLB. Nationally, the LGA states that the present joint commissioning

arrangements have achieved reductions in fee levels in the order of 50% compared with historic levels. At NCC, the level of fees for 2015/16 reduced by 25% compared with the previous year. It is realistic to assume that best value will continue to be driven through the strengthened bargaining position that a sector-led approach should offer.

17. No commitment to the SLB is required at this stage. By expressing an interest, the Council would ensure that all options remain open to it.

Statutory and Policy Implications

18. This report has been compiled after consideration of implications in respect of crime and disorder, finance, human resources, human rights, the public sector equality duty, safeguarding of children and vulnerable adults, service users, sustainability and the environment and ways of working and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

RECOMMENDATION

- 1) That the Council submits its expression of interest in opting in to the LGA's Sector-Led Body for the appointment of external auditors following the close of the 2017/18 accounts.

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For any enquiries about this report please contact:

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Constitutional Comments (KK 23/3/16)

19. The proposal in this report is within the remit of the Finance and Property Committee.

Financial Comments (SES 12/04/16)

20. There are no specific financial implications arising directly from this report.

Background Papers

Except for previously published documents, which will be available elsewhere, the documents listed here will be available for inspection in accordance with Section 100D of the Local Government Act 1972.

- Background information supplied by the Local Government Association.

Electoral Division(s) and Member(s) Affected

- All.