

REPORT OF THE CHAIRMAN OF FINANCE AND PROPERTY COMMITTEE**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.
2. This report sets out the options for new arrangements and recommends opting in to the national sector-led body 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 National Health Service (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, appointed 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 for Communities and Local Government (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 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.

7. In response to the consultation on the new arrangements, the LGA successfully lobbied for Councils to be able to opt in to a national sector-led body appointed by the Secretary of State. Local authorities were required to submit expressions of interest in this option by the end of April 2016. 270 expressions of interest were received by the Secretary of State. PSAA Ltd has been confirmed by the Secretary of State as the appointing body. Finance and Property Committee agreed at its meeting of 25th April 2016 to submit Nottinghamshire County Council's interest in the sector-led body option, and this is therefore available to the Authority as a possible option.
8. PSAA Ltd has the ability to negotiate contracts with firms nationally, maximising the opportunities for the most economic and efficient approach to procurement of external audit on behalf of the whole sector. Although this option will mean that individual elected members will have less opportunity for direct involvement in the appointment process, the sector-led body is considered to offer a number of significant advantages:
 - The costs of setting up the appointment arrangements and negotiating fees are shared across all opt-in authorities.
 - By offering large contract values the firms will be able to offer better rates and lower fees than are likely to result from local negotiation.
 - Any conflicts at individual authorities will be managed by the sector-led body who will have a number of contracted firms to call upon.
 - The sector-led body is able to act in the collective interests of the 'opt-in' authorities.
9. The Council has until 9 March 2017 to formally opt in to the sector-led body. This will allow sufficient time for PSAA Ltd to conduct the necessary contract negotiation process, in advance of external auditor appointments being made by December 2017.

Other Options Considered

10. Two other options are available to the Council.
11. To make a stand-alone appointment – this would require the Council 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. This option would allow the Council to take maximum advantage of the new local appointment regime and to have local input to the decision. However, there are significant drawbacks to this option:
 - 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.

12. Set up a Joint Auditor Panel/local procurement arrangements - 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. Should there prove to be sufficient interest, this option would mean that the costs of setting up the panel, running the bidding exercise and negotiating the contract would be shared across a number of authorities. There would also be greater opportunity for negotiating some economies of scale by being able to offer a larger combined contract value to the firms. However, as with the previous option, this approach also has disadvantages:

- There may be few, if any, local authorities interested in such a joint approach.
- 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.

Reasons for Recommendations

13. Best value for money in the appointment of external auditors is most likely to be secured by being part of the sector-led body. 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. For the Council 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.

Statutory and Policy Implications

14. This report has been compiled after consideration of implications in respect of crime and disorder, finance, human resources, human rights, the NHS Constitution (public health services), the public sector equality duty, safeguarding of children and adults at risk, 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/S

- 1) That the Council opts into the LGA established sector-led body for the appointment of external auditors following the close of the 2017/18 accounts.

Councillor David Kirkham

Chairman of the Finance and Property Committee

For any enquiries about this report please contact:

Rob Disney
Head of Internal Audit

Constitutional Comments (SLB 02/11/2016)

15. The County Council is the appropriate body to consider the content of this report. The relevant regulations require that a decision to opt-in to the national scheme needs to be made by members of the Authority meeting as a whole.

Financial Comments (RWK 27/10/2016)

16. There are no specific financial implications arising directly from the report.

Background Papers and Published Documents

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.
- Letter from PSAA Ltd (27/10/16) inviting the Council to opt in to the national scheme.

Electoral Division(s) and Member(s) Affected

- All