



Report for: Audit Committee
Item Number: 9

Contains Confidential or Exempt Information	NO
Title	Changes to arrangements for appointment of external auditors
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Portfolio	Cllr Yvonne Johnson – Finance, Performance & Customer Services
For Consideration By	Audit Committee
Date to be considered	29 November 2016
Implementation Date if Not Called In	N/A
Affected Wards	All
Area Committees	N/A
Keywords/Index	External Audit, PSAA, Audit Panel

Purpose of Report:
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.

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.

1 Recommendations

1.1 It is recommended that the Committee:

- Notes the new arrangements for appointing external auditors.
- Recommend Full Council accepts the Public Sector Audit Appointments' (PSAA) invitation to 'opt in' to the sector led body option for the appointment of external auditors for 5 financial years commencing 1 April 2018.

2 Reason for decision and options considered

- 2.1** The Local Audit and Accountability Act 2014 (the Act) set out the arrangements for the appointment of External auditors, with the opportunity for authorities to make their own decisions about how and by whom their auditors are appointed post 17/18. Regulations made under the Act allow authorities to 'opt in' for their auditor to be appointed by an 'appointing person'.
- 2.2** Regulation 19 of the Local Audit (appointing persons) Regulations 2015 indicates that an authority can only exercise this function by the members of the authority meeting as a whole (i.e. this is a Full Council decision)
- 2.3** Arrangements must be in place to enable the 2018/19 appointment to be made by 31 December 2017. Due to the implementation timetables for each option, a Full Council decision regarding the preferred arrangements must be made before March 2017.

3 Background

- 3.1** The Council's current external auditor is KPMG, this appointment having been made under at 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 Local Government Association (LGA) with delegated authority from the Secretary of State Communities and Local Government (CLG). Over recent years the Council has benefited from reduction in fees in the order of 55% compared with historic levels. This has been the result of a combination of factors including new contracts negotiated nationally with audit firms and savings from closure of the Audit Commission. The Council's current external audit fees are circa £225k per annum.
- 3.2** 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. On 5 October 2015 the Secretary of State (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.
- 3.3** 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. Regulations made under the Act allow authorities to 'opt in' for their auditor to be appointed by an 'appointing person'.
- 3.4** 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. 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 maximum economies of scale.

- 3.5** 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 and be registered with a Registered Supervising Body approved by the Financial Reporting Council. The registration process has not yet commenced and so the number of firms is not known but it is reasonable to expect 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.

4 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 (the Act):

4.2 Option 1 To make a stand-alone appointment

- 4.3** 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, this excludes current and former elected members (or officers) and their close families and friends. This means that elected members would not have a majority input to assessing bids and choosing which firm of accountants to award a contract for the Council's external audit. The new independent auditor panel established by the Council would be responsible for selecting the auditor. This would rule out the Council's existing Audit Committee from appointing the External Auditors based on the membership.

4.4 Advantages/benefits:

- 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.

4.5 Disadvantages/risks

- There is a significant cost in using officer time for recruitment and servicing of the Auditor Panel, running the bidding exercise and negotiating the contract. The set up costs are estimated by the LGA to equate in the order of £15,000 plus on going any expenses and allowances.
- There may be difficulties in recruiting eligible and appropriate panel members.
- 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.

4.6 This option is not recommended.

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

4.8 The Act 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 (members). Further legal advice would be required on the exact constitution of such a panel having regard to the obligations of each Council under the Act and the Council would need to liaise with other local authorities to assess the appetite for such an arrangement.

4.9 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.

4.10 Disadvantages/risks

- The decision making body would be further removed from local input, with potentially no input from elected members where a wholly independent auditor panel is used or possible only one elected member representing each Council, depending on the constitution agreed with the other bodies involved.
- 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. There is a risk that if the joint auditor panel chooses a firm that is conflicted for this Council then the Council may still need to make a separate appointment with all the attendant costs and loss of economies possible through joint procurement.

4.11 This option is not recommended.

4.12 Option 3 Opt-in to a sector led body

4.13 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. The Sector Led Body that has been established is the PSAA.

4.14 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. It would instead be a separate body set up to act in the collective interests of the 'opt-in' authorities. The LGA has set up such a body utilising the knowledge and experience acquired through the setting up of the transitional arrangements.

4.15 Disadvantages/risks

- Individual elected members will have less opportunity for direct involvement in the appointment process other than through the LGA and/or stakeholder representative groups.
- In order for the SLB to be viable and to be placed in the strongest possible negotiating position the SLB will need Councils to indicate their intention to opt-in before final contract prices are known. However early survey indications show over 50% of councils have declared in interest in joining the SLB.

4.16 This option is recommended

5 Next Steps

5.1 As regulations dictate an external auditor must be appointed by the end of December in the preceding financial year, 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 Sector Lead Body, the PSAA, has now invited local authorities to join, for which they must respond by 09 March 2017.

6 Conclusion

6.1 Based on the advantages/disadvantages and risks of the options listed above, it is recommended that the Council accepts the invitation from the PSAA and to join the SLB. Further detail can be found in the PSAA prospectus (Link in section 19).

7 Financial Implications

7.1 Current external fees levels are likely to increase when the current contracts end in 2018.

- 7.2** Opting-in to a national SLB provides maximum opportunity to limit the extent of any increases by entering in to a large scale collective procurement arrangement and would remove the costs of establishing an auditor panel.
- 7.3** The cost of establishing a local or joint Auditor Panel outlined in options 1 and 2 above would need to be estimated and included in the Council's budget for 2017/18. This would include the cost of recruiting independent appointees (members), servicing the Panel, running a bidding and tender evaluation process, letting a contract and paying members fees and allowances.
- 7.4** Until either procurement exercise is completed it is not possible to state what additional financial resource may be required for audit fees for 2018/19, although it is anticipated that any increase will be minimised through using PSAA.

8 Legal Implications

- 8.1** 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.
- 8.2** Section 12 makes provision for the failure to appoint a local auditor: the authority must immediately inform the Secretary of State, who may direct the authority to appoint the auditor named in the direction or appoint a local auditor on behalf of the authority.
- 8.3** Section 17 gives the Secretary of State the power to make regulations in relation to an 'appointing person' specified by the Secretary of State. This power has been exercised in the Local Audit (Appointing Person) Regulations 2015 (SI 192) and this gives the Secretary of State the ability to enable a Sector Led Body to become the appointing person.

9 Value for Money

- 9.1** Based on potential cost savings identified in joining the PSAA, this represents the best value for money option.

10 Risk Management

- 10.1** There is no immediate risk to the Council; however, 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.

11 Community Safety

11.1 Not Applicable

12 Links to strategic objectives

12.1 The Council's accounts form a key part of working towards the Council priority of "delivering value for money". The production, publication and audit of The Statement of Final Accounts provide valuable information to the residents of the Council and to its suppliers. The External auditors carry audit a value for Money audit.

13 Equalities and cohesion

13.1 No Identified need for the completion of an Equality Impact Assessment

14 Staffing/Workforce and Accommodation implications

14.1 Not Applicable

15 Property and Assets

15.1 Not Applicable

16. Consultation

16.1 As per attached table

17 Timetable for implementation

17.1 The broad timetable for the PSAA is as follows:

- Invitation to opt in issued- 27 October 2016
- achieve 'sign-up' of scheme members - by latest 09 March 2017
- Contract Notice Published- by 20 February 2017
- award contracts - by 30 June 2017
- consult on and make final auditor appointments - by 31 December 2017
- consult on, propose audit fees and publish fees - by 31 March 2018

18 Appendices

None

19 Background information

- The Local audit (appointing persons) Regulations 2015
- The Local Government (Accounts and Audit) Regulations 2015
- The Local Audit and Accountability Act 2014
- PSAA Prospectus-<http://www.psa.co.uk/supporting-the-transition/appointing-person/>

Consultation

Name of consultee	Department	Date sent to consultee	Date response received	Comments appear in report para:
Cllr Yvonne Johnson	Finance, Performance & Customer Service	18-11-2016		
Ian O'Donnell	Executive Director of Corporate Resources	18-11-2016		
Catherine Taylor	Head of Legal (Litigation and Contracts)	16-11-2016	17-11-2016	
Ross Brown	Director of Finance	16-11-2016	16-11-2016	
Maria Campagna	Strategic Finance Partner – Corporate	15-11-2016	16-11-2016	throughout