

AUDIT AND GOVERNANCE COMMITTEE

9 DECEMBER 2016

ARRANGEMENTS FOR THE APPOINTMENT OF THE COUNTY COUNCIL'S EXTERNAL AUDITOR

Recommendation

1. **The Chief Financial Officer recommends that the Audit and Governance Committee makes a recommendation to Council to 'opt in' to the appointing person arrangements proposed by the Public Sector Audit Appointments (PSAA) for the purpose of appointing the County Council's external auditors.**

Background

2. The Audit Commission was discontinued by the Local Audit and Accountability Act 2014. Transitional arrangements were established for the appointment of external auditor and the setting of audit fees for all local government and NHS bodies in England. 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.

3. The County Council's current external auditor is Grant Thornton UK LLP, who was appointed under a contract let by 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 for CLG.

4. The County Council's current annual external audit fees are £95,000. Over recent years the County Council's external audit fee has reduced by around 45%. This reduction has been delivered through a combination of factors including new contracts negotiated nationally with external audit providers and savings from closure of the Audit Commission.

5. When the current transitional arrangements come to an end on 31 March 2018, the County Council will potentially be able to move to local appointment of their External Auditor. There are a number of routes by which this can be achieved, each with varying risks and opportunities, which are explored further in this report.

6. The scope of the external audit and the issuance of the Code of Audit Practice will continue to be specified nationally by the National Audit Office (NAO). Any prospective provider of External Audit services 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 External Audit providers is still to be confirmed. It is anticipated that there will continue to be External Audit Providers of sufficient quality to meet our needs at the County Council.

Options for local appointment of External Auditors

7. There are three broad options open to the County Council under the Local Audit and Accountability Act 2014 (the Act). In each case, a broad summary of the respective advantages and disadvantages are set out in this section.

Option 1 - To make a stand-alone appointment

8. In order to make a stand-alone appointment the County Council will 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.

9. Independent members for this purpose are independent appointees, which 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 External Auditor to award a contract for the Council's External Audit.

Advantages/benefits

10. Setting up an auditor panel allows the County Council to take maximum advantage of the new local appointment regime and have local input to the decision.

Disadvantages/risks

11. 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.

12. The County Council may not be able to take advantage of reduced fees that may be available through joint or national procurement contracts.

13. The assessment of bids and decision on awarding contracts will be taken by independent appointees and not solely by elected members.

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

14. The Act enables the County Council 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. Further legal advice will be required on the exact constitution of such a panel having regard to the obligations of each Council under the Act and the County Council will need to liaise with other local authorities and/or public bodies to assess the appetite for such an arrangement.

Advantages/benefits

15. The costs of setting up the panel, running the bidding exercise and negotiating the contract will be shared across a number of authorities and/or public bodies.

16. 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

17. The decision making body may 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 and/or public body, depending on the constitution agreed with the other bodies involved.

18. The choice of External Auditor could be complicated where individual Councils and/or public bodies 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 County Council.

19. Where conflict may occur, 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 choose an External Audit provider that has a conflict then the County Council may 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 (Preferred option)

20. The PSAA has been specified by the Secretary of State for CLG as the Appointing Person for principle local government bodies, and as such will make External Auditor appointments for bodies that choose to opt in to the national appointment arrangements. This arrangement is sometimes described as a Sector Led Body (SLB) option.

21. Proposals are for External Auditors to be appointed under this arrangement for an initial period of five years commencing 1 April 2018.

Advantages/benefits

22. The costs of setting up the appointment arrangements and negotiating fees would be shared across all opt-in authorities and or public bodies. By offering large contract values, potential providers of External Audit may be able to offer better value for money given the size of the audits collectively being procured.

23. 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 made locally. Instead a separate body set up to act in the collective interests of the 'opt-in' authorities, in a similar fashion to the Audit Commission arrangements of the past. The LGA are considering setting up such a body utilising the knowledge and experience acquired through the setting up of the transitional arrangements.

Disadvantages/risks

24. Individual elected members will have less opportunity for direct involvement in the appointment process other than through the LGA and/or stakeholder representative groups.

25. 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.

Recommendation

26. Option 3 – Opting into a Sector Led Body for the purpose of appointing the County Council's External Auditor is recommended for the reasons set out in Section 3. The decision is reserved for Full Council within the Local Audit and Accountability 2014 Act (the Act).

27. The County Council have until December 2017 to make an appointment of external auditors from April 2018. In order that more detailed proposals can be developed the Committee is asked to recommend Option 3 as the County Council's preferred approach and for this to be communicated to the PSAA.

28. The closing date for opting in to the PSAA is 9 March 2017 to enable audit contracts to be awarded by end of June 2017.

Risk Management

29. PSAA have indicated that they require a commitment from the County Council by March 2017. Whilst there is no immediate risk to the County Council, early consideration 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 and maximise the opportunity to achieve Value for Money from its External Audit services.

30. Providing the LGA with a realistic assessment of our likely way forward will enable the LGA to invest in developing appropriate arrangements to support the County Council.

Legal Implications

31. 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.

32. 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.

33. 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.

Financial Implications

34. Current external fees levels are likely to change when the current contracts end in 2018. The PSAA will ensure that fee levels are carefully managed by securing competitive prices from firms and by minimising their costs. Any surplus funds will be returned to scheme members.

35. Fees will be charged to audited bodies in accordance with a scale of fees which has regard to size, complexity and audit risk, most likely evidenced by audit fees for 2016/17.

36. 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.

Equality and Diversity Implications

37. An Equality Relevance Screening has been completed in respect of these recommendations. The screening did not identify any potential Equality considerations requiring further consideration during implementation.

Contact Points

County Council Contact Points

County Council: 01905 763763

Worcestershire Hub: 01905 765765

Specific Contact Points for this report

Sean Pearce, Chief Financial Officer

Tel: Ext. 6268

Email: spearce@worcestershire.gov.uk

Background Papers

In the opinion of the proper officer, in this case the Chief Financial Officer, there are no background papers relating to the subject matter of this report.