

WAVERLEY BOROUGH COUNCIL

AUDIT
15/11/2016

Title:

Appointment of External Auditors

[Portfolio Holder: Cllr Ged Hall]

[Wards Affected: ALL]

Summary and purpose:

Following the demise of the Audit Commission new arrangements are needed for the appointment of external auditors for the 2018/2019 financial year. The Local Audit and Accountability Act 2014 requires authorities to either opt in to the appointing person regime or to undertake a local joint procurement exercise to establish an auditor panel and conduct their own procurement exercise.

How this report relates to the Council's Corporate Priorities:

Waverley's external auditors give an independent view of the Council's arrangements to secure Value for Money.

Financial Implications:

There is budget provision in the 2016-17 estimates for the audit fees and the fees for other services provided by Grant Thornton.

Public Sector Audit Appointments (PSAA) was set up by the Local Government Association as the body to offer a sector-led procurement framework to satisfy the appointed person option. If this route is not used some additional resource may be needed to establish an auditor panel and conduct our own procurement. Until either procurement exercise is completed it is not possible to state what additional resource may be required for audit fees for 2018/19, although it is anticipated that any increase will be minimised through using PSAA.

Legal Implications:

The Local Audit and Accountability Act 2014 states that the accounts of a relevant authority for a financial year must be audited:

- a) in accordance with the Act and provision made under it, and
- b) by an auditor (a "local auditor") appointed in accordance with the Act or provision made under it.

A local auditor must, in carrying out the auditor's functions in relation to the accounts of a relevant authority, comply with the code of audit practice applicable to the

authority that is for the time being in force. The current code of practice for UK Local Government is the Code of Audit Practice issued by the Audit Commission in 2010. The code adopts the International Standards of Auditing (ISAs) as issued by the FRC.

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 i.e. 31 December 2017. 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 12 makes provision for the failure to appoint a local auditor. In this event 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.

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

Introduction

1. As part of closing the Audit Commission the Government novated external audit contracts to Public Sector Audit Appointments which is a sector-led body set up by the Local Government Association, on 1 April 2015. The audits were due to expire following conclusion of the audits of the 2016/17 accounts, but could be extended for a period of up to three years by PSAA, subject to approval from the Department for Communities and Local Government.
2. In October 2015 the Secretary of State confirmed that the transitional provisions would be amended to allow an extension of the contracts for a period of one year. This meant that for the audit of the 2018/19 accounts it would be necessary for authorities to either undertake their own procurements or to opt in to the appointing person regime through the sector-led body.
3. PSAA have been 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 most of local government. PSAA was originally established to operate the transitional arrangements following the closure of the Audit Commission and is a not for profit company owned by the Local Government Association.

Options for Consideration

Option 1 - To make a stand-alone appointment

In order to make a stand-alone appointment the Council will need to set up an 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 Members (or officers) and their close families and friends. This means that Members will not have a majority input to assessing bids and choosing which firm of accountants to award a contract for the Council's external audit. A new independent auditor panel established by the Council will be responsible for selecting the auditor.

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.

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 will 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 will be taken by independent appointees and not solely by Members.

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

The Act enables the 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 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 will 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 will be further removed from local input, with potentially no input from Members where a wholly independent Panel is used or possible only one 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 that 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 Panel choose 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.

Option 3 - Opt-in to a sector led body

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 is the Public Sector Audit Appointment (PSAA).

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 main advantages of using PSAA are set out in its prospectus and are copied below.

- * Assure timely auditor appointments
- * Manage independence of auditors
- * Secure highly competitive prices
- * Save on procurement costs
- * Save time and effort needed on auditor panels
- * Focus on audit quality
- * Operate on a not for profit basis and distribute any surplus funds to scheme members.

Disadvantages/risks

Individual 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.

Conclusion

It is likely that a sector wide procurement conducted by PSAA will produce better outcomes for the Council than any procurement we undertook by ourselves or with a limited number of partners. Use of the PSAA will also be less resource intensive than establishing an auditor panel and conducting our own procurement.

Regulation 19 of the Local Audit (Appointing Person) Regulations 2015 requires that a decision to opt in must be made by Full Council (authority meeting as a whole). To comply with this regulation the Audit Committee is asked to make the recommendation below to Council.

Recommendation

1. To recommend to Council that Waverley opts in to the appointing person arrangements made by Public Sector Audit Appointments (PSAA) for the appointment of external auditors from 2018/2019.

Background Papers

PSAA Prospectus

PSAA – Appointing Person – Frequently Asked Questions

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