

**Report for:** Corporate Committee – 29 November 2016

**Item number:**

**Title:** External Audit Appointment Process

**Report authorised by:** Assistant Director of Corporate Governance

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**Ward(s) affected:** N/A

**Report for Key/  
Non Key Decision: Non-Key Decision**

**1. Describe the issue under consideration**

- 1.1 Under the Local Audit and Accountability Act 2014, the Audit Commission, which had previously managed the appointment of external auditors for local government bodies and health trusts, was abolished and new responsibilities to manage their own appointment of local auditors given to those bodies.
- 1.2 The Local Audit and Accountability Act also provides for the appointment by the secretary of state of a ‘sector led body’ to be an appointing person. This body would provide the option of a managed appointment process for those who wished to select it. Public Sector Audit Appointments Limited (PSAA) has now been approved by the Department for Communities and Local Government (DCLG) to be a sector led body for principal authorities – councils, police and fire bodies, including London borough councils.
- 1.3 The decision for the Council to appoint its own external auditors itself, or to join the sector led approach, must be made by Full Council and cannot be delegated.

**2. Cabinet Member Introduction**

- 2.1 Not applicable.

**3. Recommendations**

- 3.1 That Corporate Committee recommends to Full Council that the external auditor for the Council and for the pension fund should be appointed by Public Sector Audit Appointments Ltd (PSAA), a subsidiary of the Improvement and Development Agency (IDeA) which is wholly owned by the Local Government Association.

**4. Reasons for decision**

- 4.1 Following the abolition of the Audit Commission, local authorities will be required to make their own decisions about how and by whom their external auditors are appointed. High quality independent audit is one of the cornerstones of public accountability. It gives assurance that taxpayers’ money

has been well managed and properly spent, therefore the appointment of the Council's external auditors is a significant decision for the Council.

- 4.2 The Corporate Committee's responsibilities in relation to audit include: '*Considering arrangements for the appointment of the external auditor*'. This report is provided to advise the committee of the options available to the Council following the end of the current external audit contract and recommend a preferred solution.
- 4.3 The recommendation is based on the most economically advantageous approach, which will provide an appropriately qualified and suitable external audit function for the Council; and which will achieve economies of scale by opting in to a national procurement process to provide competitive prices for local audit services.

## 5. **Alternative options considered**

- 5.1 The new local audit framework must be in place by 1 April 2018. In practice this means that the appointment of the next external auditor for the Council and for the pension fund must be completed by 31 December 2017.
- 5.2 There are a number of options which are available to the Council in making the appointment; the choice of which route to take must be made by Full Council and cannot be delegated. The options, which are set out in more detail in the sections below, are:

### **Auditor Panel Options**

1. To establish a separate and individual auditor panel to advise on the external auditor appointment, with the final decision again being made by Full Council;
2. To work collaboratively with one or more authorities, sharing an auditor panel if they choose;
3. Use an existing committee or sub-committee to act as the auditor panel – provided that the committee fully complies with the provisions and regulations relating to auditor panels;
4. To ask another authority's auditor panel to carry out the functions of the authority in question;

### **Other options to Auditor Panels**

1. To follow a 'sector led' approach by which an 'appointing person' operates a nationwide, EU compliant procurement and appoints the external auditors on the Council's behalf. PSAA was specified as an appointing person by the Secretary of State in July 2016 for this purpose.
- 5.3 The Chartered Institute of Public Finance and Accountancy (CIPFA) produced non-statutory guidance in September 2015 to advise local authorities of what they need to be aware of in relation to auditor panels. This report summarises the possible advantages and disadvantages of each option

## 5.4 Analysis of the Auditor Panel options

Ref	Option	Possible Advantages	Possible Disadvantages
1.	Set up own separate and individual panel to oversee separate and individual procurement	<ul style="list-style-type: none"> <li>• Full ownership of the process</li> <li>• Fully bespoke contract with the auditor</li> <li>• Tendering process more based on local circumstances (within EU procurement rules)</li> </ul>	<ul style="list-style-type: none"> <li>• May experience difficulties in appointing majority independent panel members and independent panel chair as per the regulations</li> <li>• Will need to ensure that panel members are suitably qualified to understand and participate in the panel's functions</li> <li>• Will have to cover panel expenses completely</li> <li>• May not be able to procure at a lower cost than other options, for example, a single authority contract may be less attractive to some providers</li> <li>• Will not achieve economies of scale</li> </ul>
2.	Set up a panel jointly with other authority/ authorities as part of a procurement exercise for joint contract covering more than one authority or multiple separate contracts	<ul style="list-style-type: none"> <li>• Less administration than a sole auditor panel</li> <li>• Will be able to share the administration expenses</li> <li>• May be easier to attract suitable independent panel members</li> <li>• If procuring a joint audit contract: <ul style="list-style-type: none"> <li>○ May still be a relatively locally tailored process</li> <li>○ May be able to achieve some economies of scale</li> </ul> </li> <li>• If procuring separate audit contracts: <ul style="list-style-type: none"> <li>○ An opportunity for fully bespoke contracts with the auditor if the group of authorities can agree</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• If procuring a joint audit contract: <ul style="list-style-type: none"> <li>○ May need to compromise on the arrangements or auditor contract</li> <li>○ May not end up with first choice of auditor, compared to an individual auditor panel. If a large group of authorities work together and decide to appoint one joint audit contract across all the authorities, a joint panel may be more likely to advise appointment of an auditor it considers suitable for all authorities taken together</li> </ul> </li> <li>• Need to agree appointment of members across multiple authorities and set up an appropriate joint decision-making process</li> </ul>
3.	Use existing committee or sub-committee	<ul style="list-style-type: none"> <li>• Existing administrative structure in place</li> <li>• Existing (sub)committee should already have a better basic understanding of the authority's objectives and requirements</li> </ul>	<ul style="list-style-type: none"> <li>• Need to appoint new (sub) committee members to comply with independence regulations</li> <li>• May not be able to procure at a lower cost than other options, for example, a single authority contract may be less attractive to some providers</li> <li>• Will not achieve economies of</li> </ul>

Ref	Option	Possible Advantages	Possible Disadvantages
			scale
4.	Use another authority's panel	<ul style="list-style-type: none"> <li>• Will not have to set up an auditor panel</li> <li>• Arguably most independent option for the authority using the host authority's panel</li> </ul>	<ul style="list-style-type: none"> <li>• The panel may not understand the specific needs of the authority</li> <li>• May need to enter into a formal arrangement with the other authority</li> <li>• May be difficult to find an authority willing to enter into such an arrangement</li> <li>• May be more difficult to ensure adequate liaison with authority's own audit committee</li> </ul>

- i. The arrangements for an auditor panel must comply with the requirements of the Act and must have a majority of independent, non-elected members. The auditor panel must also be chaired by an independent non-elected member. The rules about independence are very specific and must comply with The Local Audit (Auditor Panel Independence) Regulations 2014. The panel can be an existing committee or sub-committee of an existing committee provided that the membership criteria are met.
- ii. In view of the likely value of a contract for external audit provision a full EU procurement would be required which the auditor panel would oversee. Following this, the committee would make a recommendation to Full Council which is the body that would make the final decision.
- iii. Once the external auditor is appointed, the auditor panel will continue to have roles in monitoring the auditor's performance, ensuring the auditor's independence and in the event of any relationship problems with members or officers. In the event of a breakdown of the relationship, or poor auditor performance, the Council would be faced with a re-procurement exercise.

## 5.5 Appointment by the Sector Led Route

- 5.5.1 Local authorities may opt into any sector-led body that may be established to fulfil the 'appointing person' role as per section 17 of the Local Audit and Accountability Act 2014. Authorities that opt into such arrangements will not need to pursue further options for establishing an auditor panel.
- 5.5.2 In July 2016, PSAA was specified as a designated person for the purposes of making external audit appointments. They are the only body to be designated as such. As part of the transitional arrangements moving from the Audit Commission, PSAA has been managing the existing novated external audit contracts.
- 5.5.3 If the Corporate Committee agrees to the recommendation and Full Council decided to opt for this route, the Council would confirm its intention to PSAA to participate in the sector led scheme. PSAA would then carry out the EU procurement on behalf of all councils and NHS trusts that have signed up with

them and would then allocate external auditors, probably on a geographic basis as has happened in the past.

- 5.5.4 PSAA would then be the body that would support the external auditor's independence and would be involved if there were relationship problems. Monitoring the work of the external auditor would continue to be undertaken by the Corporate Committee.
- 5.5.5 PSAA would be the contracting authority, so there would be no procurement by the Council. The fees paid for the audit service would include PSAA's costs. It is however a non-profit making organisation and if any surpluses were achieved these would be returned to the scheme members.
- 5.5.6 This route would be the most straightforward and least resource intensive. It would enable the achievement of more competitive prices because of the volume being procured. In the event of a breakdown of the relationship or poor auditor performance, PSAA would be able to replace the auditor with another that it has contracted with without the cost implications or interruption of service which might be experienced if the Council contracted with a single supplier.
- 5.5.7 The current PSAA proposal is to let three year contracts, with an option to extend to five years, to a relatively small number of appropriately registered firms in two or three large contract areas nationally. By having contracts with a number of firms, PSAA will be able to demonstrate independence and avoid dominance of the market by a small number of providers.
- 5.5.8 Audit fees will continue to be met by each local authority. PSAA will manage the fee levels and pool scheme costs to enable costs to be charged to authorities in accordance with an agreed scale of fees. PSAA will consult with audited bodies on the proposed scale of fees until the initial procurement has been completed and contracts have been let. It should be noted that the Council has no influence on the current scale of external audit fees charged, so will be in no worse position under the sector led approach.

## **6. Background information**

- 6.1 Prior to its final abolition in March 2015, external auditors for local authorities were appointed by the Audit Commission. The auditor currently appointed for Haringey Council and for its pension fund is BDO LLP and they remain as the external auditors. The current audit contracts were novated from the Audit Commission to PSAA on 1 April 2015.
- 6.2 The contracts were due to expire following conclusion of the audits of 2016/17 accounts, but could be extended by PSAA, subject to DCLG amendment of the transitional provisions to extend the period in which the statutory functions are delegated to PSAA.
- 6.3 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 for audits of principal local government bodies to include the audit of 2017/18 accounts.

**7. Contribution to strategic outcomes**

- 7.1 External audit makes a significant contribution to ensuring the adequacy and effectiveness of internal control and use of resources throughout the Council, which covers all key Priority areas.

**8. Statutory Officers comments (Chief Finance Officer (including procurement), Assistant Director of Corporate Governance, Equalities)****8.1 Finance and Procurement**

The External Audit plan of work in relation to the 2016/17 year is currently estimated to cost £240k and appropriate provision has been made within the budget for 2016/17 under the current contractual arrangements. The Medium Term Financial Strategy (MTFS) at this stage assumes a similar level of budget will be required in future years.

**8.2 Legal**

The changes to the arrangements for appointing external auditors, and the range of options available under the framework of the Local Audit and Accountability Act 2014, are set out in the main body of this report.

If an authority fails to appoint an external auditor the Secretary of State has the power to direct the authority to appoint a particular auditor, or appoint one on its behalf.

**8.3 Equality**

There are no direct equality implications for the Council's existing policies, priorities and strategies. However, ensuring that the Council has effective external audit arrangements in place will assist in providing assurance to residents and other stakeholders that the Council manages public money appropriately and in accordance with statutory requirements.

**9. Use of Appendices**

N/A

**10. Local Government (Access to Information) Act 1985**

Not applicable.