

<b>Subject:</b>	<b>Decision to Opt In to the National Scheme for Auditor Appointments</b>		
<b>Date of Meeting:</b>	<b>10 January 2017 (Audit &amp; Standards Committee) 26 January 2017 (Council)</b>		
<b>Report of:</b>	<b>Executive Director of Finance &amp; Resources</b>		
<b>Contact Officer:</b>	<b>Name:</b>	<b>Nigel Manvell</b>	<b>Tel: 29-3104</b>
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<b>Ward(s) affected:</b>	<b>All</b>		

**FOR GENERAL RELEASE****1. PURPOSE OF REPORT AND POLICY CONTEXT**

- 1.1 With effect from the financial year 2018/19, public bodies are required to appoint their own external auditors following a process of competition. This report sets out the requirements to comply with appointment legislation and asks the Audit & Standards Committee to recommend a proposed course of action to full Council relating to the future appointment of the Council's external auditor through Public Sector Audit Appointments Ltd (PSAA).

**2. RECOMMENDATIONS:**

That the Audit & Standards Committee:

- 2.1 Note the requirements relating to the appointment of an External Auditor to the Council for 2018/19.
- 2.2 Note the letter of invitation from PSAA for the Council to opt into the national scheme for auditor appointments (Appendix 2).
- 2.3 Recommends that Council opt-in to the national scheme and adopt PSAA as the appointing person for the Council including in the prescribed acceptance form a request for a collaborative auditor appointment with Surrey County Council and East Sussex County Council.
- 2.4 Recommends that the Council delegate the process of acceptance of the invitation to the Executive Director of Finance & Resources as the council's S151 Officer.

**3. CONTEXT/ BACKGROUND INFORMATION**

- 3.1 The Local Audit and Accountability Act 2014 abolishes the Audit Commission and repeals the Audit Commission Act 1998. Its aim, as stated in Department of Communities & Local Government (DCLG) guidance, was to give local bodies the freedom to appoint their own auditors from an open and competitive market

and to manage their own audit arrangements, with appropriate safeguards to ensure independence.

- 3.2 Following the decision to abolish the Audit Commission, Auditors for each local authority were appointed by means of a national procurement exercise. The auditors were appointed with effect from the financial year 2013/14 on a 3 year contract with an optional extension for a further 2 years. The parties have agreed to extend the contract which now expires at the completion of the 2017/18 audit.
- 3.3 The Council's current external auditor is EY, this appointment having been made under a contract originally let by the Audit Commission. The contract is now managed by PSAA, the transitional body set up by the Local Government Association (LGA) with delegated authority from the Secretary of State for Communities & Local Government. It expires at the completion of the 2017/18 audit.
- 3.4 Over recent years local authorities have benefited from reductions in fees in the order of 50% compared with historic levels. This has been the result of a combination of factors including new contracts negotiated nationally with the firms of accountants and savings from closure of the Audit Commission. The council's external audit fee for 2015/16 is subject to confirmation but is expected to be circa £181,000, excluding any fees relating to the objection to the accounts regarding LOBO loans.
- 3.5 With effect from the financial year 2018/19, public bodies will be required to appoint their own external auditors following a process of competition. The 2014 Act sets out the framework and requirements within which this appointment can be made and requires that the appointment is concluded by the end of December 2017. This report sets out the requirements to comply with appointment legislation and recommends a proposed course of action.
- 3.6 The options analysis at Section 4 and Appendix 1 of the report indicates that opting in to the national collective scheme (Option iii) is considered to be the most favourable by:
- potentially offering the most favourable scale fees;
  - avoiding additional administrative, auditor panel and procurement processes and costs;
  - avoiding ongoing contract management time and cost;
  - avoiding the need to monitor compliance, audit quality and independence of the appointed auditor.
- 3.7 The Local Audit (Appointing Person) Regulations 2015 require that the Council may only make the decision to 'opt-in' to the appointing person arrangement by the members of the Council meeting as a whole. This report therefore asks the Audit & Standards Committee to recommend to full Council that the PSAA invitation be accepted.

#### **4. ANALYSIS & CONSIDERATION OF ANY ALTERNATIVE OPTIONS**

- 4.1 There are 3 options open to the Council for the appointment of its external auditor as follows:

- i) **Direct appointment** – in order to make the appointment itself, the Council will be required to have an ‘Auditor Panel’ to advise the Council on the selection and appointment of a local auditor; or
- ii) **Joint appointment** – an appointment could be made in conjunction with other bodies (e.g. on a regional / sub-regional basis) by setting up a Joint Auditor Panel; or
- iii) **Opt-in to the national scheme for appointment** – i.e. to make the appointment via the offered national collective scheme through PSAA Ltd.

4.2 The key advantages and disadvantages of each option are set out in Appendix 1. This analysis indicates that opting in to the national collective scheme (Option iii above) is considered to be the most favourable option.

#### Appointment through the national collective scheme

4.3 The LGA has previously canvassed councils with regard to potential ‘opt-in’ to a Sector-Led Body (SLB) appointed by the Secretary of State for CLG under the Act, following which the council expressed a non-obligational interest in opting-in as an indication of the likely preferred approach to appoint an external auditor.

4.4 In July 2016, the Secretary of State specified PSAA Ltd as an appointing person under regulation 3 of the Local Audit (Appointing Person) Regulations 2015. This means that PSAA can make auditor appointments for audits of the accounts from 2018/19 of principal authorities that choose to opt-in to its arrangements. The LGA is strongly supportive of this and the PSAA is leading on the development of this national option.

4.5 The PSAA has formally invited the Council to opt-in to the national scheme for external auditor appointments and a copy of the letter is attached at Appendix 2. PSAA will make auditor appointments to principal local government bodies that choose to opt-in to the national scheme for audits of the accounts from 2018/19. PSAA intends to run the scheme in a way that will save time and resources for local public bodies. A collective national procurement will secure the best prices, keeping the cost of audit as low as possible for the bodies that choose to opt-in, without compromising on audit quality. Using the scheme will avoid the need for opted-in authorities to:

- establish an Audit Panel with independent members;
- manage the procurement process for the auditor appointment and cover associated costs;
- monitor the independence of the appointed auditor; and
- manage the contract with the auditor.

4.6 The scope of the audit will still be specified nationally by the National Audit Office (NAO) which will be responsible for writing the Code of Audit Practice which all firms appointed to carry out the Council’s audit must follow. Not all audit firms will be eligible to compete for the work as 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.

- 4.7 The timetable for the new arrangements outlining the appointment of auditors is contained within the letter at Appendix 2 with a closing date for 'opting-in' of 9 March 2017. PSAA will commence the formal procurement process after this date and expect to award contracts in summer 2017 and consult with authorities on the appointment of auditors so that it can make an appointment by the statutory deadline of December 2017.

#### Collaborative Auditor Appointment

- 4.8 Any of the options for appointment can allow for collaborative auditor appointments to be made. This enables the same auditor to be appointed to one or more local authorities who have indicated that they collaborate or work in a partnership and wish to make a collaborative auditor appointment. The appointed auditor would still be individually appointed to each authority and would report to each body separately but having the same auditor would bring potential benefits to the local authorities, for example, processing efficiencies through having common audit practices and supporting document requirements.
- 4.9 The council is joining the Orbis shared service partnership as a 'founding partner' with Surrey County Council and East Sussex County Council. The admission of Brighton & Hove City Council to the partnership is still subject to the final approval of the members of the two authorities and an Inter-Authority Agreement will need to be put in place (target date is April 2017) to formalise the arrangement well before 2018/19 when the auditor appointment will commence. However, in the unlikely event that the partnership is not formalised, the authorities can still benefit from a collaborative auditor appointment if desired and all 3 partners are recommending this approach to their members, adopting the national collective PSAA route.

## **5. COMMUNITY ENGAGEMENT & CONSULTATION**

- 5.1 Colleagues across the Orbis shared service partnership were consulted with regard to requesting a 'collaborative appointment' should all three authorities elect to opt-in to the national scheme.

## **6. CONCLUSION**

- 6.1 Opting-in to the national scheme is the recommended option for the Council because PSAA has the full support of the LGA which has worked to secure the option for principal local government bodies to appoint auditors through a dedicated sector-led national procurement body. Further, requesting a collaborative auditor appointment with Orbis partners is recommended as this brings additional potential efficiencies.

## **7. FINANCIAL & OTHER IMPLICATIONS:**

### Financial Implications:

- 7.1 There is a risk that current external fees levels could increase when the current contracts end in 2018. Opting-in to the national collective scheme provides the best opportunity to secure value for money by ensuring fees are as competitive as possible, whilst ensuring the quality of audit is maintained by entering into a large scale collective procurement arrangement.

- 7.2 If the national collective scheme is not used some additional resources may be needed to establish an Auditor Panel and conduct a local procurement. Until a procurement exercise is completed it is not possible to predict what additional resource or costs may be incurred.

*Finance Officer Consulted: James Hengeveld*

*Date: 14/12/16*

Legal Implications:

- 7.3 Section 7 of the Local Audit and Accountability Act 2014 requires Councils 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 Council must consult and take account of the advice of an Auditor Panel on the selection and appointment of a local auditor. Opting-in to the national collective appointment scheme removes the necessity for a local Audit Panel.
- 7.4 If the Council fails to appoint a local auditor the Secretary of State may direct the Council to appoint the auditor named in the direction or appoint a local auditor on behalf of the Council.
- 7.5 The recommendations in the report will ensure that the Council's duties to appoint an External Auditor are met in the most efficient manner and in compliance with the requirements of the Local Audit and Accountability Act 2014.

*Lawyer Consulted Elizabeth Culbert*

*Date: 20/12/16*

Equalities Implications:

- 7.6 There are no equalities implications arising from this report.

Sustainability Implications:

- 7.7 There are no sustainability implications arising from this report.

**SUPPORTING DOCUMENTATION**

**Appendices:**

1. Options Analysis.
2. Copy of PSAA Ltd letter inviting opt-in.

**Documents in Members' Rooms**

1. None.

**Background Documents**

1. None.

