

County Council

22 February 2017

Decision to opt in to the National Scheme for Auditor Appointments



Report of Corporate Management Team John Hewitt, Corporate Director Resources Councillor Alan Napier, Deputy Leader and Portfolio Holder for Finance

Purpose of the Report

- 1 This report sets out the proposals for appointing the external auditor to the Council for the 2018/19 accounts and beyond, as the current arrangements expire with the conclusion of the 2017/18 audit. The auditors are currently working under a contract originally let by the Audit Commission and the contract was novated to Public Sector Audit Appointments (PSAA) following the closure of the Audit Commission.

Background

- 2 The Local Audit and Accountability Act 2014 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.
- 3 On 5 October 2015 the Secretary of State notified his intention to extend the transitional arrangements, whereby auditors are appointed by Public Sector Audit Appointments Limited (PSAA) under the contracts previously negotiated by the Audit Commission.
- 4 Whilst NHS and smaller local government bodies will move to the new appointment regime on 1 April 2017, larger local government bodies will remain on current appointment contracts until the completion of the 2017/18 audits. This means new appointments will need to be made by 31 December 2017 for the financial year beginning on 1 April 2018.
- 5 In 2017, councils will need to make choices about the arrangements for appointing external auditors. Briefly these options comprise:-
 - (a) Setting up an independent Auditor Panel;
 - (b) Joining with other councils to set up a joint independent Auditor Panel;
 - (c) Opting-in to a sector led body that will negotiate contracts and make the appointment on behalf of councils, removing the need to set up an independent Auditor Panel.

Summary of the Options

6 **Option 1** - Setting up an independent Auditor Panel.

In order to make a stand-alone appointment the Auditor Panel would need to be set up by Durham County Council itself. The members of the panel must be wholly or a majority of independent members as defined by the Local Audit and Accountability Act 2014. Independent members for this purpose are independent appointees, this excludes current and former elected members (or officers) and their close family and friends. This means that elected members will not have a majority input to assessing bids and choosing which audit firm to award a contract for the Council's external audit.

7 **Option 2** - Joining with other councils to set up a joint independent Auditor Panel.

The Local Audit and Accountability Act 2014 enables the Council to join with other authorities to establish a joint Auditor Panel. As with Option 1 above this will need to be constituted of wholly or a majority of independent appointees. 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.

8 Neither of these options are recommended. Both of the above 2 options would be more resource intensive to implement and would likely result in a more costly service. It would also be more difficult to manage quality and independence requirements through a local appointment process.

9 **Option 3** - Opting-in to a sector led body that will negotiate contracts and make the appointment on behalf of councils.

In addition to the transitional arrangements the Secretary of State also gave the role of appointing local auditors under a national scheme to PSAA.

The benefits of opting-in are as follows:

- (a) PSAA will ensure the appointment of a suitably qualified and registered auditor and expects to be able to manage the appointments to allow for appropriate groupings and clusters of audits where bodies work together;
- (b) PSAA will monitor contract delivery and ensure compliance with contractual, audit quality and independence requirements;
- (c) Any auditor conflicts at individual authorities would be managed by PSAA who would have a number of contracted firms to call upon;
- (d) It is reasonable to expect that large-scale contracts procured through PSAA will bring economies of scale and attract keener prices from the market than a smaller scale competition;

- (e) The overall procurement costs would be lower than an individual smaller scale procurement;
- (f) The overhead costs for managing the contracts will be minimised through a smaller number of large contracts across the sector;
- (g) There will be no need for Durham County Council to establish alternative appointment processes locally, including the need to set up and manage an Auditor Panel;
- (h) It will provide both the perception and reality of independent auditor appointment through a collective approach.

The Way Forward

- 10 In accordance with the Local Audit and Accountability Act 2014, and Regulation 19 of the Local Audit (Appointing Person) Regulations 2015 (the Regulations), PSAA has formally invited all eligible principal local government bodies to become opted-in authorities to the national auditor appointment arrangements.
- 11 The length of the compulsory appointing period is the five consecutive financial years commencing 1 April 2018.
- 12 A decision to become an opted-in authority must be taken in accordance with the Regulations that is by the members of an authority meeting as a whole, except where the authority is a corporation sole, such as a police and crime commissioner, in which case this decision can be taken by the holder of that office.
- 13 If Durham County Council is to become an opted-in authority then the closing date to give our formal acceptance of the invitation to PSAA is 5pm on Thursday 9 March 2017.
- 14 To date more than 200 of the 493 eligible local bodies have registered with PSAA and many more have expressed an interest. PSAA have recently stated that they are confident to have at least 400 authorities in the scheme by the above deadline.

Recommendations and reasons

- 15 The Council is requested to accept Public Sector Audit Appointments' (PSAA) invitation to 'opt in' to the sector led option for the appointment of external auditors for five financial years commencing 1 April 2018.

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Appendix 1: Implications

Finance - there is a risk that current external fee levels could increase when the current contracts end in 2018.

Opting-in to a national scheme provides maximum opportunity to ensure fees are as low as possible, whilst ensuring the quality of audit is maintained by entering in to a large scale collective procurement arrangement.

If the national scheme is not used some additional resource may be needed to establish an auditor panel and conduct a local procurement. Until a procurement exercise is completed it is not possible to state what, if any, additional resource may be required for audit fees for 2018/19.

Staffing - None.

Risk - The principal risks are that the Council fails to appoint an auditor in accordance with the new framework or does not achieve value for money in the appointment process. These risks are considered best mitigated by opting in to the sector led approach through PSAA.

Equality and Diversity / Public Sector Equality Duty – None.

Accommodation – None.

Crime and Disorder - None.

Human Rights - None.

Consultation - None.

Procurement – 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 audit 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.

Currently, there are only nine providers that are eligible to audit local authorities and other relevant bodies; all of these being firms with a national presence. This means that a local procurement exercise would seek tenders from these same firms, subject to the need to manage any local independence issues. Local firms could not be invited to bid.

Disability Issues - None.

Legal Implications - Section 7 of the Local Audit and Accountability Act 2014 requires a relevant Council 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 its auditor panel on the selection and appointment of a local auditor. Section 8 provides that where a relevant Council is a local Council operating executive arrangements, the function of appointing a local auditor to audit its accounts is not the responsibility of an executive of the Council.

Section 12 makes provision for the failure to appoint a local auditor: the Council must immediately inform the Secretary of State, who may direct the Council to appoint the auditor named in the direction or appoint a local auditor on behalf of the Council.