

# Report of the Strategic Director Corporate Services to the meeting of Council held on the 23<sup>rd</sup> February 2017

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**Subject:****Five Year Appointment Process for the Council's External Auditors from 2018/19****Summary statement:**

This report explains to Council the options available for the appointment of the Council's external auditor from the 1<sup>st</sup> April 2018. There are three options that the Council could adopt. This report presents Council with the advantages and disadvantages of each option. The Governance and Audit Committee has already considered the issue at its meeting of the 24<sup>th</sup> January 2017 and their recommendation is also reported to Council.

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## 1. Summary

- 1.1 This report explains to Council the options available for the appointment of the Council's external auditor from the 1<sup>st</sup> April 2018. There are three options that the Council could adopt. This report presents Council with the advantages and disadvantages of each option. The Governance and Audit Committee has already considered the issue at its meeting of the 24<sup>th</sup> January 2017 and their recommendation is also reported to Council.

## 2. Background and Process

- 2.1 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. On 5 October 2015 the Secretary of State 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.
- 2.2 The Council's current external auditor is Mazars, this appointment having been made under at a contract let by the Audit Commission. Following closure of the Audit Commission the contract is currently managed by Public Sector Audit Appointments Limited (PSAA), the transitional body set up by the LGA with delegated authority from the Secretary of State CLG.
- 2.3 When the current transitional arrangements come to an end on 31 March 2018 the Council will be able to move to a local appointment of the auditor. There are a number of routes by which this can be achieved, each with varying risks and opportunities. Current fees are based on discounted rates offered by the firms in return for substantial market share. When the contracts were last negotiated nationally by the Audit Commission they covered NHS and local government bodies and offered maximum economies of scale.
- 2.4 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 accounting 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. The registration process has not yet commenced and so the number of firms is not known but it is reasonable to expect that the list of eligible firms may include the top 10 or 12 firms in the country, including our current auditor. It is unlikely that small local independent firms will meet the eligibility criteria.
- 2.5 On the 27<sup>th</sup> October the Council received a letter from the PSAA who have also been approved to provide the future national appointments process for External Audit. If Bradford Council wanted to use this service the PSAA would require formal acceptance by the 9<sup>th</sup> March 2017

## 3. Option Appraisal

- 3.1 The Council has until December 2017 to appoint its external auditors. Thus decisions need to be taken with regards to which process is to be followed very

shortly. There are three broad options open to the Council under the Local Audit and Accountability Act 2014 (the Act):

- Option 1**      **To make a stand-alone appointment**
- Option 2**      **Set up a Joint Auditor Panel/local joint procurement arrangements**
- Option 3**      **Opt-in to a sector led body**

The option chosen would for practical purposes need to be committed to for at least 3 years.

- 3.2 **Option 1:** 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. Independent members for this purpose are independent appointees, this 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 firm of accountants to award a contract for the Council's external audit. The new independent auditor panel established by the Council would be responsible for selecting the auditor.

*Advantages/benefit*

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 elected members.

- 3.3 **Option 2:** 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 (members). 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 needs 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 elected members where a wholly independent auditor panel is used or

possible only one elected 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 the 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 joint auditor 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.

There is already some indication that Councils in Yorkshire are moving to Option 3 which would limit the prospects of a regional procurement process

- 3.4 **Option 3:** In response to the consultation on the new arrangement the LGA successfully lobbied for Councils to be able to 'opt-in' to a Sector Led Body appointed by the Secretary of State under the Act. This resulted in the creation of the PSAA which has 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 current proposal would look to set contracts for a five year period.

*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 PSAA who would have a number of contracted firms to call upon.

The appointment process would not be ceded to locally appointed independent members. Instead a separate body will be set up to act in the collective interests of the 'opt-in' authorities.

*Disadvantages/risks*

Individual elected 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 PSAA to be viable and to be placed in the strongest possible negotiating position the PSAA will need Councils to indicate their intention to opt-in before final contract prices are known.

- 3.5 At the Governance and Audit Committee of the 24<sup>th</sup> January 2017 the Committee discussed the issue and resolved

**(1) That the Committee recommends Option 3 (detailed in Section 3.4) as its favoured option to the February meeting of council, for their consideration as to the appointment process for the Council's external audit from 2018/19.**

- (2) That the PSAA (Public Sector Audit Appointments Limited) be requested to see if they could arrange a regional appointment if possible through their procurement and for the Strategic Director Corporate Services to consult with colleagues, across West Yorkshire, to ascertain if they were in favour of such an arrangement.**

#### **4. Financial and resources appraisal**

The external audit fee for 2015/16 is £185,317 plus the certification of a grant claim £16,520 which totals £201,837. In addition to this work, a separate procurement of audit services will need to take place for the certification of the Council's HB subsidy claims. This can be the same auditor appointed for the opinion work or another firm. Current external fees levels may increase when the current contracts end in 2018. The cost for the West Yorkshire Pension Fund external audit is £48,545.

The cost of establishing a local or joint Auditor Panel outlined in options 1 and 2 above will need to be estimated and included in the Council's budget for 2017/18. This will include the cost of recruiting independent appointees (members), servicing the Panel, running a bidding and tender evaluation process, letting a contract and paying members fees and allowances. Opting-in to the PSAA 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.

#### **5. Risk Management**

External Audit are an important element of the Council's governance arrangements which includes the implementation of effective risk management processes.

#### **6. Legal appraisal**

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;

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.

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.

## **7.1 Equal Rights**

There are no equal right implications

## **7.2 Greenhouse Gas Emission Impacts**

There are no impacts on Gas Emissions.

## **7.3 Sustainability Implications**

There are no sustainability implications

## **7.4 Community Safety Implications**

There are no community safety implications

## **7.5 Human Rights Act**

There are no specific implications in relation to the Human Rights Act

## **7.6. Trade Union**

There are no specific implications for the Trade Unions arising from the report.

## **7.7 Ward Implications**

There are no specific or individual ward implications.

## **8. Not for publication documents**

None.

## **9. Recommendation**

9.1 The Council accepts 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.

9.2 That the PSAA be requested to see if they could arrange a regional appointment if possible through their procurement.

## **10. Appendices**

10.1 None

## **11. Background documents**

Local Audit and Accountability Act 2014  
Letter from the PSAA 27<sup>th</sup> October 2016  
Local Audit (Auditor Panel) Regulations 2014  
Local Audit (Appointing Person) Regulations 2015  
LGA website 'Preparations for new appointment arrangements'