

AUDIT & GOVERNANCE COMMITTEE – 9 NOVEMBER 2016

Appointment Of External Auditors

Report by the Chief Finance Officer

Introduction

1. In July 2016 the Committee considered a report that set out the options available for the appointment of External Auditors, with new arrangements to be in place for the first appointment by 31 December 2017.
2. The Committee resolved to explore the Sector Led Body option in more detail subject to a comparison of costs.
3. The Secretary of State has given the role of appointing Auditors under a National Scheme to Public Sector Audit Appointments (PSAA), as the “sector led body”. Following the submission of an expression of interest to PSAA, the County Director has now received a formal invitation to “opt in” to the National Scheme. Should it be decided to opt in, a formal acceptance must be submitted by 9 March 2017. The relevant regulations require that the decision to opt in to the National Scheme must be agreed by The Council. Attached as Annex 1 to this report is the letter received by the County Director and information on National Scheme.
4. This report aims to provide the Committee with further information on the offer from PSAA and the comparative costs of the alternative options. It should be noted there can be little certainty over costs as it involves future events; however, it is possible to make some informed judgements as you would expect that better value for money would be achieved through opting in to a National Scheme. Over 250 local authorities have expressed an interest in opting in so having this scale would allow a national procurement exercise similar to that previously conducted by the Audit Commission, which should produce more competitive prices and therefore a lower cost to the Council.
5. In addition to the cost of running a procurement process, there should also be consideration given to the capacity and expertise needed for this. PSAA are familiar with procuring and contract managing audit arrangements, whereas the Council is not.
6. It is recommended that the Council opts in to the National Scheme, so should that be the consideration of the Committee, a report will be prepared for Council on 13 December 2016.

PSAA Offer

7. Details of the National Scheme are set out in Annex 1.
8. Key points to note are that by using the scheme avoids the need to:
 - establish an audit panel with independent members;
 - manage your own auditor procurement and cover its costs;
 - monitor the independence of your appointed auditor for the duration of the appointment;
 - deal with the replacement of any auditor if required; and
 - manage the contract with your auditor.
9. If we were to run a local procurement exercise the Local Government Association (LGA) estimates the costs of establishing an audit panel and running a procurement to be around £15k. There would also be costs in each year of the contract for contract management, and should the panel be required to convene for meetings; although it would not be expected these would be material costs.
10. It is expected that the PSAA option, would provide expertise for this type of procurement and contract management, including quality assurance, in addition to the financial benefits expected to be gained from running a national procurement exercise. What is undefinable at present is the overhead cost they would receive for providing this service. Their model is run similar to that of the previous Audit Commission, whereby they will recover costs through the audit fee that would applied on scale basis across all the parties who have opted in. Also included in their offer is they are a not for profit organisation, and should they make any surplus once costs have been recovered they will refund the Local Authorities. Full details of their costing model are set out on page 4 of Annex 1, under the section headed "Fee Scales".

Legal implications

11. 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;
12. 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.

13. 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.

Equalities Implications

14. None

RECOMMENDATION

15. **The Committee is RECOMMENDED to agree for the Chairman of the Committee to present a report to The Council on 13 December 2016, recommending opting in to the National Scheme for the appointment of External Auditors.**

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