

**Classification:** Public

**Key Decision:** No

## **Gravesham Borough Council**

**Report to:** Finance & Audit Committee

**Date:** 16 November 2016

**Reporting officer:** Assistant Director (Corporate Services)

**Subject:** Invitation to opt into the national scheme for auditor appointments

### **Purpose and summary of report:**

To inform Members of the invitation received by the council to opt into the national scheme for local auditor appointments which will be effective for the audit of the accounts for 2018/19.

### **Recommendations:**

1. The Finance & Audit Committee is asked to consider the invitation to opt into the national scheme for local auditor appointments prior to the invitation being presented to Full Council.

## **1. Background**

- 1.1. The Local Audit and Accountability Act 2014 brought to a close the Audit Commission and established transitional arrangements via Public Sector Audit Appointments Ltd 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.
- 1.2. The arrangements for local auditor appointment set out in the Local Audit and Accountability Act will apply for audits of the accounts of principal local government bodies from 2018/19 onwards. Auditor appointments must be made for 2018/19 audits by 31 December 2017, as required by section 7 of the Local Audit and Accountability Act 2014. Appointments may be made by the audited body itself, by groups of audited bodies, or by a specified appointing person (sector-led approach).

## **2. Consideration of options for local auditor appointments**

- 2.1. At recent meetings the Finance & Audit Committee has considered the options for appointment in more detail. Specifically, at its meeting in March 2016, the Finance & Audit Committee agreed that the Council should express a non-binding interest in the sector-led approach being offered by Public Sector Audit Appointments Ltd (PSAA), a not-for-profit company established by the Local Government Association (LGA).
- 2.2. It is understood that over 270 relevant authorities have expressed an interest in the sector-led approach being offered by PSAA. The PSAA have published a prospectus explaining how they intend to develop a scheme for local auditor appointment. This can be viewed at:

<http://www.psaa.co.uk/wp-content/uploads/2016/08/PSAA-A5-web-portrait-August-2016.pdf>.

The prospectus sets out the intention of PSAA to use its expertise and work with the sector to deliver quality-assured audit services to every participating local body at a price which represents outstanding value for money.

## **3. Invitation to opt into the national scheme for auditor appointments**

- 3.1. The council has received a formal invitation to opt into the national scheme for auditor appointments. The letter and supporting information on the national scheme is reproduced at appendix two for Member information.
- 3.2. The invitation sets out that council's adopting the national scheme will see PSAA make the auditor appointment for the council for the audit of the accounts from 2018/19 for five years.
- 3.3. The Finance & Audit Committee is invited to discuss and consider the invitation to opt into the national scheme for local auditor appointments.
- 3.4. The relevant regulations require that the decision accept the invitation and to opt in needs to be made by the Members of the authority meeting as a whole. It is therefore proposed that, subject to comments from the Finance & Audit Committee, the invitation will be presented to Full Council on 6th December for consideration.

## **4. Consideration in accepting the invitation**

- 4.1. As discussed at the Finance & Audit Committee meeting in June, the sector-led approach has benefits and risks for the council:

*Advantages/benefits*

- 4.2. The costs of setting up the appointment arrangements and negotiating fees would be shared across all opt-in authorities.
- 4.3. 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.

- 4.4. Any conflicts at individual authorities during the contract period would be managed by PSAA who would have a number of contracted firms to call upon.
- 4.5. The appointment process would not be relinquished to locally appointed independent members. Instead a separate body would be set up to act in the collective interests of the 'opt-in' authorities.

*Disadvantages/risks*

- 4.6. Individual elected members will have less opportunity for direct involvement in the appointment process other than through the LGA and/or stakeholder representative groups.
- 4.7. In order for PSAA to be viable and to be placed in the strongest possible negotiating position, it will need Councils to indicate their intention to opt-in before final fees scales and contract prices are known.

## **5. Alternative options to accepting the invitation**

- 5.1. For completeness, the considerations for the other options for appointment are provided in the following paragraphs:

**Option - To make a stand-alone appointment**

- 5.2. 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 independent members as defined by the Act. 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 into assessing bids and choosing which firm of accountants to award a contract for the Council's external audit. The Auditor Panel will be responsible for selecting the auditor.

*Advantages/benefit*

- 5.3. 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*

- 5.4. 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
- 5.5. The Council will need to consider the EU requirements of the procurement, which could increase the timescale of the exercise and the level of resources required.
- 5.6. The Council will not be able to take advantage of reduced fees that may be available through joint or national procurement contracts.
- 5.7. The assessment of bids and decision on awarding contracts will be taken by independent appointees and not solely by elected members.

### **Option - Set up a Joint Auditor Panel/local joint procurement arrangements**

- 5.8. 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 need to liaise with other local authorities to assess the appetite for such an arrangement.

#### *Advantages/benefits*

- 5.9. The costs of setting up the panel, running the bidding exercise and negotiating the contract will be shared across a number of authorities.
- 5.10. 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*

- 5.11. 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 possibly only one elected member representing each Council, depending on the constitution agreed with the other bodies involved.
- 5.12. 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.

## **6. BACKGROUND PAPERS**

- 6.1. Anyone wishing to inspect background papers should, in the first place, be directed to Committee & Electoral Services who will make the necessary arrangements.

<p><b>Legal</b></p>	<p>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.</p> <p>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.</p> <p>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.</p>
<p><b>Finance and Value for Money</b></p>	<p>Current external audit fees levels are considered likely to increase when the current contracts end in 2018. Planned audit fees for 2016/17 have been set as £53,294 in relation to the audit of the accounts and £7,395 for auditing the subsidy claim.</p> <p>The cost of establishing a local or joint Auditor Panel outlined in the alternative options within the report 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.</p> <p>Opting-in to the national Sector Led Body 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</p>
<p><b>Risk Assessment</b></p>	<p>There is no immediate risk to the Council, however, early consideration by the Council of its preferred approach will enable detailed planning to take place so as to achieve successful transition to the new arrangement in a timely and efficient manner.</p>
<p><b>Equality Impact Assessment</b></p>	<p><b>Screening for Equality Impacts</b></p> <p><b>Question</b></p> <p>a. Does the decision being made or recommended through this paper have potential to cause adverse impact or discriminate against different groups in the community? If yes, please explain answer.</p> <p><b>No</b></p>

	<p>b. Does the decision being made or recommended through this paper make a positive contribution to promoting equality? If yes, please explain answer.</p> <p>No</p>
	<p><i>In submitting this report, the Chief Officer doing so is confirming that they have given due regard to the equality impacts of the decision being considered, as noted in the table above</i></p>
<b>Corporate Plan</b>	<p>There are no direct implications for the Council's strategic priorities.</p> <p>The appointment of an External Auditor is a statutory requirement of the Council and as such contributes towards Strategic Objective 4 - Sound &amp; self-sufficient council.</p>
<b>Crime and Disorder</b>	N/A
<b>Digital and website implications</b>	N/A
<b>Safeguarding children and vulnerable adults</b>	N/A