

Classification: Public

Key Decision: No

Gravesham Borough Council

Report to: Council

Date: 6 December 2016

Reporting officer: Assistant Director (Corporate Services)

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

Purpose and summary of report:

This report details the arrangements for appointing external auditors following the abolition of the Audit Commission and the end of the transitional arrangements at the conclusion of the 2017/18 audits.

The report recommends opting into the national scheme for auditor appointments which will be effective for the audit of the accounts for 2018/19. The decision will result in a Sector-led Body (Public Sector Audit Appointments Limited (PSAA)) negotiating and making the external auditor appointment on behalf of the Council.

Acceptance of the invitation received from PSAA to opt into the national scheme for local auditor appointments is a decision of the Full Council.

Recommendations:

1. That the Council accepts the invitation to opt in to the appointing person arrangements made by Public Sector Audit Appointments (PSAA) for the appointment of external auditors.

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 2014 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 body).

2. Current External Audit arrangements

- 2.1. The Council's external auditor is currently Grant Thornton LLP, with this appointment made under a contract let by the Audit Commission.
- 2.2. Over recent years there has been a significant reduction in audit fees compared with historic levels. This has been the result of a combination of factors including new contracts negotiated nationally and savings from the closure of the Audit Commission. The Council's external audit fees for 2015/16 were £60,000 (excluding grant certification work).
- 2.3. Grant Thornton will continue to provide external audit services to the Council up to the audit of the accounts for 2017/18.

3. Options for local auditor appointments

- 3.1. There are three broad options available to the Council under the Local Audit & Accountability Act 2014:

Option 1 - make a stand-alone appointment

- 3.2. 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

- 3.3. 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

- 3.4. 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
- 3.5. 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.
- 3.6. The Council will not be able to take advantage of reduced fees that may be available through joint or national procurement contracts.
- 3.7. The assessment of bids and decision on awarding contracts will be taken by independent appointees and not solely by elected members.

Option 2 - Set up a Joint Auditor Panel/local joint procurement arrangements

- 3.8. 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

- 3.9. The costs of setting up the panel, running the bidding exercise and negotiating the contract will be shared across a number of authorities.
- 3.10. 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

- 3.11. 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.
- 3.12. 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.

Option 3 – Opt-in to a Sector Led Body (SLB)

- 3.13. A Sector-Led Body would have 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.

Advantages/benefits

- 3.14. The costs of setting up the appointment arrangements and negotiating fees would be shared across all opt-in authorities
- 3.15. 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
- 3.16. Any conflicts at individual authorities would be managed by the SLB who would have a number of contracted firms to call upon.
- 3.17. The appointment process would not be overseen by locally appointed independent members. Instead a separate body set up to act in the collective interests of the 'opt-in' authorities.

Disadvantages/risks

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

4. Invitation to opt into the national scheme for auditor appointments

- 4.1. 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. 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.
- 4.2. It is recommended that Full Council accept this invitation as it will provide the following benefits:
 - Avoid the necessity for the Council to establish an independent auditor panel and to undertake an auditor procurement;
 - Enable the Council to share the costs associated with the procurement exercise with other local government bodies;
 - Enable the Council to secure competitive prices from audit firms through economies of scale;
 - Appointment of the same auditors to bodies involved in significant collaboration/joint working initiatives or across regions (for example, across Kent) where the parties believe that it will enhance efficiency and value for money;
 - Provide a mechanism through the SLB to manage any conflict at individual authorities.

5. Prior consideration of options for local auditor appointments

- 5.1. During this calendar year the Finance & Audit Committee has considered the options available to the council for Local Auditor appointments for 2018/19 audits onwards. Most recently, at the meeting on 16 November 2016 the Finance & Audit Committee debated the invitation to opt into the national scheme for auditor appointments. The relevant Minute from that meeting has been replicated at appendix three for information. The Finance & Audit Committee supports the invitation to opt in to the national scheme for local auditor appointments being presented to Full Council on 6 December 2016.

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>Legal</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>Regulation 19 of the Local Audit (Appointing Person) Regulations 2015 requires that a decision to opt in must be made by Full Council (authority meeting as a whole).</p>
<p>Finance and Value for Money</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 (excluding grant certification work).</p> <p>The cost of establishing a local or joint Auditor Panel and conducting a procurement exercise 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 member fees and allowances.</p> <p>Opting-in to the national Sector Led Body will be a less resource-intensive process, 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>Risk Assessment</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>Equality Impact Assessment</p>	<p>Screening for Equality Impacts</p>

	<p>Question</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. No</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. 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>
Corporate Plan	<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 & self-sufficient council.</p>
Crime and Disorder	N/A
Digital and website implications	N/A
Safeguarding children and vulnerable adults	N/A