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| DECISION-MAKER: | GOVERNANCE COMMITTEE COUNCIL | | |
| SUBJECT: | LOCAL APPOINTMENT OF EXTERNAL AUDITORS | | |
| DATE OF DECISION: | 14 NOVEMBER 2016 16 NOVEMBER 2016 | | |
| REPORT OF: | SERVICE DIRECTOR FINANCE AND COMMERCIALISATION | | |
| <u>CONTACT DETAILS</u> | | | |
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| STATEMENT OF CONFIDENTIALITY | | | |
| Not Applicable | | | |
| BRIEF SUMMARY | | | |
| <p>This report sets out the proposals for appointing the external auditor to the Council for the 2018/19 accounts and beyond, noting that the current arrangements only cover up to and including the 2017/18 audits. The Council will need to implement new arrangements in respect of the appointment of external auditors from 1st April 2018 and these arrangements will need to be in place in time to make a first appointment by 31 December 2017.</p> | | | |
| <p>Regulations made under the Local Audit and Accountability Act 2014 ('the Act') allow authorities to opt in for their external auditor to be appointed by an 'appointing person'. Public Sector Audit Appointments ('PSAA') has been specified by the Secretary of State as an 'appointing person' (or 'sector led body'). PSAA has now formally invited the Council to opt in, along with all other authorities, so that they can enter into a number of contracts with appropriately qualified audit firms and appoint a suitable firm to be the Council's external auditor from 1st April 2018.</p> | | | |
| RECOMMENDATIONS: | | | |
| Governance Committee | | | |
| | (i) | To consider and recommend to Council that it accepts PSAA invitation to 'opt in' to the sector led option for the appointment of external auditors. | |
| Council | | | |
| | (ii) | That Council accepts 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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| REASONS FOR REPORT RECOMMENDATIONS | | |
| 1. | <p>Whilst the Council has until December 2017 to appoint its' external auditors, PSAA has formally invited the Council to opt in to the national sector led body. Details relating to PSAA's invitation are provided in Appendices 1 and 2 of this report. If the Council is to take advantage of this national scheme for appointing external auditors then it needs to take the decision to enable it accept the invitation by early March 2017.</p> | |
| 2. | <p>The Local Audit (Appointing Person) Regulations 2015 ('the Regulations') require that a decision to opt in must be made by a meeting of the Council (meeting as a whole). The Council then needs to formally respond to PSAA's invitation in the form specified by PSAA.</p> | |
| 3. | <p>PSAA will commence the formal procurement process after this date. It expects to award contracts in summer 2017 and consult with authorities on the appointment of auditors so that it can make an appointment by the statutory deadline of December 2017.</p> | |
| 4. | <p>It is considered that sector-wide procurement conducted by PSAA will produce better outcomes and will be less burdensome for the Council than any procurement undertaken locally. More specifically:</p> <ul style="list-style-type: none"> a) The audit costs are likely to be lower than if the Council sought to appoint locally, as national large-scale contracts are expected to drive keener prices from the audit firms; b) The overhead costs for managing the contracts will be minimised though a smaller number of large contracts across the sector; c) Any auditor conflicts at individual authorities would be managed by PSAA who would have a number of contracted firms to call upon; d) Without the national appointment, the Council would need to establish a separate independent auditor panel, which could be difficult, costly and time-consuming; e) PSAA will monitor contract delivery and ensure compliance with contractual, audit quality and independence requirements; f) Supporting the sector-led body will help to ensure there is a vibrant public audit market for the benefit of the whole sector in the medium and long term. | |
| ALTERNATIVE OPTIONS CONSIDERED AND REJECTED | | |
| 5. | <p>There are three options open to the Council under the Act. In summary, these comprise:</p> <ul style="list-style-type: none"> a) Setting up an independent Auditor Panel and undertaking an individual external auditor procurement and appointment exercise; b) Joining with other councils to set up a joint independent Auditor Panel and undertaking a joint audit procurement and appointing exercise; or c) Opting-in to a national sector led body that will negotiate contracts and | |

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| | make the appointment on behalf of councils. |
| 6. | If the Council chooses not to opt in then there would be a need to establish an independent auditor panel. In order to make a stand-alone appointment the auditor panel would need to be set up by the Council itself. The members of the panel must be wholly or a majority of 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 families 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. | Alternatively 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 would be required on the exact constitution of such a panel having regard to the obligations of each Council under the Act and the Council would need to liaise with other local authorities to assess the appetite for such an arrangement. |
| 8. | Neither of these options are recommended. Both these options would be more resource-intensive processes to implement and without the bulk buying power of the sector led procurement, would be likely to result in a more costly service. It would also be more difficult to manage quality and independence requirements through a local appointment process. |
| 9. | It should also be noted that 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 any local procurement exercise, as described above, 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. |
| DETAIL (Including consultation carried out) | |
| 10. | 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. The Council's current external auditor is Ernst & Young LLP, this appointment having been made under a contract let by the Audit Commission. Following closure of the Audit Commission the contract was novated to PSAA |
| 11. | PSAA was originally established to operate the transitional arrangements following the closure of the Audit Commission under powers delegated by the Secretary of State. PSAA is an independent, not-for-profit company limited by guarantee and established by the LGA. |
| 12. | The transitional arrangements come to an end on 31 March 2018 at which time the council is able to move to local appointment of the external auditors. The Act sets out the arrangements for the appointment of auditors for subsequent years, with the opportunity for authorities to make their own decisions about how and by whom their auditors are appointed. Regulations made under the Act allow authorities to 'opt in' for their auditor to be |

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| | appointed by an 'appointing person'. |
| 13. | The Act requires that a local auditor is appointed not later than 31 December in the financial year preceding the financial year of the accounts to be audited. So for the audit of the accounts of the 2018/19 financial year, there must be a local auditor appointed by 31 December 2017. |
| 14. | In July 2016 PSAA were specified by the Secretary of State as an 'appointing person' under regulation 3 of the Local Audit (Appointing Person) Regulations 2015. PSAA will make auditor appointments to relevant principal local government bodies that choose to opt-in to the national appointment arrangements for audits of the accounts from 2018/19. |
| 15. | The principal benefits in choosing to opt-in to the sector led body are as follows: <ul style="list-style-type: none"> a) PSAA will run the tendering exercise, evaluate bids and award contracts and will consult on individual auditor appointments. b) 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; c) PSAA will monitor contract delivery and ensure compliance with contractual, audit quality and independence requirements; d) It is expected that the 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 local procurement. |
| 16. | PSAA consider the optimal length of contract between PSAA and firms as being 5 years. |
| 17. | The scope of the audit will still be specified nationally with the National Audit Office responsible for writing the Code of Audit Practice which all firms appointed to carry out the council's audit must follow. |

RESOURCE IMPLICATIONS

Capital/Revenue

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| 18. | Current external fees levels are anticipated to increase when the current contract ends on 31 st March 2018. Over recent years authorities have benefited from a reduction in fees in the order of 55% compared with fees in 2012. This has been the result of a combination of factors including new contracts negotiated nationally with the audit firms and savings from closure of the Audit Commission. The Council's external audit fees for 2016-17 are £161,720. |
| 19. | The proposed fees for the subsequent years cannot be known until the procurement process has been completed, as the costs will depend on proposals from the audit firms however opting-in to a national scheme will provide 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 |

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| | collective procurement arrangement. |
| 20. | The audit fee under the sector led arrangement will reflect the size, audit risk and complexity of the work required. PSAA is to establish a system for setting the fee which is fair to all opted-in bodies noting that, as a not-for-profit organisation, PSAA will be able to return any surpluses to participating bodies after all costs have been met. |
| 21. | 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. |
| <u>Property/Other</u> | |
| 22. | None |
| LEGAL IMPLICATIONS | |
| <u>Statutory power to undertake proposals in the report:</u> | |
| 23. | Section 7 of 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 which is reserved to full Council. |
| 24. | Section 12 of the Act 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. |
| 25. | 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 Regulations (SI 192) and this gives the Secretary of State the ability to enable a Sector Led Body to become the appointing person. In July 2016 the Secretary of State specified PSAA as the appointing person. |
| <u>Other Legal Implications:</u> | |
| 26. | None |
| POLICY FRAMEWORK IMPLICATIONS | |
| 27. | None |
| KEY DECISION | No |
| WARDS/COMMUNITIES AFFECTED: | None |
| <u>SUPPORTING DOCUMENTATION</u> | |
| Appendices | |
| 1. | PSAA Invitation – Southampton City Council |
| 2. | Form of notice of acceptance of the invitation to opt in |
| Documents In Members' Rooms | |
| 1. | None |

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| Equality Impact Assessment | |
| Do the implications/subject of the report require an Equality Impact Assessment (EIA) to be carried out. | No |
| Privacy Impact Assessment | |
| Do the implications/subject of the report require a Privacy Impact Assessment (PIA) to be carried out. | No |
| Other Background Documents | |
| Equality Impact Assessment and Other Background documents available for inspection at: | |
| Title of Background Paper(s) | Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable) |
| 1. | None |