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**BRISTOL CITY COUNCIL
AUDIT COMMITTEE
11th March 2016**

Report of: Chief Internal Auditor

Report Title: Local Audit & Accountability Act 2014 –
Options for Appointment of External Auditors from 2018/19 onwards

Ward: City Wide

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RECOMMENDATION

The Committee is recommended to note for information this Internal Audit Update Report on the Options for Appointment of External Auditors for 2018/19 onwards.

SUMMARY

This report updates the Committee on the need to consider options for the appointment of external auditors for 2018/19 onwards.

SIGNIFICANT ISSUES IN THE REPORT ARE:

1. The Council is required to appoint an external auditor for 2018/19 arrangements.
2. The options for appointment are to opt into a sector-led procurement exercise or undertake its own procurement exercise through an auditor panel.
3. Arrangements for the sector-led procurement option have not been announced.
4. The Department for Communities and Local Government (DCLG) has commissioned detailed guidance from Chartered Institute of Public Finance Accountancy (CIPFA) on setting up and operating an auditor panel.

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Policy

Under Part 2 of the Local Audit and Accountability Act 2014, the key accounting and audit obligations on the Council are to:

- Keep adequate accounting records and an annual statement of accounts for years ending 31 March; and
- Have accounts audited in accordance with the Act by a local auditor appointed under the Act.

Consultation:

Internal: N/A

External: N/A

1. Background and Context

1.1 The Local Audit & Accountability Act 2014 abolished the Audit Commission, paving the way for local authorities to appoint their own external (local) auditors. Principal authorities must have their local auditors appointed by 31 December 2017 in order for them to begin their engagement on 1 April 2018. BDO LLP will continue as the Council's external auditors until the completion of their 2017/18 audit.

1.2 The options for appointing local auditors are for authorities to undertake a procurement exercise themselves or to opt into a sector led procurement exercise. Where authorities choose to undertake their own procurement exercise the intention is that this will be undertaken through an auditor panel. Authorities must therefore begin to consider the method of appointment to allow themselves to have the necessary arrangements in place to undertake this process sooner rather than later.

1.3 The Secretary of State has established regulations to determine "an appointing person" to conduct a sector-led exercise but the person or persons and detailed arrangements have yet to be announced. The DCLG commissioned CIPFA to produce guidance for authorities in setting up and operating an auditor panel. This guidance was published in December 2015 at <http://www.cipfa.org/policy-and-guidance/publications/g/guide-to-auditor-panels-pdf>.

2. Options for Appointing a Local Auditor

2.1 The Council will firstly be required to decide whether to opt into a sector led

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procurement exercise or undertake its own procurement exercise through an auditor panel. Until details of the sector-led exercise are published then a full assessment of the merits of each approach will not be possible. However, in broad terms, the advantage to the Council of opting in will be a saving in the cost of conducting its own procurement exercise. The disadvantage will be loss of control over the process, including the final decision on appointment.

3. Options for Establishing an Auditor Panel

3.1 For authorities choosing to conduct their own procurement the CIPFA guidance provides options for establishing an auditor panel as:

- Setting up a separate and individual auditor panel
- Setting up an auditor panel with one or more other authorities
- Using an existing committee or sub-committee, such as the audit committee, to act as the auditor panel.
- Asking another authority's auditor panel to act on our behalf.

3.2 We have not yet explored the possibility of working in partnership with neighbouring authorities. The CIPFA guidance provides an analysis of the possible advantages and disadvantages of each option which is reproduced at Appendix A.

3.3 The CIPFA guidance sets out detailed requirements and guidance relating to:

- The composition of the auditor panel
- The role of the auditor panel chair
- The appointment of panel members
- The functions of the auditor panel
- The administration of the auditor panel
- The selection and appointment of the auditor

3.4 Much of the detail will depend on which form of auditor panel is selected.

4. Next Steps

4.1 Until arrangements of the "sector-led exercise" are announced it is not practical to make detailed recommendations to the Committee. The Committee will be updated at subsequent meetings as further information becomes available.

Other Options Considered

Not applicable.

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Risk Assessment

Not applicable

Equalities Impact Assessment

None necessary for this report

Legal and Resource Implications

Legal – None sought

Resources - None sought

Appendices

Appendix A: Advantages and Disadvantages of the Options for Establishing an Auditor Panel

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Appendix A: Advantages and Disadvantages of the Options for Establishing an Auditor Panel

Option	Possible Advantage	Possible disadvantage
Set up own separate and individual panel to oversee separate and individual procurement.	Full ownership of the process Fully bespoke contract with the auditor Tendering process more based on local circumstances (within EU procurement rules).	May experience difficulties in appointing majority independent panel members and independent panel chair as per the regulations Will need to ensure that panel members are suitably qualified to understand and participate in the panel's functions Will have to cover panel expenses completely May not be able to procure at a lower cost, for example, depending on authority location, where there will be a risk of limited provider choice and a single authority contract may be less attractive to some providers. Will not achieve economies of scale.
Set up a panel jointly with other authority/ authorities as part of a procurement exercise for joint contract covering more than one authority or multiple separate contracts.	Less administration than a sole auditor panel. Will be able to share the administration expenses. May be easier to attract suitable panel members If procuring a joint audit contract: May still be a relatively locally tailored process May be able to achieve some economies of scale If procuring separate audit contracts: An opportunity for fully bespoke contracts with the auditor if the group of authorities can agree	May need to compromise on the arrangements or auditor contract May not end up with first choice of auditor, compared to an individual auditor panel. If a large group of authorities work together and decide to appoint one joint audit contract across all the authorities, a joint panel may be more likely to advise appointment of an auditor it considers suitable for all authorities taken together Need to agree

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		appointment of members across multiple authorities and set up an appropriate joint decision-making process
Use existing committee or sub-committee.	Existing administrative structure in place Existing (sub)committee should already have a better basic understanding of the authority's objectives and requirements Will not have to set up an auditor panel.	Possible need to appoint new (sub) committee members to comply with independence regulations.
Use another authority's panel.	Arguably most independent option for the authority using the host authority's panel.	The panel may not understand the specific needs of the authority May need to enter into a formal arrangement with the other authority May be difficult to find an authority willing to enter into such an arrangement May be more difficult to ensure adequate liaison with authority's own audit committee (if one exists).