

# Audit Committee

25<sup>th</sup> November 2016



**Report of:** Chief Internal Auditor

**Title:** Process for Appointment of External Auditor for 2018/19

**Ward:** City-Wide

**Officer Presenting Report:** Alison Mullis/Melanie Henchy-McCarthy – Chief Internal Auditor (J/S)

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## Recommendation:

The Committee is asked to recommend to Full Council one of the options for appointing an external auditor for 2018/19. The recommended option is to 'opt in' to the PSAA 'sector led option', which is likely to be the most financially advantageous. The Committee is also asked to consider whether the Council should seek to secure a common external auditor across its Devolution partners and potentially the Mayoral Combined Authority.

This update was presented to the Cabinet Member for Finance, Governance & Performance on 14<sup>th</sup> November 2016.



## Summary

This report summarises the changes to the arrangements for appointing an external auditor for the Council, following the closure of the Audit Commission and the end of the transitional arrangements at the conclusion of the 2017/18 audits. The Audit Committee is asked to consider the options available and recommend to Full Council new arrangements in time to make a first appointment by 31 December 2017 for the audit of the 2018/19 financial statements.

### The significant issues in the report are:

The decision on the appointment of an external auditor is reserved for the full Council. There are 3 options for appointing an external auditor which are for the Council to undertake an individual auditor procurement and appointment exercise, undertake a joint audit procurement and appointment exercise with other bodies, or to accept an invitation to join a 'sector led body' arrangement. The Audit Committee is asked to recommend one of the options to the 13 December 2016 Full Council meeting.

## Policy

1. 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.
2. Section 12 of the Act makes provision for the failure to appoint a local auditor; the authority must immediately inform the Secretary of State for Communities and Local Government (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.
3. Section 17 of the Act 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.

## Consultation

### 4. Internal

Strategic Leadership Team (SLT), Section 151 Officer, Audit Committee, other relevant officers (Monitoring Officer, Chief Internal Auditor)

### 5. External

Not applicable

### 6. Context

6.1 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.

6.2 The Council's current local auditor is BDO LLP; this appointment having been made under a contract let by the Audit Commission. Following closure of the Audit Commission, the contract is currently managed by Public Sector Audit Appointments Limited (PSAA), the transitional body set up by the LGA, with delegated authority from the Secretary of State. BDO LLP will continue as the Council's local auditor until the completion of their 2017/18 audit. The audit fee for 2015/16 was £220,000 which has reduced from £330,000 in 2012/13.

6.3 The options for appointing local auditors are for local authorities to undertake an individual auditor procurement and appointment exercise, undertake a joint audit procurement and appointing exercise with other bodies, or join a 'sector led body' arrangement.

6.4 For the 1st and 2nd options, the legislation requires an Auditor Panel to be established; guidance on auditor panels has been issued by CIPFA. For the 3rd option, in July 2016, the Secretary of State specified PSAA, as the 'sector led body'. This means that PSAA can make auditor appointments for audits of the accounts from 2018/19 of local authorities that choose to 'opt in' to its arrangements. An invitation from PSAA to 'opt in' was received on 27 October 2016.

6.5 The scope of the 2018/19 audit will still be specified nationally, the National Audit Office (NAO) is responsible for writing the Code of Audit Practice which the local auditor must follow. Not all audit firms will be eligible for appointment as they will need to demonstrate that they have the required skills and experience and be registered with the ICAEW or ICAS (the Registered Supervising Bodies approved by the Financial Reporting Council). It is unlikely that small, local firms will meet the eligibility criteria. For 2017/18, 9 firms are registered of which 5 currently undertake local authority external audit work. Not all of these have current appointments to Councils in the South West.

### **Option Appraisal**

6.6 For the 1<sup>st</sup> and 2<sup>nd</sup> options, the Council would undertake the procurement exercise itself, or with its chosen partners, using an Auditor Panel, in accordance with CIPFA guidance.

6.7 The membership of the Auditor Panel must be wholly or have 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. Therefore elected members would not have a majority input to the selection and appointment process. Independent members of the Audit Committee are likely to be eligible. If the Council decided to join with other authorities to establish a joint Auditor Panel, this would again need to be constituted of wholly or a majority of independent members with legal advice needed on the exact constitution, depending on the Councils involved.

6.8 This approach allows the Council to take maximum advantage of the local appointment regime and have direct input to the appointment. The Council (and partners) would however bear the costs of recruitment and servicing of the Auditor Panel and the procurement and appointment exercise. This is estimated by the LGA to cost in the order of £15,000, plus on going expenses and allowances. In addition, the Council will also not be able to take advantage of reduced fees that may be available through a national procurement exercise.

6.9 If conducting a joint appointment the process may be complicated where individual Councils have independence issues arising where an audit firm has recently undertaken significant consultancy or advisory work for the Council. This might prevent some audit firms from accepting appointment under the terms of their

professional standards.

6.10 The 3<sup>rd</sup> option of ‘opting in’ to the PSAA sector led arrangement is likely to be financially advantageous. There is no charge for ‘opting in’ and the cost of a procurement and appointment exercise would be shared across all participating Councils. A national exercise offering large contract values may also encourage participating firms to offer lower fees than would be achieved through local negotiation. Independence issues would be managed by PSAA who would be likely to have a number of contracted firms to call on. PSAA have indicated in their invitation that a large number of Councils have already indicated their invitation to ‘opt in’ so the potential savings are likely to be realised.

6.11 The main disadvantage would be no direct involvement in the procurement process with reduced ability to influence the appointment. PSAA have indicated that appointments would probably be made for 5 years with the Council being consulted on the auditor’s initial appointment and subsequent performance.

#### Devolution

6.12 The Council is taking forward devolution proposals with BANES and South Gloucestershire Councils that would see the establishment of a West of England Mayoral Combined Authority. There are possible economies of scale in having a common external auditor across the constituent Councils and potentially the Mayoral Combined Authority. This matter has been raised with the Council’s devolution team. A common auditor could be procured and appointed either by establishing a joint Auditor Panel or requesting PSAA to appoint the same auditor across the 4 authorities. We understand that BANES and South Gloucestershire Councils have already determined to ‘opt in’ to the PSAA approach.

#### Timescale

6.13 The Council’s formal invitation to ‘opt in’ to the PSAA arrangement was received on 27 October 2016. The invitation is provided as an Appendix to this paper. The deadline for the Council to respond is 9 March 2017. PSAA anticipate awarding contracts to audit firms in June 2017; giving 6 months to consult with authorities on appointments before the 31 December 2017 deadline. The Audit Committee’s recommendation will be considered by Full Council at its 13 December 2016 meeting.

## Proposal

7. The Committee is advised to recommend to Full Council ‘opting in’ to the PSAA ‘sector led’ option the approach to appointing an external auditor for 2018/19. This is likely to be the most financially advantageous and avoids the Council having to expend resource on its own process at a time when there are other clear priorities on which to focus resource. The Committee is also asked to consider whether the Council should seek to secure a common external auditor across its Devolution partners and potentially the Mayoral Combined Authority.

## Other Options Considered

8. As set out in the paper.

## Risk Assessment

9. The Council is required to appoint an external auditor for 2018/19. If it does not do so the Secretary of State will do so on its behalf. Opting in to the ‘sector led’ approach is likely to be the most financially favourable in terms of the cost of a procurement exercise and the level of audit fee. Securing a common auditor across the Council’s Devolution partners may also result in savings from economies of scale.

## Public Sector Equality Duties

- 10a) Before making a decision, section 149 Equality Act 2010 requires that each decision-maker considers the need to promote equality for persons with the following “protected characteristics”: age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex, sexual orientation. Each decision-maker must, therefore, have due regard to the need to:
  - i) Eliminate discrimination, harassment, victimisation and any other conduct prohibited under the Equality Act 2010.
  - ii) Advance equality of opportunity between persons who share a relevant protected characteristic and those who do not share it. This involves having due regard, in particular, to the need to --

- remove or minimise disadvantage suffered by persons who share a relevant protected characteristic;
- take steps to meet the needs of persons who share a relevant protected characteristic that are different from the needs of people who do not share it (in relation to disabled people, this includes, in particular, steps to take account of disabled persons' disabilities);
- encourage persons who share a protected characteristic to participate in public life or in any other activity in which participation by such persons is disproportionately low.

- iii) Foster good relations between persons who share a relevant protected characteristic and those who do not share it. This involves having due regard, in particular, to the need to –
- tackle prejudice; and
  - promote understanding.

10b) No equalities Impact Assessment necessary for this report as matters concerning internal control, risk and governance only.

### **Legal and Resource Implications**

#### **Legal**

Not Applicable

#### **Financial**

##### **(a) Revenue**

Not applicable

##### **(b) Capital**

Not applicable

#### **Land**

Not applicable

#### **Personnel**

Not applicable

**Appendices:**

PSAA: Invitation to opt into the national scheme for auditor appointments.

**LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985**

Background Papers: None.

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