

Meeting of the Full Council
Meeting to be held on Thursday, 15 December 2016

Report submitted by: Director of Financial Resources

Part A

Electoral Division affected:
(All Divisions);

Decision to opt in to the National Scheme for Auditor Appointments
(Appendices 'A' and 'B' refer)

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Executive Summary

This report sets out proposals for appointing the Council's External Auditor for the five financial years commencing 1 April 2018. The Council's current arrangements continue to apply up to and including 2017/18 audits under the terms of a contract originally let by the Audit Commission which was novated to Public Sector Audit Appointments Limited (PSAA) following the closure of the Audit Commission.

At its meeting on 26 September 2016, the Audit and Governance Committee agreed to recommend to Full Council to 'opt in' to an approved sector led body, specifically PSAA, to act as the Appointing Person for the appointment of external auditors for the County Council.

A sector-wide procurement conducted by PSAA would benefit the Council as:

- 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;
- Without the national appointment, the Council would need to establish a separate independent auditor panel, which could be difficult, costly and time-consuming.

Regulation 19 of the Local Audit (Appointing Person) Regulations 2015 requires that a decision to 'opt in' must be made by a meeting of the Council (meeting as a whole).

Recommendation

The Full Council is recommended to:

- (i) Accept Public Sector Audit Appointments Limited's invitation to 'opt in' to the sector led option for the appointment of external auditors for five financial years commencing 1 April 2018.
- (ii) Authorise the Council's s151 officer to sign and return the notice of acceptance at Appendix 'B' on behalf of Lancashire County Council.

Background and Advice

The Local Audit and Accountability Act 2014 (the Act) 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. In October 2015 the Secretary of State for 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.

The Act also set 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 local authorities to 'opt in' for their auditor to be appointed by an 'appointing person'.

In July 2016 Public Sector Audit Appointments Limited (PSAA) was specified by the Secretary of State as an "appointing person" under regulation 3 of the Local Audit (Appointing Person) Regulations 2015. The appointing person is sometimes referred to as the sector led body and PSAA has wide support across local government. 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.

PSAA is inviting the Council to 'opt in', along with all other local authorities, so that PSAA can enter into a number of contracts with appropriately qualified audit firms and appoint a suitable firm to be the Council's auditor.

The principal benefits from such an approach are as follows:

- 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;
- PSAA will monitor contract delivery and ensure compliance with contractual, audit quality and independence requirements;

- Any auditor conflicts at individual authorities would be managed by PSAA who would have a number of contracted firms to call upon;
- 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;
- The overall procurement costs would be lower than an individual smaller scale local procurement;
- The overhead costs for managing the contracts will be minimised through a smaller number of large contracts across the sector;
- There will be no need for the Council to establish alternative appointment processes locally, including the need to set up and manage an 'auditor panel', see below;
- The new regime provides both the perception and reality of independent auditor appointment through a collective approach; and
- A sustainable market for audit provision in the sector will be easier to ensure for the future.

The Council's current external auditor is Grant Thornton UK 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, and since this date PSAA has demonstrated its capability in terms of auditor appointment, contract management, and monitoring audit quality.

The scope of the audit will still be specified nationally, the National Audit Office (NAO) is responsible for writing the Code of Audit Practice which all firms appointed to carry out the Council's audit must follow. Not all audit firms will be eligible to compete for the work, they will need to demonstrate that they have the required skills and experience and be registered with a Registered Supervising Body approved by the Financial Reporting Council.

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 a local procurement exercise, as described immediately below, 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.

Other options

If the Council did not opt in 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 an auditor 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.

Alternatively, the Act enables the Council to join with other local 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.

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.

The invitation

PSAA has now formally invited this Council to 'opt in'. Details relating to PSAA's invitation are provided at Appendix 'A'.

In summary, the national opt-in scheme provides the following:

- The appointment of a suitably qualified audit firm for each of the five financial years commencing 1 April 2018;
- Appointing the same auditor to other opted in bodies that are involved in formal collaboration or joint working initiatives to the extent this is possible with other constraints;
- Managing the procurement process to ensure both quality and price criteria are satisfied. PSAA will seek views from the sector to help inform its detailed procurement strategy;
- Ensuring suitable independence of the auditors from the bodies they audit and managing any potential conflicts as they arise;
- Minimising the scheme management costs and returning any surpluses to scheme members;
- Consulting with authorities on auditor appointments, giving the Council the opportunity to influence which auditor is appointed;
- Consulting with authorities on the scale of audit fees and ensuring these reflect scale, complexity and audit risk; and
- Ongoing contract and performance management of the contracts once these have been let.

The way forward

Regulation 19 of the Local Audit (Appointing Person) Regulations 2015 requires 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 by early March.

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.

Consultations

At its meeting of 26 September 2016, the Audit and Governance Committee agreed to recommend to Full Council to 'opt in' to an approved sector led body, specifically Public Sector Audit Appointments Limited, to act as the Appointing Person for the appointment of external auditors for the County Council.

Implications:

This item has the following implications, as indicated:

Risk management

The principal risks are that the Council fails to appoint an auditor in accordance with the new frameworks or does not achieve value for money in the appointment process. These risks are considered best mitigated by opting in to the sector led approach through PSAA.

Legal implications

Section 7 of the Local Audit and Accountability Act 2014 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 Council 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 Council 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 Council under those arrangements.

Section 12 makes provision for the failure to appoint a local auditor: the Council 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 Council.

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. In July 2016 the Secretary of State specified PSAA as the appointing person.

Financial Implications

The Council's external audit fee for the 2015/16 accounts was £112,995. There is a risk that current external fee levels could increase when the current contracts end in 2018.

Opting-in to a national scheme provides maximum opportunity to ensure fees are as low as possible, whilst ensuring the quality of audit is maintained by entering into a large scale collective procurement arrangement. 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.

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.

Local Government (Access to Information) Act 1985 List of Background Papers

Paper	Date	Contact/Tel
Report to the Audit and Governance Committee – 'Appointment of External Auditors'	26 September 2016	Sam Parker/(01772) 538221

Reason for inclusion in Part II, if appropriate

N/A