

## **Audit and Governance Committee**

Meeting to be held on Monday, 26 September 2016

Electoral Division affected: (All Divisions);
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### **Appointment of External Auditors**

Appendix 'A' refers

Contact for further information:

Neil Kissock, Tel: 01772 536154, Director of Financial Resources,

Neil.Kissock@lancashire.gov.uk

#### **Executive Summary**

The Local Audit and Accountability Act 2014 abolished the Audit Commission, paving the way for local authorities to appoint their own External Auditors.

Principal authorities as defined in the Act, which includes the County Council, must have their local auditors appointed by 31 December 2017 in order for them to begin their engagement on 1 April 2018. Local authorities can use an independent auditor panel or the Department for Communities and Local Government appointed sector led body to select their External Auditors.

#### **Recommendation**

The Committee are asked to agree to recommend to Full Council to opt-in to an approved sector led body, specifically Public Sector Audit Appointments Ltd, to act as the Appointing Person for the appointment of External Auditors for the County Council.

#### **Background and Advice**

This report summarises the changes to the arrangements for appointing External Auditors following the closure of the Audit Commission and the end of the transitional arrangements at the conclusion of the 2017/18 audits.

The Council will need to consider the options available and put in place new arrangements in time to make a first appointment by 31 December 2017.

The existing appointment of Grant Thornton as the Council's External Auditors for 2016/17 and 2017/18 was managed by Public Sector Audit Appointments Ltd (PSAA). This is an independent company, established by the Local Government Association (LGA) under the transitional arrangements.

There are three options available to the Council for appointing External Auditors in the future:

Option 1: Establish its own independent auditor panel (Part 3, section 9 and schedule 4 of the Local Audit and Accountability Act 2014). The panel must be made up of a majority or of wholly independent members and must be chaired by an independent member. It would therefore be necessary to undertake a selection process to appoint the panel, whose members may be remunerated. The panel's role would be to advise the Council on the selection of its External Auditor and therefore to oversee a procurement process.

Option 2: Establish a joint independent auditor panel to carry out the function on behalf of two or more Councils which would therefore have to agree on the selection criteria firstly for the panel's members and then for the External Auditor.

Option 3: Opt-in to an approved sector led body (SLB) to be specified by the Department for Communities and Local Government (DCLG) to act as the Appointing Person on behalf of opted-in authorities. Full Council approval would be required to opt-in to the sector led body approach as required by the Local Audit (Appointing Person) Regulations 2015. No significant further action would then be required by the Council.

Further information on the changes to arrangements for the appointment of External Auditors and the three options is attached at Appendix 'A'.

In August 2016, the Department for Communities and Local Government specified Public Sector Audit Appointments Ltd (PSAA) as the Appointing Person, establishing it as a sector led body. If the Council opt-in to the sector led body approach, an independent auditor panel will not be required.

The Local Government Association is supporting this sector led approach in order to secure the benefits of economies of scale and savings in terms of the administrative burden on Councils and other local government sector bodies. These benefits include:

- Purchasing power to negotiate competitive audit fees worth an estimated £30m annually.
- Savings on the costs of Invitation to Tender exercises at some 470 local government sector bodies alone.
- Savings on the costs of bid appraisal, contract specification and negotiation.
- Economies of scale to be achieved from collective procurement, enabling the firms to plan and resource audits more efficiently and effectively.
- Quality monitoring and other information sharing across contracts (subject to protections over confidentiality).
- Sensible distribution of audit appointments taking into consideration joint working between individual Councils and other public bodies, managing rotations where conflicts of interest arise.

It is anticipated that invitations from PSAA to opt-in to the sector led approach will be issued around autumn 2016. The sector led body will negotiate contracts and appoint External Auditors on behalf of local authorities who have opted in. The sooner that councils opt-in to the sector led approach, the sooner certainty will be provided about the volume of work included in the Invitation to Tender and enable best possible prices to be secured.

The Council have until December 2017 to make an appointment, but if options one or two are selected time must be allowed for the establishment and then selection of an auditor panel (with or without negotiation with any other councils) and then for the panel to oversee a procurement process. In practical terms if these options are preferred, action will be required by the Council almost immediately. Similarly, if the sector led approach is to be adopted confirmation is required by late autumn 2016, but no further significant action will then be required by the Council.

## **Consultations**

N/A

## **Implications:**

This item has the following implications, as indicated:

## **Financial**

The current External Audit fee levels are likely to increase when the current contracts end in 2018. The impact of any increase will be built in to the updated Medium Term Financial Strategy.

If option 1 or 2 outlined in the report were selected to establish a local or joint Auditor Panel the costs would need to be estimated and funded from the Council's budget for 2016/17 and 2017/18. This would include the cost of recruiting independent appointees (members), servicing the Panel, running a bidding and tender evaluation process, letting a contract and paying members' fees and allowances.

By selecting option 3 and opting-in to a national sector led body, this provides maximum opportunity to limit the extent of any increases in audit fee levels.

There is not expected to be a fee to join the sector-led arrangements. According to PSAA, the audit fees that opted-in bodies will be charged will cover the costs to PSAA of appointing auditors and managing the arrangements. It is considered that audit fees achieved through large contracts will be lower than the costs that individual authorities will be able to negotiate. In addition, by opting into the PSAA offer, authorities are able to avoid the costs of their own procurement and the requirement to set up an auditor panel with independent members.

## **Legal**

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.

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.

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.

## **Risk management**

There is no immediate risk to the Council. However there is a risk that an External Auditor is not appropriately appointed on time if action is not taken to pursue one of these options quickly. 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.

## **Local Government (Access to Information) Act 1985**

### **List of Background Papers**

Paper	Date	Contact/Tel
Local Audit and Accountability Act	2014	Khadija Saeed, Head of Corporate Finance, 01772 536195

Reason for inclusion in Part II, if appropriate

N/A