

REPORT FOR DECISION

MEETING: **AUDIT COMMITTEE**

DATE: **25 JANUARY, 2017**

SUBJECT: **APPOINTMENT OF EXTERNAL AUDITOR FROM 2018/19**

REPORT FROM: **HEAD OF FINANCIAL MANAGEMENT**

CONTACT OFFICER: **ANDREW BALDWIN**

TYPE OF DECISION: **NON-KEY DECISION**

FREEDOM OF INFORMATION/STATUS: **FOR PUBLICATION**

SUMMARY: The purpose of this report is to outline the options available for the appointment of External Audit when the current contract expires on 31 March 2018 and recommend the most suitable option to take.

OPTIONS & RECOMMENDED OPTION Audit Committee is requested to approve Option 3 – to accept the invitation from PSAA to opt-in to the national scheme for the appointment of External Audit for the five years commencing 1 April 2018.

IMPLICATIONS:

Corporate Aims/Policy Framework:

Do the proposals accord with Policy Framework? Yes.

Financial Implications and Risk Considerations:

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. If the large scale scheme is not used some additional resource may be needed to establish an auditor panel and conduct a local or joint procurement exercise.

Statement by Assistant Director of Resources & Regulation (Finance & Efficiency):

The principal risk is 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. The audit fees and set up costs will not be determined until Autumn 2017. However PSAA have advised that they will pool scheme costs and charge fees in accordance with a fair scale which is based on size, complexity, audit risk and the audit fees for 2016/17.

Equality/Diversity implications:

No

Considered by Monitoring Officer:

Yes (JH)

Are there any legal implications?

Section 7 of the Local Audit and Accountability Act 2014 requires a relevant Council 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 the 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 12 makes provision for the failure to appoint a local auditor: the Council must immediately inform the Secretary of State who may direct the Council 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 (SI192) 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.

Staffing/ICT/Property:

No

Wards Affected:

All

Scrutiny Interest:

No

TRACKING/PROCESS

DIRECTOR: STEVE KENYON

Chief Executive/ Strategic Leadership	Cabinet Member/Chair	Ward Members	Partners
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Team			
Scrutiny	Cabinet	Committee	Council
		Audit 25/01/17	

1.0 Introduction

- 1.1 The Local Audit and Accountability Act 2014 brought the Audit Commission to a close 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. On 5 October 2015 the Secretary of State, Communities and Local Government, 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.
- 1.2 The Council's current external auditor, KPMG was appointed by the Audit Commission but is now managed by the transitional body, Public Sector Audit Appointments Ltd (PSAA). The current fee is based on discounted rates offered by the external audit firms in return for substantial market share. When the contracts were last negotiated nationally by the Audit Commission they covered NHS and local government bodies which offered maximum economies of scale.
- 1.3 As the current contract with KPMG is due to end on 31 March 2018, the Council needs to procure and put in place a new external audit contract in good time for the start of the 2018/19 financial year. A deadline of 31 December 2017 has been set for this.
- 1.4 The scope of the audit will still be specified nationally, the National Audit Office is responsible for writing the Code of Audit Practice which all firms appointed to carry out the Council's audit must follow. Not all accounting firms will be eligible to compete for the work, they will need to demonstrate that they have the required skills, capacity and experience and be registered with a Registered Supervising Body approved by the Financial Reporting Council.

2.0 Auditor Panel

- 2.1 There are three main options which the Council can use to appoint to the external audit contract and unless opting for option 3, Sector Led Body, there will be a requirement to establish an Auditor Panel either specifically for Bury Council or in collaboration with partners. The panel's role is to advise on:
 - Selection and appointment of auditor;
 - Resignation or proposal to remove the auditor;
 - Adoption of a policy on non-audit services;
 - Maintenance of independent relationship with the auditor; and
 - Any proposals to enter into limited liability agreements.

- 2.2 There is no specific reference in the act to the Auditor Panel carrying out a contract oversight role but guidance from CIPFA does indicate this would be a possible and helpful additional function.

3.0 Options

- 3.1 The three available options for the appointment of the external auditor are outlined below, together with an assessment of the various advantages and disadvantages of each.

Option 1: Stand Alone Appointment

- 3.2 To make a stand alone appointment Bury Council will need to set up its own Auditor Panel. This panel must contain a minimum of three members and be comprised of either wholly or a majority of independent members. It must also be chaired by an independent member. This requirement for independent members means that current and former elected members and officers and their close families and friends are excluded.
- 3.3 As Bury's Audit Committee does not include any independent members, a brand new Auditor Panel would need to be set up.
- 3.4 It is important to note that under the legislation where an Auditor Panel function is performed by an audit sub-committee there should be clear demarcation between the respective duties of the Audit Committee and the Auditor Panel.

Advantages

- 3.5 Setting up an Auditor Panel allows the Council to take maximum advantage of the new local appointment regime and have local input to the decision.

Disadvantages

- 3.6 Recruitment and servicing of the Auditor Panel, running the bidding exercise and negotiating the contract is estimated by the Local Government Association to cost in the order of £15,000 plus ongoing expenses and allowances.
- 3.7 However as Bury has struggled to recruit independent members for Audit Committee, we may experience further difficulty in recruiting to the Auditor Panel and therefore in achieving quorate meetings because of such vacancies, which result in panel proceedings being invalid.
- 3.8 This stand-alone option will also mean that the Council will not be able to take advantage of the reduced fees that may be available through joint or national procurement contracts and due to the need for an independent majority on the panel, the actual involvement of elected members in the assessment of bids and the decision on awarding contracts will be limited.

Option 2: Local Joint Procurement Arrangements

- 3.9 The Act enables the Council to join with other authorities to establish a joint Auditor Panel which would also need to be constituted wholly, or of a majority, of independent appointees.
- 3.10 At present, eight of the ten GM Councils are audited by Grant Thornton and two are audited by KPMG. Given the level of collaboration, joint working

and similar core functions across the Councils, there may be benefits from joining with all ten Councils for this procurement. Furthermore there is also the potential that this joint procurement could be widened to include all functions due to be consolidated within the Greater Manchester Combined Authority (GMCA) or the Mayor's Office from 2017 – Transport of Greater Manchester (TfGM), the GM Waste Disposal Authority (GMWDA), GM Fire and Rescue Service (GMFRS), the GM Police and Crime Commissioner's Office (GMPCC), GM Police and New Economy.

- 3.11 In the longer term, joint procurement could be further extended to include health bodies, although it should be noted that these organisations are currently working to a different timetable for appointments.

Advantages

- 3.12 The costs of setting up the Panel, running the bidding exercise and negotiating the contract will be shared across a number of authorities and this provides a greater opportunity for negotiating some economies of scale by being able to offer a larger combined contract value to the firms.
- 3.13 As only one group of independent members will be required it should be less difficult to identify suitably skilled and experienced persons for this role than would be the case for individual authorities in establishing their own auditor panels.
- 3.14 Another benefit is that appointing the same auditor across this wider group will enable external audit to obtain a fuller understanding of the audit requirements across the GM authorities, enabling them to take a more strategic approach and providing added value on complex accounting and auditing matters.

Disadvantages

- 3.15 The decision making body will be further removed from local input. Due to the potential number of participating authorities, it is unlikely that elected members from each district or GM body would be represented on an auditor panel as this would make the panel too large to be effective.
- 3.16 There is also a risk that accountancy and audit firms may decline to bid for a package of GM external audit work due to independence issues. A successful firm would be unable to undertake substantial values of advisory work, as to do so would be in contravention of professional standards, independence safeguards and terms of appointment established by the PSAA.

Option 3: Opt-in to a Sector Led Body

- 3.17 In response to the consultation on the new arrangements for external auditor appointments the LGA have successfully lobbied for Councils to be able to opt-in to a Sector Led Body appointed by the Secretary of State. The appointment of this body has now been confirmed as the transitional body, Public Sector Audit Appointments Ltd (PSAA) who will have the ability to negotiate contracts with the firms nationally maximising the opportunities for the most economic and efficient approach to procurement of external audit on behalf of the whole sector.
- 3.18 A representative from PSAA attended a recent meeting of the Greater Manchester Association of Municipal Treasurers (GMAMT) to explain the details

of their offer and the discussion which followed PSAA's presentation **suggested this option is likely to be the preferred option for other GM organisations.**

- 3.19 Organisations wishing to opt-in to this sector led scheme are required to give notice of their acceptance by 9 March 2017. At this stage however the audit fees and set up costs will not be known and are not expected to be determined until the Autumn of 2017. However PSAA have advised they will pool scheme costs and charge fees in accordance with a fair scale based on an organisations size, complexity, audit risk and the audit fees for 2016/17.

Advantages

- 3.20 Under this approach, the costs of setting up the appointment arrangements and negotiating fees would be shared across all opt-in authorities and by offering large contract values the firms would be able to offer better rates and lower fees than are likely to result from local negotiation.
- 3.21 There will be no need for the Council to incur or contribute to the costs of setting up and managing an Auditor Panel.
- 3.22 There would also be no potential conflicts for Bury to manage, as PSAA would have a number of contracted firms to call upon and would only appoint an external auditor who was appropriately independent.
- 3.23 PSAA will monitor contract delivery and ensure compliance with contractual, audit quality and independence requirements.

Disadvantages

- 3.24 The adoption of this option across Greater Manchester could result in all the Council, GMCA, TfGM and Chief Constable all having different external auditors and this could lead to a lack of consistency in external audit approach and judgements across the GM area.
- 3.25 GM Treasurers have engaged in discussions and meetings with PSAA to explore whether the approach being developed could be utilised to better meet GM Council needs. In particular PSSA were asked whether their process would (i) enable the same external auditor to be appointed to all GM Local Authorities and (ii) ensure an acceptable recognition of social value to be reflected in the procurement process. Latest discussions indicate Social Value of 5% can be achieved, and the aim would be to enhance this further during the life of the contract. GM Treasurers are minded to opt into this sector led procurement approach given it could result in lower procurement costs and fees than might be achieved through a local appointment process.
- 3.26 A key challenge is that the deadline to opt into the sector led approach is 9 March 2017.

4.0 Conclusions

- 4.1 The Council has until December 2017 to make an appointment. In practical terms this means one of the options outlined in this report will need to be in place by spring 2017 in order that the contract negotiation process can be carried out during 2017.
- 4.2 In considering the options, the first option, the stand alone appointment requiring the establishment of a local Audit Panel, is likely to present the highest cost and risk and in respect of Option 2, whilst a joint procurement with other GM bodies may reflect current devolution and integration plans, there is no real requirement for each authority to have the same external auditor and ensuring independence across such a large group may be problematic.
- 4.3 Consequently Option 3, to opt-in to the national appointment scheme provided by PSAA, offers the lowest cost and lowest risk for the Council and is also the option which is likely to be preferred by the other GM bodies.

5.0 Recommendations

- 5.1 Members are requested to note the current position in respect of arrangements for the appointment of external auditors.
- 5.2 Audit Committee is invited to approve Option 3 of the report - to accept the invitation from Public Sector Audit Appointments Ltd (PSAA) to opt-in to the national scheme for the appointment of External Audit for the five years commencing 1 April 2018.

Andrew Baldwin
Head of Financial Management

Background documents:

Local Audit and Accountability Act 2014

For further information on the details of this report, please contact:

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