

AUDIT & GOVERNANCE COMMITTEE

27th October 2016

Report of the Executive Director Corporate Services

Appointment of External Auditor – re Accounts Audit Commencing 2018/19

Purpose

To advise Members of the options process and legislative requirement to appoint External Auditors for the Accounting Period 2018/19 and to seek Member endorsement of the recommended option for Cabinet & Council approval.

Recommendations

That Members endorse :

- 1. That Cabinet recommends to Council that the Authority opts into the appointing person arrangements made by the Public Sector Audit Appointments (PSAA) for the appointment of External Auditors, and**
- 2. That the Executive Director Corporate Services confirms our interest in undertaking the opt in appointing process following ratification by Council and has delegated powers in relation to the appointment process.**

Executive Summary

Local Authorities are required under legislation to appoint their own External Auditors for the Accounts 2018/19. The Local Audit and Accountabilities Act 2014 requires Local Authorities to decide between opting from one of the following two options available, namely

1. Utilising the Public Sector Audit Appointments (PSAA), under the appointing persons regime (supported by the Society of District Council Treasurers (and other Treasurers Societies), or
2. Running our own procurement exercise.

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

Reasons for Proposed Decision:

Option 1: Sector Led Procurement Exercise Utilising PSAA

This is the least resource demanding of the two options available to the Authority - the use of PSAA. The procurement exercise undertaken on a larger scale than an Authority led procurement exercise will ensure that the most competitive rates are obtained, a larger interest from the Audit Sector Partners and result in a reduced cost for undertaking the procurement exercise (establishing an audit panel, advertising & interview costs) as procurement exercise costs will be shared by the number of Authorities opting for this option.

Option 2: Running our own procurement exercise

This would require the establishment of an auditor panel and conducting our own procurement exercise. Undertaking our own procurement exercise will involve disproportionate use of resources (cost and management time) and would not deliver economies of scale / bulk buying power which the sector led procurement process would deliver. In light of the benefits that the sector led procurement option offers, undertaking our own procurement exercise is not recommended.

For the reasons stated above Option 1 is the recommended options as it provides the best opportunity to deliver Value For Money.

Legal and Governance Implications

The process as set out above and the recommendation should ensure compliance with the Local Audit and Accountability Act 2014.

Financial Implications

Option 1 provides the most cost effective procurement option. Costs of undertaking our own procurement process would be higher than the PSAA route and offers greater opportunity in achieving a lower audit base fee due to economies of scale and buying power available under joint procurement.

Until the procurement exercise is completed it is not possible to identify the financial impact of the process and Audit Fees for 2018/19. However, as stated the PSAA option should deliver a reduced cost than Option 2 as there is greater opportunity through using PSAA that any increase will be minimised with better quality outcomes.

Impact Assessments:

Risk Management

As set out in the report, use of PSAA minimises the risks inherent re Financial, Compliance & Governance in undertaking our own procurement.

Background

1. As part of closing the Audit Commission the Government novated external audit contracts to PSAA on 1 April 2015. The audits were due to expire following conclusion of the audits of the 2016/17 accounts, but could be extended for a period of up to three years by PSAA, subject to approval from the Department for Communities and Local Government.

2. In October 2015 the Secretary of State confirmed that the transitional provisions would be amended to allow an extension of the contracts for a period of one year. This meant that for the audit of the 2018/19 accounts it would be necessary for authorities to either undertake their own procurements or to opt in to the appointed person regime.

3. There was a degree of uncertainty around the appointed person regime until July 2016 when PSAA were 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 most of local government. PSAA was originally established to operate the transitional arrangements following the closure of the Audit Commission and is a company owned by the Local Government Association's Improvement and Development Agency (IDeA).

4. The date by which Authorities will need to opt in to the appointing person arrangements is not yet finalised. However, it is anticipated that invitations to opt in will be issued in December 2016 and will require ratification by Council by this date.

5. The main advantages of using PSAA are set out in its prospectus and are copied below; these can also be viewed as the disadvantages if the Council was to decide to undertake its own procurement.

- * Assure timely auditor appointments;
- * Manage independence of auditors;
- * Secure highly competitive prices;
- * Save on procurement costs;
- * Save time and effort needed on auditor panels;
- * Focus on audit quality, and
- * Operate on a not for profit basis and distribute any surplus funds to scheme members.

Background Papers:

PSAA Prospectus – Appendix A

PSAA – Appointing Person – Frequently Asked Questions – Appendix B

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