
APPOINTMENT OF LOCAL EXTERNAL AUDITORS

Responsible Cabinet Member - Councillor Stephen Harker
Efficiency and Resources Portfolio

Responsible Director - Paul Wildsmith,
Director of Neighbourhood Services and Resources

SUMMARY REPORT

Purpose of the Report

1. To inform Council of the options for the appointment of local external auditors under new arrangements and seek approval of the preferred option

Summary

2. The Local Audit and Accountability Act 2014 brought to a close the Audit Commission on 31 March 2015 and gives Councils freedom to appoint local external auditors.
3. The Council's current external audit contract was let by the Audit Commission and is with Ernst and Young. The contract runs up to and including the audit of accounts for the financial year 2017/18. This means that the Council must appoint their local external auditors by 31 December 2017 so that the new auditors are in place by 1 April 2018.
4. There are broadly two routes the Council could go down for the appointment of external auditors under the Local Audit and Accountability Act and these are considered in the body of the report. Firstly the Council could opt into a collective procurement arrangement established by the local government sector or secondly it could undertake its own procurement either opting to do this independently or jointly with other bodies.
5. The preferred appointment option is to opt into a sector led body and this requires the approval of full Council.

Recommendation

6. It is recommended that the Council opts into the sector led body PSAA for the appointment of local external auditors.

Reason

7. To progress the process for the appointment of local external auditors in accordance with required timescales.

Paul Wildsmith
Director of Neighbourhood Services and Resources

Background Papers

- (i) Local Audit and Accountability Act 2014
- (ii) Local Audit (Appointing Persons) Regulations 2015
- (iii) PSAA Paper – Appointing Person: Frequently Asked Questions
- (iv) CIPFA Guide to Auditor Panels

Brian James: Extension 5408

S17 Crime and Disorder	There are no specific issues that relate to crime and disorder.
Health and Well Being	There is no specific health and well being impact.
Carbon Impact	There is no specific carbon impact.
Diversity	There is no specific diversity impact.
Wards Affected	All wards are affected equally.
Groups Affected	All groups are affected equally.
Budget and Policy Framework	The report does not affect the budget or policy framework.
Key Decision	This is not a key decision.
Urgent Decision	This is not an urgent decision.
One Darlington: Perfectly Placed	There is no specific relevance to the Strategy other than the appointment of external auditors is part of the Council's governance arrangements.
Efficiency	The report outlines the potential for efficiencies from the preferred option.

MAIN REPORT

Background

8. In 2010 the Government announced that it intended to close the Audit Commission and that organisations whose appointments were previously controlled by the Audit Commission should have the freedom to appoint their own external auditors.

9. The Local Audit and Accountability Act 2014 brought to a close the Audit Commission on 31 March 2015. As contracts were already in place for local government and NHS external audit appointments up to and including the financial year 2016/17 transitional arrangements were established to set audit fees and manage the contracts with the audit firms and Public Sector Audit Appointments Limited (PSAA) were delegated powers for this purpose.
10. PSAA is an independent, not-for-profit company, limited by guarantee, established by the Local Government Association (LGA).
11. In October 2015 the Government determined that the existing external audit contracts would be extended by one year to include the audit of the accounts for 2017/18. In practice, this means that the Council must appoint their local auditors by 31 December 2017 so that the new auditors are in place by 1 April 2018.
12. The scope of the audit will still be specified nationally, the National Audit Office (NAO) is responsible for writing the Code of 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 and experience and be registered with a Registered Supervising Body approved by the Financial Reporting Council. It is anticipated that only some ten or so large firms will have the required registration to undertake the audit which reflects the complexity of the accounting regime and the capacity required.
13. The Council's current external auditor is Ernst and Young. Over recent years the Council has benefited from a reduction in fees as a result of a combination of factors including new contracts negotiated nationally with the firms of accountants and savings from closure of the Audit Commission. The Council's current external audit fee for 2015/16 is £93,264.

Options for Local Appointment of External Auditors

14. There are broadly two routes the Council could go down under the Local Audit and Accountability Act 2014. Firstly the Council could opt into a collective procurement arrangement established by the local government sector or secondly it could undertake its own procurement either opting to do this independently or jointly with other bodies.
15. Under the Local Audit and Accountability Act, should the Council wish to undertake its own procurement either jointly or independently, an Auditor Panel would need to be established for this purpose.

Option 1 – Opt in to a Sector Led Body

16. The Local Audit (Appointing Person) Regulations allows councils to opt into collective procurement arrangements established by the local government sector. The Government has approved PSAA to act as a sector-body taking on the role of 'an appointing person' with the necessary powers and duties to act as a collective procurement body.

17. The Regulations set out the process by which councils can choose to participate in sector-led arrangements. Essentially, the appointed person must invite councils to become opted in councils. The councils to whom the invitation is issued must then individually decide whether to accept the invitation and a decision to accept may only be taken by the full council.
18. PSAA has outlined how it would operate the national scheme for appointing auditors and the main points are:
 - (a) Over 200 councils have expressed an interest in joining the national scheme;
 - (b) Three year contracts will be let, with the option of extending to five years, to secure best prices;
 - (c) Scheme costs will be pooled and fees charged to audited bodies in accordance with a scale which has regard to size, complexity and audit risk.
19. The disadvantage of this approach is that elected members will have less opportunity for direct involvement in the appointment process other than through the LGA and/or stakeholder representation groups.
20. PSAA indicate the scheme will build on the national procurement exercise carried out by the Audit Commission in 2012 and secure the following advantages:
 - (a) Highly competitive prices will be secured from audit firms as the scheme will take advantage of collective buying powers;
 - (b) Scheme overhead costs will be minimised;
 - (c) The scale of fees will reflect size, complexity and audit risk;
 - (d) Individual bodies will avoid the necessity to establish an auditor panel.

Option 2 – To make a Stand-Alone Appointment

21. In order to make a stand-alone appointment the Council will need to set up an Auditor Panel. The members of the Panel must be wholly or a majority independent members as defined by the Local Audit and Accountability 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 firm of accountants to award a contract for the Council's external audit. A new independent auditor panel established by the Council will be responsible for selecting the auditor.
22. The advantage of this approach is that it allows the Council to take maximum advantage of the new local appointment regime and have local input to the decision.
23. The disadvantages/risks are:
 - (a) The Council would incur the costs for recruiting and servicing of the Auditor Panel, running the bidding exercise and completing the contract plus on going expenses and allowances;
 - (b) The Council will not be able to take advantage of reduced fees that may be available through joint or sector-led body contracts;

- (c) The assessment of bids and decision on awarding contracts will be taken by independent appointees and not solely by elected members;
- (d) Bids may not be received as the value of the contract will be insignificant compared to that of Option 1.

Option 3 – Set up a Joint Auditor Panel/Local Joint Procurement Arrangements

24. The Local Audit and Accountability Act enables the Council to join with other authorities to establish a joint Auditor Panel. Again the Panel will need to be constituted of wholly or a majority of independent members. Further legal advice will be required on the exact constitution of such a Panel having regard to the obligations of each Council under the Act and the Council will need to liaise with other authorities to assess the appetite for such an arrangement.
25. The advantages of this approach is that the costs of setting up the Panel , running the bidding exercise and negotiating the contract will be shared across a number of authorities. There is also greater opportunity for obtaining some economies of scale by being able to offer a larger combined contract value to the firms.
26. The disadvantages/risks are:
- (a) The decision making body will be further removed from local input, with potentially no input from elected members where a wholly independent Auditor Panel is used or possibly only one elected member representing each Council, depending on the constitution agreed with the other bodies involved;
 - (b) The Council will still incur a proportion of Auditor Panel costs;
 - (c) There may be a lack of willing partners to participate in the joint approach. In this regard the Director of Neighbourhood Services and Resources is aware from his colleagues in the Tees Valley that officers are to recommend to their Councils that they opt in to the sector led body approach;
 - (d) Bids may not be received as the value of the contract will be insignificant compared to that of Option 1.

Preferred Option

27. It would seem sensible to pursue Option 1. Whatever option is taken, the same limited number of firms will be the only permissible bidders for the work as this is a specialised service with few providers. Option 1 offers the greatest potential for economies of scale, securing auditors with the necessary experience to effectively audit the Council's accounts and minimising governance bureaucracy.
28. If Council approves then notice will need to be given to the Appointing Person of our decision to become an opted in Council.

Legal Implications

29. The Local Audit and Accountability Act requires that the Council appoint a local auditor to audit its accounts.

Consultation

30. Informal consultation undertaken with officer colleagues in the Tees Valley to establish the appointment option to be recommended to their Council.
31. The Audit Committee at their meeting on 30 September 2016 considered the options available and resolved to endorse the option that the Council opts into the public sector led body PSAA for the appointment of local external auditors.