

EAST HERTS COUNCIL

AUDIT AND GOVERNANCE COMMITTEE – 23 NOVEMBER 2016

REPORT BY EXECUTIVE MEMBER FOR FINANCE AND SUPPORT SERVICES

APPOINTMENT OF EXTERNAL AUDITORS

WARD(S) AFFECTED: ALL

Purpose/Summary of Report

- This report sets out the options available to the Council to appoint external auditors from 2018/19 and process for achieving successful procurement of external audit services.

<u>RECOMMENDATIONS FOR THE AUDIT AND GOVERNANCE COMMITTEE:</u> That:	
(A)	the Committee recommend to Council via the Executive that this Council “opts in” to the appointing person arrangements made by Public Sector Audit Appointments (PSAA) for the appointment of External Auditors.

1.0 Background

1.1 The Local Audit & Accountability Act 2014 (‘the Act’) abolished the Audit Commission, and required local authorities to appoint their own external auditors for the audit of the 2017/18 accounts by 31 December 2017.

1.2 Report

1.3 As part of closing the Audit Commission the Government novated external audit contracts to Public Sector Audit Appointments (PSAA) on 1 April 2015. The contracts 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 (DCLG).

- 1.4 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.
- 1.5 This means that for the audit of the 2018/19 accounts it is necessary for authorities to either undertake their own procurement to appoint an external auditor or to “opt in” to the appointed person regime.

2 There are four options for local authorities to appoint auditors:

- 2.1 By establishing their own auditor panel (which may be an existing committee or sub-committee of the authority);
- 2.2 By jointly establishing an auditor panel with other authorities;
- 2.3 By using the services of an auditor panel established by another authority; or
- 2.4 By delegating appointment to a sector led body.
- 2.5 Establishing an auditor panel carries a number of requirements which must be fulfilled. The regulations require that panels consist of a minimum of three members, with a majority of members independent and an independent chair.
- 2.6 To be appointed as an independent member to a panel, the vacancy must have been advertised and an application submitted. The panel members must also be able to offer relevant general knowledge and experience. The CIPFA guidance suggests local authority finance, accountancy, audit process and regulation, and the role and responsibility of auditors as specifically relevant areas of experience.

3.0 Independence is defined as follows by The Local Audit [Auditor Panel Independence] Regulations 2014:

- the panel member has not been a member or officer of the authority within the period of 5 years ending with that time (the “last 5 years”),
- the panel member has not, within the last 5 years, been a member or officer of another relevant authority that is (at the given time) connected with the authority or with which (at the given time) the authority is connected,
- the panel member has not, within the last 5 years, been an officer or employee of an entity, other than a relevant

authority, that is (at the given time) connected with the authority,

- the panel member is not a relative or close friend of—
a member or officer of the authority,
a member or officer of another relevant authority that is connected with the authority or with which the authority is connected, or
an officer or employee of an entity, other than a relevant authority, that is connected with the authority,
- the panel member is not the authority's elected mayor,
- neither the panel member, nor any body in which the panel member has a beneficial interest, has entered into a contract with the authority—
- under which goods or services are to be provided or works are to be executed, and which has not been fully discharged,
- the panel member is not a current or prospective auditor of the authority, and
- the panel member has not, within the last 5 years, been—
an employee of a person who is (at the given time) a current or prospective auditor of the authority,
a partner in a firm that is (at the given time) a current or prospective auditor of the authority, or
a director of a body corporate that is (at the given time) a current or prospective auditor of the authority.”

3.1 The independence requirements suggest that it is unlikely that any authority would have an appropriate committee or sub-committee that could act as a panel which rules out option 1 described above.

3.2 Options 2.2 and 2.3 propose the use of an auditor panel that is jointly set up or that of another authority. These options would share the administration of creating an auditor panel, although no authority has yet come forward to either offer to create a joint

panel or make available the use of an established audit panel.

- 3.3 The first three options are therefore not recommended as they will require a far more resource intensive process and, without the bulk buying power of the sector led procurement, would be likely to result in a more costly service.
- 3.4 The consensus amongst most local authorities is to pursue option 4 and to delegate appointment to a sector led body.
- 3.5 In July 2016 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 also 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).
- 3.5 The main advantages of using PSAA to procure external auditors are:
- 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
 - Operate on a not for profit basis and distribute any surplus funds to scheme members.
- 3.6 In order to opt-in to the appointing person arrangement offered by PSAA a decision must be reached before 9 March 2017. An invitation to opt in was issued in October 2016 (please see **Essential Reference Paper 'B'**). The relevant regulations require that the decision to accept the invitation and to opt in needs to be made by the members of the authority meeting as a whole, i.e. Council.

3.7 It is likely that a sector wide procurement conducted by PSAA will produce better outcomes for the Council than any procurement we undertook by ourselves or with a limited number of partners. Use of the PSAA will also be less resource intensive than establishing an auditor panel and conducting our own procurement. It is this option that is recommended by officers.

4.0 Implications/Consultations

4.1 Information on any corporate issues and consultation associated with this report can be found within **Essential Reference Paper A**.

Background Papers - None

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