

## **Report to Council**

**Subject: Future External Audit Procurement**

**Date: 18 January 2017**

**Author: Deputy Chief Executive and Director of Finance**

### **1. Purpose**

- 1.1 To request approval for the Council to accept the invitation from Public Sector Audit Appointments Ltd (PSAA) to “opt-in” to the LGA’s Sector-Led Body approach to appoint a local auditor to audit the Council’s accounts under the Local Audit and Accountability Act 2014.

### **2. Background**

- 2.1 The Local Audit and Accountability Act 2014 brought to a close the Audit Commission 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. A letter received from the PSAA dated 29<sup>th</sup> September 2016 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.
- 2.2 When the current transitional arrangements come to an end on 31<sup>st</sup> March 2018, the Council will be able to move to local appointment of the external auditor. There are three broad options open to the Council under the Local Audit and Accountability Act 2014 (the Act): to make a stand-alone appointment; to set up a Joint Auditor Panel / local joint procurement arrangements; or opt-in to a Sector-Led Body (SLB).
- 2.3 In response to the consultation on the new arrangement, the LGA successfully lobbied for councils to be able to opt-in to an SLB appointed by the Secretary of State under the terms of the Act. An SLB has 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.
- 2.4 The organisation appointed by the Secretary of State to be the SLB is Public Sector Audit Appointments Ltd (PSAA) – a company that already existed and works on areas such as setting audit fees across the sector.

2.5 PSAA has issued an invitation to the Council inviting the Council to become an “opted in” authority. In order to “opt-in” to the arrangement a formal decision has to be made by full Council prior to 9<sup>th</sup> March 2017 – hence this report.

### **3. Options**

3.1 There are three broad options open to the Council under the Act:

- Option 1: to make a stand-alone appointment;
- Option 2: to set up a joint Auditor Panel / local joint procurement arrangements;
- Option 3: opt-in to a Sector-Led Body.

#### Stand-Alone Appointment

3.2 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 of independent members as defined by the Act. Independent members for this purpose are independent appointees, and this excludes current and former elected members or officers, and their close families and friends.

3.3 However, the recruitment and servicing of the Audit Panel, running the bidding exercise and negotiating the contract is estimated by the LGA to cost in the region of £15,000 plus ongoing expenses and allowances. The Council will not be able to take advantage of reduced fees that may be available through joint or national procurement contracts, and the assessment of bids and decision on awarding contracts will be taken by independent appointees and not solely by elected members.

#### Joint Auditor Panel

3.4 The Act enables the Council to join with other authorities to establish a joint auditor panel. Again this will need to be constituted of wholly or a majority of independent appointees. Further legal advice would be required on the exact constitution of such a panel having regard to the obligations of each Council under the Act, and the Council would need to liaise with other local authorities to assess the appetite for such an arrangement.

3.5 The costs of setting up the Panel, running the bidding exercise and negotiating the contracts, would be shared across a number of authorities and there is greater opportunity for negotiating some economies of scale by being able to offer a larger combined contract value to the firms.

3.6 However, 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. The choice of auditor could be complicated where individual Councils have independence issues i.e. where the auditor has recently or is currently carrying out work such as consultancy or advisory work for the Council. Where this

occurs some auditors may be prevented from being appointed by the terms of their professional standards. There is also a risk that if the joint auditor panel choose a firm that is conflicted for this Council, then the Council may still need to make a stand-alone appointment.

### Sector-Led Body (SLB)

- 3.7 In response to the consultation on the new arrangement the LGA successfully lobbied for councils to be able to “opt-in” to a SLB appointed by the Secretary of State under the Act. Provisions enabling this to occur were introduced in the Local Audit (Appointing Person) Regulations 2015. An SLB would 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.
- 3.8 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. Any conflicts at individual authorities would be managed by the SLB who would have a number of contracted firms to call upon. The appointment process would not be ceded to locally appointed independent members, instead a separate body is set up to act in the collective interests of the opt-in authorities. The LGA have already set up such a body (PSAA) utilising the knowledge and experience acquired through the setting up of the transitional arrangements.
- 3.9 In the event that the Council agrees to “opt in” to this approach, PSAA will appoint the local auditor on the Council’s behalf and will set the scale of fees for the audit of the accounts for each financial year. Individual elected members will have little opportunity for direct involvement in the appointment process other than through the LGA and/or stakeholder representative groups. However the Council will be consulted before the appointment of the local auditor.
- 3.10 In order for the SLB to be viable and to be placed in the strongest possible negotiating position the SLB will need Councils to indicate their intention to opt-in before final contract prices are known. Any opt in will apply for a period of 5 years

## **4. Proposal**

- 4.1 The Council has until 31st 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 The LGA has already developed a Sector-Led Body (PSAA), and in a recent survey 58% of respondents expressed an interest in this option. Greatest economies of scale will come from the maximum number of councils acting collectively and opting-in to a SLB. The LGA is strongly supportive of this

approach as it believes this offers best value to councils by reducing set-up costs and having the potential to negotiate lower audit fees.

- 4.3 It is the recommendation of the Deputy Chief Executive and Director of Finance that full Council should opt into the SLB approach and utilise PSAA to appoint the local auditor to audit the Council's accounts. This is felt to be the best option for Gedling, and it is expected that the majority, if not all of the authorities within Nottinghamshire, will adopt this approach.

## **5. Resource Implications**

- 5.1 Opting-in to a national SLB provides maximum opportunity to limit the extent of any increases by entering into a large scale collective procurement arrangement and would remove the costs of establishing an auditor panel.

## **6 Recommendations**

- 6.1 It is recommended that full Council agrees to accept the invitation from Public Sector Audit Appointments Ltd to "opt-in" to the LGA's SLB approach to appoint a local auditor to audit the Council's accounts under the Local Audit and Accountability Act 2014.

## **7. Appendices**

- 7.1 Appendix A – Invitation letter from the PSAA and information on the National Scheme.