

Audit Committee	
Meeting Date	8 June 2016
Report Title	Future Procurement of External Auditors
Cabinet Member	Cllr Duncan Dewar-Whalley, Cabinet Member for Finance
SMT Lead	Mark Radford, Corporate Services Director
Head of Service	Nick Vickers, Head of Finance
Lead Officer	Nick Vickers, Head of Finance
Classification	Open
Forward Plan	Reference number:
Recommendations	1. To receive an update on the options for the future procurement of external auditors.

1 Purpose of Report and Executive Summary

- 1.1 This report provides an update on the latest position on the future procurement of external audit, and to seek the Committee's views on the way forward.

2 Background

- 2.1 Prior to its abolition the Audit Commission was responsible for appointing external auditors for all public bodies, including local authorities. Between 31 March 2015 and 31 March 2017 transitional arrangements were put in place, and Public Sector Audit Appointments Limited (an independent company established by the Local Government Association) was responsible for setting fees and appointing auditors under existing contracts.
- 2.2 On 5 October 2015 the Secretary of State notified his intention to extend the transitional arrangements, whereby auditors are appointed by Public Sector Audit Appointments Limited under the contracts previously negotiated by the Audit Commission. Whilst NHS and smaller local government bodies will move to the new appointment regime on 1 April 2017, larger local government bodies will remain on current appointments contracts until the completion of the 2017/18 audits. This means new appointments will need to be made by 31 December 2017.
- 2.3 There are three main options for the Council going forward.

Option	Commentary
1. The Council could	The Council would need to set up its own Auditor Panel consisting of a majority or even entirely independent members.

<p>establish its own independent Auditor Panel</p>	<p>An independent member is defined by the Local Audit and Accountability Act 2014 as someone who had “not been a member or officer of the Council for a period of five years”.</p> <p>If established, the Auditor Panel would be a standing committee as its role extends beyond the appointment of the external auditor into review of the external audit service and monitoring their independence. A summary of the relevant legislation is attached in Appendix I.</p> <p>Whilst with this option the Council would have local input into the decision, it is likely to be a costly exercise to recruit and maintain the Panel, and it is not apparent that there would be a ready availability of suitably qualified individuals. It would also mean no option for the Council to take part in a broader collaborative procurement which could generate additional savings through economies of scale.</p>
<p>2. The Council could join with other Councils to set up a joint independent Auditor Panel</p>	<p>This could be done by setting up a new panel with other councils or using another council’s panel. Again, such a panel would need to be constituted with a majority of independent members.</p> <p>This approach would spread cost and potentially allow for economies of scale to be achieved. However, it does make the process quite remote from the Council.</p>
<p>3. The Council could opt in to a sector-led body</p>	<p>This option would be to opt in to a sector-led body that will negotiate contracts and make the appointment on behalf of all councils who participate, removing the need for an independent Auditor Panel. The LGA is currently examining the feasibility of this option.</p> <p>This approach offers the prospect of generating savings from economies of scale, but without having to establish and fund an Auditor Panel. The cost savings from this approach could be significant. It should also promote competition and takes advantage of central expertise. However, it does mean the Council has no direct input into the appointment.</p>

2.4 If the Council did not take any of these alternative options then the Secretary of State would impose an auditor.

2.5 Although decisions do not have to be taken straight away it is important to start the preparatory work early. The LGA have also asked for early indications of interest in the sector-led approach.

2.6 Discussions have taken place at the Kent Finance Officers (KFOs) meeting and the view at this stage is that in what is likely to be quite a limited market, even a Kent-wide approach may not produce an optimal solution.

3 Proposals

3.1 At this stage the Committee is asked to consider whether it has any preference between the options in order to guide the detailed work which Officers will then undertake.

3.2 The Audit Committee’s views in this regard are important, and they are invited to make a recommendation, but the final decision will be by full Council.

4 Alternative Options

4.1 The Council has to comply with the statutory requirements to appoint an external auditor, and the three possible options have been set out under paragraph 2.3 above.

5 Consultation Undertaken or Proposed

5.1 The Kent Finance Officers Group will ensure cross-County collaboration. Their views are included at paragraph 2.7 above, and they will be receiving a presentation from the LGA on the sector-led body option in June 2016.

6 Implications

Issue	Implications
Corporate Plan	Supports the objective of being a “Council to be proud of”.
Financial, Resource and Property	The external auditor provides external validation of the Council’s accounts, and makes a judgement on the value for money being achieved.
Legal and Statutory	External audit is a statutory requirement under the Accounts and Audit regulations.
Crime and Disorder	Not applicable.
Sustainability	Not applicable.
Health and Wellbeing	Not applicable.
Risk Management and Health and Safety	The external auditor will examine the Council’s approach to risk management as part of their consideration of governance issues.
Equality and Diversity	Not applicable.

7 Appendices

7.1 The following documents are to be published with this report and form part of the report:

- Appendix I: Auditor Panels-Summary of relevant legislation

8 Background Papers

8.1 None.

Auditor Panels - summary of relevant legislation

Local Audit (Auditor Panel) Regulations 2014 in conjunction with the Local Audit and Accountability Act 2014 and other regulations

The Act and associated regulations provide the legislative conditions for the construct and function of auditor panels. The main points are as follows:

a. Auditor Panels:

- i. must have three or more members, with a majority of non-elected independent members one of which must be the chair
- ii. the decision to appoint a panel is not an executive/cabinet decision
- iii. the term of office must be determined by council
- iv. qualifying conditions apply
- v. allowances may be paid
- vi. quorum is three with a majority on independent members present

b. Functions of a Panel

- i. advisory only
- ii. to advise on the maintenance of an independent relationship between the auditor and the council
- iii. advise on the selection and appointment of an auditor
- iv. must advise as the auditor panel considers appropriate and at other times if asked by the council
- v. must advise, if asked, on any proposal to limit the liability of an auditor
- vi. Secretary of State may vary the functions
- vii. auditor panel advice must be published, subject to certain conditions
- viii. panels must take account of any relevant Secretary of State guidance
- ix. panels can call members and officers to meetings and for any documents in aid of its functions
- x. panels must inform the Secretary of State if a council fails to appoint an auditor

c. Meaning of 'independent'

- i. not been a councillor or officer of the council for at least five years (from the start of contract)
- ii. not been connected with the council for at least five years including not being a member or employee of a connected body/company

- iii. not a relative or close friend of any serving councillor or officer
- iv. not having any beneficial interests
- v. not a current or prospective auditor of the council or an employee/member of an auditor of the council for the past five years

d. The Appointed Persons option (this does not need an auditor panel)

- i. designated by the Secretary of State (no designation as yet)
- ii. must invite councils to participate (opt-in)
- iii. must appoint an auditor(s)
- iv. must design and implement systems to oversee auditor independence, monitor compliance and resolve disputes
- v. must agree and consult on fee scales