

Council Meeting		Agenda Item: 11
Meeting Date	25 January 2017	
Report Title	External Auditor Appointment	
Lead Members	Cllr Dewar-Whalley, Cabinet Member for Finance & Performance, and Cllr Hampshire, Chairman Audit Committee	
SMT Lead	Mark Radford, Director of Corporate Services	
Head of Service	Nick Vickers, Head of Finance	
Lead Officer	Nick Vickers, Head of Finance	
Key Decision	Yes	
Classification	Open	
Forward Plan	Reference number:	
Recommendations	<ol style="list-style-type: none"> 1. Note the changes in the external auditor appointment process following the Local Audit and Accountability Act 2014, and the options available to the Council for the appointment of an external auditor for the 2018/19 accounts and beyond. 2. Agree that the preferred external audit procurement route is via a sector led body (PSAA Ltd). 	

1 Purpose of Report and Executive Summary

- 1.1 This report sets out proposals for appointing the Council's external auditor for the 2018/19 accounts and beyond.
- 1.2 The current arrangements, which expire following audit of the 2017/18 accounts, are that Grant Thornton are the Council's external auditors working to a contract originally let by the Audit Commission in 2013. Following the Audit Commission's close in 2015, that contract novated to PSAA, a subsidiary of the Local Government Association (LGA).
- 1.3 The Council's Audit Committee initially received reports on options on 8 June and on 14 September 2016 considering the various alternatives for appointing an external auditor, and in September agreed to delegate to the Director of Corporate Services, in consultation with the Cabinet Member for Finance & Performance and the Chairman of the Audit Committee, the final decision on a recommendation to Council on the preferred option, once full information on the sector-led approach was received.

- 1.4 Under the Local Audit and Accountability Act 2014, the Council as a whole must decide whether to accept an invitation to opt-in to a sector-led approach. To take advantage of PSAA's proposed national scheme for appointing auditors within the deadline set, the Council must take the decision at this meeting. The Council must then communicate the decision by early March 2017, in line with PSAA's request.

2 Background

- 2.1 The Local Audit and Accountability Act 2014 (the Act) brought a close to the Audit Commission. The Act also created transitional arrangements for appointing external auditors and setting audit fees in local government. On 5 October 2015 the Secretary of State for Communities and Local Government (CLG) decided to extend these transitional arrangements for one year. The arrangements will now end following the audit of accounts for 2017/18.
- 2.2 The Act also set out arrangements for appointing auditors after the transitional arrangements end. This includes the opportunity for authorities to make their own decisions on auditor appointments. Regulations made under the Act also allow authorities to opt in to have their auditor appointed for them by an appointing person.
- 2.3 The Council's current external auditor is Grant Thornton, this appointment having been made under a contract let by the Audit Commission. Following the closure of the Audit Commission, the contract is currently managed by Public Sector Audit Appointments Limited (PSAA), the transitional body set up by the LGA with delegated authority from the Secretary of State.
- 2.4 Over recent years there has been a significant reduction in audit fees compared with historic levels - the Council's external audit fees for 2015/16 were £61,000 (excluding grant certification work) compared with £139,000 in 2009/10. This has been the result of a combination of factors, including new contracts negotiated nationally, and savings from the closure of the Audit Commission. In addition, current fees are based on discounted rates offered by the firms in return for substantial market share. When the contracts were last negotiated nationally by the Audit Commission they covered NHS and local government bodies, and offered maximum economies of scale.
- 2.5 Whilst the fee has dramatically reduced, the Council still receives a high quality professional service from Grant Thornton and this, combined with a highly effective internal audit service from Mid Kent Services, provides substantial assurance on the Council's corporate governance and internal controls at a time of financial cutbacks and rapid change.

- 2.6 When the current transitional arrangements come to an end on 31 March 2018 the Council will be able to move to local appointment of the auditor. There are a number of routes by which this can be achieved, each with varying risks and opportunities.
- 2.7 The scope of the audit will still be specified nationally; the National Audit Office (NAO) is responsible for writing the Code of Audit Practice which all firms appointed to carry out local government audit must follow. However, 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.
- 2.8 It is reasonable to expect that the list of eligible firms may include the top 10 or 12 firms in the country, including our current auditor. It is unlikely that small local independent firms will meet the eligibility criteria.
- 2.9 The three options available to the Council are:

Option	Commentary
<p>1. The Council could establish its own independent Auditor Panel</p>	<p>The Council would need to set up its own Auditor Panel consisting of a majority or even entirely independent members. 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.</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 require willing partners.</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.</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>
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2.10 The discussion at Audit Committee expressed a preference for options 2 and 3. Since then the position of councils across the county has been monitored through the Kent Finance Officers group, and all other Kent councils have indicated that they have already or intend to opt for the sector-led approach. The sector-led approach does appear to offer the best option for obtaining a high quality service at the most economic rate possible. It is also now clear that there are no suitable partners for the Council to join with in a collaborative procurement.

3 Proposals

3.1 Based upon the discussions which have taken place at Audit Committee and the issues set out above, it is recommended that the Council should adopt option 3 the sector-led approach. This conclusion rests heavily upon the following:

- without the national appointment, the Council would need to set up a separate independent auditor panel, which is likely to be difficult to resource, costly, and time-consuming;
- the audit costs arising from a broader collaborative procurement should be lower than a more local approach as national large-scale contracts can drive keener prices from the audit firms and spread costs incurred in bidding; and
- PSAA can ensure the appointed auditor meets and keeps to quality standards, and can manage any conflicts of interest.

3.2 The proposal letter from the PSAA is attached as Appendix I.

4 Alternative Options

4.1 Other options have been considered above.

5 Consultation Undertaken or Proposed

5.1 Consultation has taken place with the Audit Committee, other Kent councils, and with the LGA.

6 Implications

Issue	Implications
Corporate Plan	Supports the objective of being a “Council to be proud of”.
Financial, Resource and Property	<p>The Council must appoint an external auditor. Opting in to the national arrangement will allow PSAA to undertake a national procurement exercise that will likely result in lower fees through increased buying power than the Council could gain by local procurement.</p> <p>Opting in also avoids incurring the costs of creating and maintaining a local auditor panel.</p>
Legal and Statutory	<p>Section 7 of the Local Audit and Accountability Act 2014 demands a relevant authority to appoint a local auditor to audit its accounts for a financial year not later than 31 December in the preceding year.</p> <p>Section 8 governs the procedure for appointment, including that the Council must consult and take account of the advice of its auditor panel on selecting and appointing a local auditor.</p> <p>Section 8 also provides that where a relevant authority is a local authority employs executive arrangements, appointing a local auditor to audit its accounts is not the responsibility of an executive of the authority under those arrangements.</p> <p>Section 12 provides for the failure to appoint a local auditor. The authority must immediately inform the Secretary of State, who may then direct the authority to appoint the auditor named in the direction, or appoint a local auditor for the authority.</p> <p>Section 17 gives the Secretary of State the power to regulate for an ‘appointing person’. The Secretary of State exercised this power in the Local Audit (Appointing Person) Regulations 2015 (SI 192). These give the Secretary of State the ability to enable a Sector-Led Body to become the appointing person. In July 2016 the Secretary of State named PSAA as the appointing person.</p>
Crime and Disorder	Not applicable.
Sustainability	Not applicable.
Health and Wellbeing	Not applicable.
Risk Management and Health and Safety	The external auditor will consider the Council’s approach to risk management as part of the Council’s overall corporate governance arrangements.

Equality and Diversity	Not applicable.
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7 Appendices

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

- Appendix I: PSAA letter

8 Background Papers

8.1 Audit Committee report 8 June

<http://services.swale.gov.uk/meetings/documents/s5486/Auditor%20appointment.pdf> and

14 September 2016

<http://services.swale.gov.uk/meetings/documents/s5980/External%20Auditor.pdf>