

PART A

Report to: Audit Committee
Council

Date of meeting: 7 December 2016
24 January 2017

Report of: Shared Director of Finance

Title: Appointment of Auditors 2018/19 and beyond

1.0 **Summary**

- 1.1 The Local Audit & Accountability Act 2014 ('the Act') abolished the Audit Commission, and required principal local authorities to appoint their own external auditors for the audit of the 2018/19 accounts by 31 December 2017.
- 1.2 There are four options for local authorities to appoint auditors:
1. by establishing their own auditor panel (which may be an existing committee or sub-committee of the authority, but must also have independent members on it),
 2. by jointly establishing an auditor panel with other authorities,
 3. by using the services of an auditor panel established by another authority, or
 4. by delegating appointment to an Appointing Person as provided for in the Act(which would effectively continue to operate in the same fashion as the Audit Commission).
- 1.3 The purpose of this report is to inform the Audit Committee about the new arrangements and seek comments on the proposed approach, which the Audit Committee is asked to recommend to Council.

2.0 **Recommendations**

- 2.1 That Audit Committee recommends to Council that for the first round of appointments, the Council opt into the PSAA Appointing Person arrangement, subject to confirmation of the details of the scheme.

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Report approved by: Bob Watson, Head of Finance shared services

3.0 Detailed Proposal

3.1 Local authority auditors have, since the mid-1980s been commissioned or been carried out by the Audit Commission. However, the Local Audit & Accountability Act 2014 ('the Act') abolished the Audit Commission, and requires principal local authorities such as WBC and TRDC to appoint their own external auditors for the audit of the 2018/19 accounts by 31 December 2017.

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

1. by establishing their own auditor panel (which may be an existing committee or sub-committee of the authority, but with the addition of independent members, one of whom must be the chair),
2. by jointly establishing an auditor panel with other authorities,
3. by using the services of an auditor panel established by another authority, or
4. by delegating appointment to an Appointing Person as provided for in the Act (which would effectively continue to operate in the same fashion as the Audit Commission).

3.3 Where an auditor panel is used, it must have on it at least three independent members and an independent Chair. Where a panel is shared, independence may be differently assessed for different authorities. The independent members must be appointed by full council and the council is obliged to advertise for members.

3.4 As WBC and TRDC have a shared finance service, it will be necessary in terms of the delivery of information to the auditors to have a single contract, and also more cost effective as assurance on internal audit, internal controls and systems will only need to be gained once for the two authorities.

3.5 Officers have considered the advantages and disadvantages of the four options, which are shown in more detail in appendix 1. Conclusions for each of the four options were as follows:

3.5.1 **Option 1:** The costs involved in setting up a new panel and then carrying out a procurement exercise for an auditor are expected to be significant, and the benefits of procuring locally expected to be limited. This is because the local authority audit market is a limited one (with specific registration required by providers). Neither authority is believed to have an appropriate committee because members are required to offer relevant general knowledge and experience (guidance from the Chartered Institute of Public Finance & Accountancy suggests local authority finance, accountancy, audit process and regulation, and the role and responsibility of auditors as specifically relevant areas). This option is therefore not recommended.

- 3.5.2 **Option 2:** A jointly set-up panel and procurement of an auditor with other partners could be a more attractive option than option 1, as it provides an opportunity to realise more local benefits (such as the procurement of a firm offering commitment to apprenticeships in Hertfordshire). There may also be an opportunity to realise small additional efficiencies, for example through a single assessment of the Shared Internal Audit Service. However, there would still be significant cost involved in the set-up of the panel and carrying out the procurement. Even a shared procurement is unlikely to achieve economies of scale as it would be significantly smaller than those undertaken by a national body (for example, Audit Commission procurements in 2012 and 2014 were for 750 and 260 audited bodies respectively, and achieved savings of 40% and 25%). There is also no guarantee that additional efficiencies would be achieved, or local social value commitments obtained. This option is therefore not recommended.
- 3.5.3 **Option 3:** Use of another authority's panel would effectively be a combination of options 1 and 2, keeping the flexibility (and expense) of individual procurement whilst avoiding the work involved in setting up a panel (though having to share the cost). This option would also require a suitable partner to be identified. Given the conclusions on options 1 and 2, this option is not recommended.
- 3.5.4 **Option 4:** Use of an Appointing Person as specified in the Act to appoint auditors would allow the Councils to retain the benefits of national procurement, allow local procurement resources to be focused on core business activities, and ensure the actual and perceived independence of auditors to be maximised through the separation of the Councils from decision-making. This is therefore the recommended option.
- 3.6 The decision to appoint auditors is a Council Function, as is the appointment of auditor panel members should an option involving an auditor panel be chosen. However, as the committee with responsibility for monitoring corporate governance and considering the Council's assurance framework, the opinion and recommendation of the Audit Committee is sought in advance of a Council decision.
- 3.7 Officers have consulted informally with other Hertfordshire Authorities, via the Hertfordshire Chief Finance Officers' Association. This group felt that there would be limited value in forming a shared panel and procuring locally. This means that it is unlikely that partners would be available for the pursuit of options 2 and 3, even if these were considered to offer value for money.
- 3.8 In the interim period between the abolition of the Audit Commission and this first round of appointments, audit contracts have been managed by Public Sector Audit Appointments Ltd. (PSAA).

3.9 In July 2016, PSAA was specified by the Secretary of State as an Appointing Person and will soon publish a national collective scheme for appointment (Option 4). The timescale for this scheme is currently unknown, but regulations specify that the opt-in period will last for a minimum of 8 weeks, and indications given by PSAA at the CIPFA Conference in July 2016 suggest that this is likely to be the timeframe used. Initial interest has been expressed by 200 authorities, suggesting significant economies of scale.

3.10 Given the likely short timescale for a decision, this report also seeks a recommendation to Council to proceed with the PSAA option 4, subject to the final details of the scheme. Officers' view is that this will continue to provide the best value for money as well as the most independent selection of auditors.

4.0 **Implications**

4.1 **Financial**

4.1.1 The cost of external audit shown in the 2015/16 draft accounts was £54k (TRDC) and £60k (WBC).

4.2 **Legal Issues** (Monitoring Officers)

4.2.1 Failure to appoint an auditor must be reported to the Secretary of State, who may direct an authority to appoint a named auditor or appoint an auditor on that authority's behalf.

4.2.2 The Head of Democracy and Governance comments that the 2014 Act specifies that appointment of an auditor panel and independent members to that panel are decisions to be made by full council only as is the appointment of the auditor or the decision to opt in to the Appointed Persons scheme.

If Council decides not to opt in then a panel must be set up so that auditors can be appointed by no later than 31 December 2017.

Council is required to advertise for the positions of independent members of the audit panel and one of the independent members must be chair of the panel.

4.3 **Equalities**

4.3.1 Officers will seek assurance that appropriate equalities considerations are part of the procurement process, regardless of the method selected.

4.4 Potential Risks

Potential Risk	Likelihood	Impact	Overall score
The Council does not successfully appoint an auditor by 31 December 2017 deadline.	1	3	3
The cost of external audit increases significantly.	1	1	1

Appendices

Appendix 1: Advantages and Disadvantages of the four appointment options.

Background Papers

The following background papers were used in the preparation of this report and are available at the web links:

- The Local Audit and Accountability Act 2014 and associated notes and regulations:
<http://www.legislation.gov.uk/ukpga/2014/2/contents/enacted/data.htm>
- Guidance from the Chartered Institute of Public Finance & Accountancy:
<http://www.cipfa.org/policy-and-guidance/publications/g/guide-to-auditor-panels-pdf>
- Information on the PSAA Website, including prospectus for sector-led body application:
<http://www.psaa.co.uk/supporting-the-transition/>

File Reference: None.

Appendix 1: Advantages and Disadvantages of the four options for appointment

These advantages and disadvantages are principally based on the CIPFA Audit Panel Guidance (see background papers):

Option	Possible Advantages	Possible Disadvantages
1a Set up own separate and individual panel to oversee separate and individual procurement	<p>Full ownership of the process</p> <p>Fully bespoke contract with the auditor</p> <p>Tendering process more based on local circumstances (within EU procurement rules)</p> <p>Option to seek specific social value commitments such as apprenticeships in Watford/Three Rivers</p>	<p>May experience difficulties in appointing majority independent panel members and independent panel chair as per the regulations</p> <p>Will need to ensure that panel members are suitably qualified to understand and participate in the panel's functions</p> <p>Will have to cover panel expenses completely</p> <p>May not be able to procure at a lower cost, for example, depending on authority location, where there will be a risk of limited provider choice and a single authority contract may be less attractive to some providers</p> <p>Will not achieve economies of scale</p> <p>Limited scope for local suppliers as public audit requires a separate registration</p>
1b Use existing committee or sub-committee	<p>Existing administrative structure in place</p> <p>Existing (sub)committee should already have a better basic understanding of the authority's objectives and requirements</p> <p>(As individual panel for procurement)</p>	<p>Will need to appoint new (sub) committee members to comply with independence regulations</p> <p>Likely to require significant training or new members to fulfil knowledge requirements</p> <p>(As individual panel for procurement)</p>
2 Set up a panel jointly with other authority/authorities as part of a procurement exercise for joint contract covering more than one authority or multiple separate contracts	<p>Less administration than a sole auditor panel</p> <p>Will be able to share the administration expenses</p> <p>May be easier to attract suitable panel members</p> <p>Option to seek specific social value commitments such as apprenticeships in Hertfordshire</p> <p><i>If procuring a joint audit contract:</i></p> <p>May still be a relatively locally tailored process</p> <p>May be able to achieve some economies of scale</p> <p><i>If procuring separate audit contracts:</i></p> <p>An opportunity for fully bespoke contracts with the auditor if the group of authorities can agree</p>	<p><i>If procuring a joint audit contract:</i></p> <p>May need to compromise on the arrangements or auditor contract</p> <p>May need to enter into a formal arrangement with the other authority and may be difficult to find an authority willing to enter into such an arrangement</p> <p>May not end up with first choice of auditor compared to an individual auditor panel. If a large group of authorities work together and decide to appoint one joint audit contract across all the authorities, a joint panel may be more likely to advise appointment of an auditor it considers suitable for all authorities taken together</p> <p>Need to agree appointment of members across multiple authorities and set up an appropriate joint decision-making process</p> <p>Limited scope for social value/local suppliers as public audit requires a separate registration.</p>

Option	Possible Advantages	Possible Disadvantages
3 Use another authority's panel	<p>Will not have to set up an auditor panel</p> <p>More independent option for the authority using the host authority's panel, though would need to ensure that independent members fulfil the independence criteria for both authorities</p> <p>(As joint panel for procurement)</p>	<p>The panel may not understand the specific needs of the authority</p> <p>May need to enter into a formal arrangement with the other authority and may be difficult to find an authority willing to enter into such an arrangement</p> <p>May be more difficult to ensure adequate liaison with authority's own audit committee (if one exists)</p> <p>(As joint panel for procurement)</p>
4 Appointing Person	<p>Minimal administrative involvement required from the Authority, in procurement and contract management, allowing resources to be focused on core business activities</p> <p>Likely to offer lowest cost and most independent solution, as little to no opportunity to influence the decision</p>	<p>Very limited opportunities to express preferences and exercise control over the appointment – for example in terms of procuring other services at the same time, or making local arrangements (including social value)</p>