

22 NOVEMBER 2016

REPORT OF HEAD OF CENTRAL SERVICES

PROVISION OF EXTERNAL AUDIT SERVICES

1.0 PURPOSE OF REPORT

- 1.1 To update the Committee on arrangements being made for the appointment of external auditors from 1st April 2018 when the current contracts end and make proposals for this Council to join in with the sector led appointment of external audit from that date.

2.0 RECOMMENDATIONS

- 2.1 **To recommend to the Council that this Council opts in to the appointing person arrangements made by Public Sector Audit Appointments (PSAA) for the appointment of external auditors and delegated authority be given to the Head of Central services to submit the formal notice of acceptance.**

3.0 KEY ISSUES

3.1 Background

- 3.1.1 As part of closing the Audit Commission the Government novated external audit contracts to PSAA on 1 April 2015. The audits 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.
- 3.1.2 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. This meant that for the audit of the 2018/19 accounts it would be necessary for authorities to either undertake their own procurements or to opt in to the appointed person regime. The Local Audit and Accountability Act 2014 require authorities to either opt in to the appointing person regime or to establish an auditor panel and conduct their own procurement exercise.
- 3.1.3 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 sometimes 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).

3.2 Options Available

- 3.2.1 To establish an auditor panel and conduct our own procurement. This is an option that is not recommended as it will be 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. It is likely that a sector wide procurement conducted by PSAA will produce better outcomes for the Council than any procurement undertaken by ourselves or with a limited number of partners. Other neighbouring authorities are highly likely to be opting into the regime.

3.2.2 The main advantages of using PSAA are set out in its prospectus attached as Appendix A with some FAQs attached as Appendix B, the key ones being:

- 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.

3.2.3 The indicative timetable for the new arrangements are:

Invitation to opt in issued	27 th October 2016
Closing date for receipt of notice to opt in	9 th March 2017
Contract notice published	20 th February 2017
Award audit contracts	End June 2017
Consult on and make auditor appointments	End of December 2017
Consult on and publish scale charges	End of December 2018

3.2.4 The length of the contracts will be 5 years commencing 1 April 2018.

4.0 **POLICY AND CORPORATE IMPLICATIONS**

4.1 The key policy and corporate implications are set out in the main body of the report.

5.0 **FINANCIAL AND OTHER RESOURCE IMPLICATIONS**

5.1 If PSAA is not used some additional resource may be needed to establish an auditor panel and conduct our own procurement. Until either procurement exercise is completed it is not possible to state what additional resource may be required for audit fees for 2018/19, although it is anticipated that any increase will be minimised through using PSAA.

5.2 There will not be a fee to join the sector-led arrangements. The audit fees that opted-in bodies will be charged will cover the costs to PSAA of appointing auditors and managing the arrangements. It is believed that audit fees achieved through large contracts will be lower than the costs that individual authorities will be able to negotiate. In addition, by opting into the PSAA offer, authorities will avoid the costs of their own procurement and the requirement to set up an auditor panel with independent members

5.3 The fee for the audit of a body that opts in will reflect the size, audit risk and complexity of the work required. PSAA will establish a system for setting the fee which is fair to all opted-in authorities. As a not-for-profit organisation, PSAA will be able to return any surpluses to participating authorities after all costs have been met

5.4 In recent years the Council's audit fees have reduced due to the latest audit contracts. For the financial year 2015/16 the audit fees paid were £43k for the main audit plus £29k for the audit of grant claims making a total external audit fee of £72k.

6.0 LEGAL IMPLICATIONS/POWERS

6.1 The process as set out above and the recommendation should ensure compliance with the Local Audit and Accountability Act 2014. Regulation 19 of the Local Audit (Appointing Person) Regulations 2015 requires that a decision to opt in must be made by Full Council (authority meeting as a whole). To comply with this regulation this committee is asked to make the recommendation above to Council.

6.2 Public Sector Audit Appointments Limited (PSAA) has been specified as an appointing person under the Local Audit (Appointing Person) Regulations 2015 and has the power to make auditor appointments for audits of the accounts from 2018/19 on behalf of principal local government bodies that opt in, in accordance with the Regulations.

7.0 COMMUNITY SAFETY

7.1 There are no community safety implications arising directly from this report.

8.0 EQUALITIES

8.1 There are no equalities implications arising from this report.

9.0 RISKS

9.1 The risks are as set out in the following table.

L I K E L I H O O D	A	Very High				
	B	High		1		
	C	Significant				
	D	Low				
	E	Very Low				
	F	Almost Impossible				
			Negligible 1	Marginal 2	Critical 3	Catastrophic 4
			IMPACT			

Risk No.	Risk Description
1.	Undertaking procurement locally will result in higher costs as a result of the procurement costs and also the inability to obtain economies of scale that a larger contract could.

9.2 As set out in the report, use of PSAA minimises the risks inherent in undertaking our own procurement.

10.0 **CLIMATE CHANGE**

10.1 There are no climate change implications arising directly from this report.

11.0 **CONSULTATION**

11.1 The Chair of the Committee has been consulted as the PSAA has developed to the current position where a formal proposal is possible.

11.2 The timetable allows for consultation with authorities over both the appointment of auditors and the scale fees.

12.0 **WARDS AFFECTED**

12.1 All wards are indirectly affected by the report.

Contact Officer Dawn Garton
Date:

Appendices : A - PSAA Prospectus
 B - PSAA – Appointing Person – Frequently Asked Questions

Background None
Papers:

Reference : N/A