

# Chichester District Council

THE CABINET

4 October 2016

## Appointment of External Auditors

### 1. Contacts

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### 2. Executive Summary

This report summarises the changes to the arrangements for appointment external auditors following the end of transitional arrangement at conclusion of the 2017-18 audits.

Under delegated authority from the Corporate Governance and Audit Committee, the Head of Finance and Governance services has considered the options available and, following consultation, recommends the Council approve an opt-in to sector led procurement of external audit services by the appointed person for this task, Public Sector Audit Appointments Ltd

### 3. Recommendation

- 3.1. **That the Cabinet recommends to the Council that the Council opts in to sector-led procurement of external audit services by the appointed person, Public Sector Audit Appointments Ltd (PSAA).**

### 4. Background

- 4.1. The Local Audit and Accountability Act 2014 (the Act) 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.
- 4.2. On 5 October 2015 the Secretary of State for Communities and Local Government (CLG) determined that transitional arrangements for Local Government bodies would cease following the audit of accounts for 2017/18.
- 4.3. For 2018/19 onwards the Council now has a number of routes by which the appointment of its external auditor can be achieved, each carrying risks and

opportunities.

- 4.4. The audit appointment will cover the audit of the Council's financial statements, although it may also cover the certification of the Council's Housing Benefit (HB) subsidy claims, depending on the outcome of ongoing consultations being held by the Department of Work and Pensions. If the HB subsidy claim certification work is not formally brought within the PSAA appointment process, Local Authorities will need to undertake a separate procurement of audit services for the certification of their HB subsidy claims.
- 4.5. This issue was initially reported to the Corporate Governance and Audit Committee on 30 June 2016. Delegated authority was given to the Head of Finance and Governance Services, following consultation with the cabinet member for Finance and Governance and the Chairman of the Corporate Governance and Audit Committee to make recommendations to Cabinet and Council on the appointment of the Council's external auditor from 1 April 2018.

## **5. Outcomes to be Achieved**

- 5.1. Appointment of the Council's external auditor commencing with the 2018/19 financial year.

## **6. Proposal**

- 6.1. The Head of Finance and Governance's view is that the most suitable option for future external audit procurement is to opt-in to sector led procurement undertaken by Public Sector Audit Appointments Ltd (PSAA) which hopefully will also include certification of the Council's HB subsidy claims, although this is yet to be confirmed.
- 6.2. If this option is approved, PSAA will run the tendering exercise on behalf of all opted-in Local Authorities, and will evaluate bids and award contracts. We understand PSAA will consult Chichester District Council on the individual auditor appointment, but the details behind this are still under development.
- 6.3. Fees for the audit 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 bodies. As a not-for-profit organisation, PSAA will be able to return any surpluses to participating bodies after all costs have been met.
- 6.4. PSAA have stated that one of their aims will be to take account of joint working and shared service arrangements in making auditor appointments.
- 6.5 Advantages/ Benefits
  - The costs of setting up the appointment arrangements and negotiating fees would be shared across all opt-in authorities
  - PSAA will administer and run the procurement process on behalf of the Council, centrally contracting with the firms and complying with OJEU
  - By offering large contract values, firms would be able to offer better rates and lower fees than are likely to result in local negotiation

- Any conflicts of interest would be managed by PSAA Ltd who would have a number of alternative contracted firms to call upon
- Opting in to the sector-led process will remove the need to set up an auditor panel as prescribed by the Local Audit and Accountability Act 2014 and the Local Audit (Appointing Person) Regulations 2015

#### 6.5 Disadvantages/ Risks

- Individual elected Members will have less opportunity for direct involvement in the appointment process. At present, the arrangements by which Chichester District Council will be able to comment on the performance of firms and the arrangements made by PSAA is still being considered
- The Council is being asked to sign up at the outset at a stage where much of the detail behind the contracting process is still under development
- If Housing Benefit certification work is not brought within the PSAA regime, a separate procurement exercise may be required for these audit services.

6.6 A decision not to opt-in to sector led audit appointment now will not prevent the Council from joining the sector led arrangements in later years. However, the Council will have to make alternative arrangements to appoint its own external auditor, or risk having one imposed by the Secretary of State.

### 7. Timetable and Project Management

7.1. Should Cabinet approve the recommendation as set out at 3.1, Council will need to approve the Council's opt-in to sector led audit appointment by PSAA Ltd within eight weeks of the invitation to participate being received from PSAA Ltd. This is presently expected to be received before December 2016.

### 8. Alternatives Considered

8.1. The following alternatives were considered by the Head of Finance and Governance Services.

Alternative 1 – to make a stand alone appointment

8.2. To make a stand-alone appointment the Council would need to set up an Auditor Panel (minimum three, majority of whom must be independent).

8.3. The members of such a panel must be wholly or a majority independent members as defined by the Act. For this purpose, this would exclude current and former elected members (or officers) and their close families and friends. Individuals with contractual (commercial) relationships with the Council would also be excluded.

#### 8.4 Advantages/ Benefits

- Setting up an auditor panel would allow the Council to take maximum advantage of the new local appointment regime and have local input into the decision.
- The panel would be able to hold the Auditor directly to account for the performance of the audit

## 8.5 Disadvantages/ Risks

- There would be costs associated with the recruitment of, and servicing the Audit Panel,
- The extent of competition in audit fee levels would be determined by the number of audit firms willing to bid for the audit contract
- The assessment of bids and decision on awarding contracts would require significant officer time and any final decision would be taken by independent appointees and not solely by elected members

## Alternative 2 – to set up a Joint Auditor Panel/ Local joint Procurement Arrangements

8.6 The Act enables the Council to join with other authorities to establish a joint auditor panel. This would still need to be constituted of wholly or a majority of independent appointees (members).

## 8.7 Advantages/ Benefits

- The costs of setting up the panel, running the bidding exercise and negotiating the contract will be shared across a number of authorities
- There is a greater opportunity for negotiating some economies of scale by being able to offer combined contract value to the firms.

## 8.8 Disadvantages/ Risks

- The decision making body will be further removed from local input, with potentially only one elected member representing each Council, depending on the constitution agreed with the other bodies involved
- The potential for independence conflicts would increase as appointees would need to meet the independence requirements for all Councils involved

8.9 At present, there appears to be little appetite for a collaborative approach across West Sussex. Collaborating with any other group would not be very practicable.

## 9. Resource and Legal Implications

### Legal

- 9.1. Section 7 of the Local Audit and Accountability Act 2014 requires 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.
- 9.2. Section 8 governs the procedure for appointment including that the authority must consult and take account of the advice of its auditor panel on the selection and appointment of a local auditor.
- 9.3. Section 12 makes provision for the failure to appoint a local auditor; the authority must immediately inform the Secretary of State, who has the power to appoint a

local auditor to that local authority

- 9.4. Section 17 gives the Secretary of State the power to make regulations in relation to an ‘appointing person’. In July 2016, the Secretary of State for Communities and Local Government confirmed that Public Sector Audit Appointments Limited (PSAA) has been specified as an appointing person under the provisions of the Local Audit and Accountability Act 2014 (the 2014 Act) and the Local Audit (Appointing Person) Regulations 2015

#### Financial

- 9.5. The external auditor’s fee for 2015-16 is £59,003, comprising £49,090 for the audit of the Council’s financial statements and £9,913 for the audit of the Housing and Council Tax benefits claim. Since 2010/11 this figure has reduced by over 50% following changes in the audit procurement regime and the abolition of the Audit Commission.
- 9.6. As these present fee levels were achieved through national co-ordinated procurement exercises it is not expected that, whatever option is chosen, future audit fees will reduce further and fees may well increase when current contracts end in 2018.
- 9.7. The recommended option (sector led procurement) avoids additional local costs of setting up and servicing the audit panel as well as the cost of running a procurement exercise. There will be some costs however incurred by PSAA which will be allocated across all opted-in bodies as part of the central procurement exercise. At present these costs cannot be reliability estimated but it is reasonable to assume they will be less than local or joint procurement options simply due to economies of scale.

### 10. Consultation

- (a) In accordance with the delegation from Corporate Governance and Audit Committee, the Head of Finance and Governance services has consulted the following in preparing this report;
- (i) The Chairman of Corporate Governance and Audit
  - (ii) The Cabinet Portfolio holder for Finance

### 11. Community Impact and Corporate Risks

There are no additional community or corporate risks outside these already covered elsewhere in the report.

### 12. Other Implications

<b>Are there any implications for the following?</b>		
If you tick “Yes”, list your impact assessment as a background paper in paragraph 13 and explain any major risks in paragraph 9		
	Yes	No
<b>Crime and Disorder</b> The Council has a duty “to exercise its functions with		X

due regard to the likely effect of the exercise of those functions on, and the need to do all that it reasonably can to prevent, crime and disorder in its area". Do the proposals in the report have any implications for increasing or reducing crime and disorder?		
<b>Climate Change</b> Are there any implications for the mitigation of or adaptation to climate change? If in doubt, seek advice from the Environmental Strategy Unit (ESU).		X
<b>Human Rights and Equality Impact</b> You should complete an Equality Impact Assessment when developing new services, policies or projects or significantly changing existing ones. For more information, see Equalities FAQs and guidance on the intranet or contact Corporate Policy.		X
<b>Safeguarding and Early Help</b> The Council has a duty to cooperate with others to safeguard children and adults at risk. Do these proposals have any implication for either increasing or reducing the levels of risk to children or adults at risk? The Council has committed to dealing with issues at the earliest opportunity, do these proposals have any implication in reducing or increasing demand on Council services?		X
<b>Other</b> (please specify) eg biodiversity		X

### 13. Appendices

None.

### 14. Background Papers

None.