

REPORT OF: FINANCIAL SERVICES MANAGER

TO: EXECUTIVE

DATES: 17th NOVEMBER 2016

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APPOINTMENT OF EXTERNAL AUDITOR TO THE COUNCIL

INTRODUCTION

1. This report outlines possible options for appointing the external auditor to the Council and outlines a preferred course of action and requests that the Executive recommends this to Council.

RECOMMENDATION

2. To recommend to Full Council that this Council opts in to the appointing person arrangements made by Public Sector Audit Appointments (PSAA) for the appointment of external auditors.

REASON FOR RECOMMENDATION

3. Regulation 19 of the Local Audit (Appointing Person) Regulations 2015 requires that a decision to opt in must be made by Full Council (the Authority meeting as a whole). To comply with this regulation the Executive is asked to make the recommendation above to Council.

ISSUE

4. In January 2014, the Local Audit & Accountability Act received Royal Assent. Part 3 of the Act contains provisions for the appointment of local auditors. The Council, as a 'relevant authority' must appoint a local auditor to audit its accounts for a financial year not later than 31st December in the preceding financial year.
5. Under current arrangements the Council's appointed auditor is Grant Thornton. The firm was appointed under arrangements established by the former Audit Commission which were subsequently delegated on a transitional basis to the Public Sector Audit Appointments (PSAA) on the abolition of the Audit Commission. Under these transitional arrangements, the PSAA is currently responsible for appointing auditors to local government (and other sectors), the setting of audit fees and arrangements for the certification of Housing Benefit subsidy claims.
6. For local government these transitional arrangements have been extended to include the audit of the accounts for 2017/18. For the 2018/19 year of audit the Council can make its own arrangements to appoint the external auditor. The 2014 Act sets out the framework and

requirements within which this appointment can be made. In accordance with the Act the Council will need to conclude this appointment by the end of December 2017.

7. There appear to be 3 options, namely,
 - Make the appointment direct – with a requirement for an Auditor Panel to advise the council on the selection and appointment of a local auditor;
 - Make the appointment in conjunction with other bodies (e.g. on a regional or sub-regional basis);
 - Make the appointment via a national collective scheme (the ‘appointed person’ regime).
8. To undertake our own procurement, the Council would first have to set up an Auditor Panel to advise on the maintenance of an independent relationship with the local auditor appointed to audit its accounts. The functions of the panel are set out in the 2014 Act. The panel must consist of a majority of independent members and be chaired by an independent member. Relevant expenses would fall to be met by the Council. The panel would advise the Council on the selection and appointment of a local auditor. The Council could choose not to follow the advice but would have to publish the reasons as to why it had not done so. The Council would also have to complete a competitive procurement exercise to obtain bids from interested parties to act as the appointed auditor to the Council.
9. An alternative course of action would be to opt in to the ‘appointed person’ regime. There was a degree of uncertainty around this regime until July 2016 when 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).
10. PSAA issued their formal invitation to opt in to the national scheme for auditor appointments in late October. The deadline for formal acceptance of the invitation is the 9th March 2017. The regulations require the decision to accept the invitation and opt in to be made by members of the authority meeting as a whole (i.e. a decision for Council to take). Ordinarily, matters such as this would be reported initially to the Accounts and Audit Committee. The Committee received a report outlining the background to this matter when it last met in September. That report can be read [here](#) (item 9 refers). However, the Committee does not meet again until late January with the only Council meeting available prior to the deadline for acceptance being the Special Budget meeting of Council. Hence, the matter is being reported to this meeting of the Executive with a request that a recommendation be made to the December meeting of Council.
11. The main benefits of using PSAA are set out in its prospectus and are copied below; these could also be viewed as disadvantages if the Council was to decide to undertake its own procurement:
 - Assure timely audit appointments, suitably qualified, registered and independent;
 - Manage independence of auditors;
 - Secure appointment, if possible, of the same auditors to bodies involved in significant collaboration/joint working initiatives or combined authorities, if the parties believe that it will enhance efficiency and value for money;
 - Secure highly competitive prices from audit firms;
 - Save on procurement costs;
 - Focus on audit quality to help develop and maintain the market for the sector;
 - Save the time and effort required for individual bodies to establish an auditor panel and to undertake an auditor procurement;

- Operate on a not for profit basis and distribute any surplus funds to scheme members.

12. It is likely that a sector wide procurement conducted by PSAA will produce better outcomes for the Council than any procurement we undertook ourselves or with a limited number of partners. Use of the PSAA will also be less resource intensive than establishing an Auditor Panel and conducting our own procurement. Without the bulk buying power of the sector led procurement it is also likely that it would result in a more costly service.

Policy

13. There are no policy implications arising from the contents of this report.

Financial

14. 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.

Legal

15. The process as set out above and the recommendation should ensure compliance with the Local Audit and Accountability Act 2014.

Risk Management

16. The sector led approach should help mitigate the risks of delay and additional costs associated with the appointment of external auditors to the Council. If the Council fails to appoint an external auditor the 2014 Act contains provisions for the Secretary of State to direct the Council to appoint a named auditor or to appoint a local auditor on behalf of the authority.

Health and Safety

17. There are no health and safety implications arising directly from the contents of this report.

Sustainability

18. There are no sustainability implications arising directly from this report.

Community Safety

19. There are no community safety issues arising directly from the contents of this report.

Equality and Diversity

20. There are no equality and diversity issues arising from the contents of this report.

Background Papers

PSAA Prospectus and Frequently Asked Questions (FAQs) <http://www.psa.co.uk/supporting-the-transition/appointing-person/>