

Appointment of Auditors

1. Purpose of Report

- 1.1. This report asks the Council to accept the recommendation of the Audit Committee and opt into arrangements by which the Council's external auditor is appointed by Public Sector Audit Appointments Limited, a company owned by the Local Government Association.

2. Recommendations

- 2.1 That the Council 'opt in' to having its auditor appointed by Public Sector Audit Appointments Limited and authorise the Executive Director for Corporate and Customer Services to notify Public Sector Audit Appointments Limited accordingly.

3. Background

- 3.1 The Council's current auditors are Ernst and Young. Their appointment covers the audit of the Council's accounts up to and including the accounts for 2017/18. Ernst and Young were appointed by the Audit Commission, which has now been abolished.
- 3.2 The Council will need to make arrangements for appointment of an auditor for the financial year 2018/19 onwards. Those arrangements must lead to the appointment of an auditor by 31 December 2017. Whoever appoints the auditor will need to invite competitive tenders.
- 3.3 Under the Act which abolished the Audit Commission, the Council now has three options:

Option 1: Appoint its own auditor

- 3.3.1 Under this option the Council would need to create a dedicated Auditor Panel and carry out a competitive procurement leading to the appointment of an Auditor by full Council.
- 3.3.2 This option is not recommended by the Audit Committee because:
 - The law requires that if the Council follows this option it must establish an auditor panel. The panel must be made up of a majority of independent persons who meet very strict eligibility requirements – in practice recruitment would be difficult.
 - This option does not give any opportunity for 'bulk purchasing' discounts.

- There would be limited control over the appointment of an auditor because the Council would have to appoint the most economically advantageous tender.
- There is a complex process to follow.

Option 2: Create an Auditor Panel jointly with other authorities and carry out a joint competitive procurement

3.3.3 This option is similar to option 1, but the Council would work with other local authorities to share the cost of procurement and increase opportunities for bulk purchasing.

3.3.4 This option is not recommended by the Audit Committee because:

- The law requires that if the Council follows this option it must establish an auditor panel, jointly with other authorities. The panel must be made up of a majority of independent persons who meet very strict eligibility requirements – in practice recruitment would be difficult.
- This option gives some opportunity for ‘bulk purchasing’ discounts.
- There would be limited control over the appointment of an auditor because procurement law requires the Council to appoint the most economically advantageous tender.
- There is a complex process to follow.
- If the procurement fails for any reason then the Council is placed in a difficult position. An LGA survey of finance directors indicated strong preference for a central appointment system.
- There is little appetite for a local joint appointment – most authorities are intending to follow option 3.

3.3.5 Option 3: Opt in to Appointment by Public Sector Auditor Appointments Limited (PSAA)

3.3.6 Under this option the Council simply decides to opt in. PSAA will procure a panel of auditors. PSAA will appoint the Council’s auditor from its panel, after consulting the Council. The audit fees would be based on a scale of fees determined by PSAA after consulting the Council. An auditor panel would not be required.

3.3.7 This option has been recommended by the Audit Committee because:

- The cost of procurement would be shared across many authorities.
- Maximum opportunities for volume discounts. The LGA estimates that the fee reductions negotiated by PSAA have saved the local government sector £24m a year.
- The LGA have undertaken analysis which, they say, indicates that using a central system would be far cheaper for councils than having every council procuring their external auditor separately.
- PSAA has negotiated reduced audit fees in recent years. If the Council opts in then it can continue to benefit from these arrangements.

- It can be achieved with minimal administration within the Council without the need for procurement, contract management or the need to appoint an Auditor Panel.

3.3.8 In considering this recommendation, Council will need to consider the following issues:

- This option will give the Council slightly less control over the identity of the auditor. The Council would still be consulted by PSAA before an auditor is appointed. It should be remembered that under the other options the Council's ability to control the identity of the auditor is constrained by procurement law.
- If PSAA fails to maintain its negotiating position then audit fees may increase. However, it is as likely to succeed in maintaining its position as the Council.
- The Council will have to make a legally-binding commitment to 'opt in' before knowing which auditors are on the PSAA panel or the fees. In practice, however, all auditors with an interest in this work are likely to be on the PSAA panel and the fees agreed by PSAA have been lower than those set by the Audit Commission.
- The Council would (via the audit fees) make an indirect contribution to the operating costs of PSAA. However, PSAA is currently a small organisation and the Council's share of these costs is likely to be lower than the costs the Council would have to incur by procuring and managing its own auditor.

3.4 The Council has until 9 March 2017 to make a decision on whether or not to 'opt in'. If it fails to opt in then it will have to make its own arrangements and appoint an auditor by 31 December 2017.

4. Financial Implications

4.1 Whichever method of auditor appointment is chosen, the Council will need to pay the fees to its appointed auditor. The Council has always had to pay audit fees, although these are currently set in accordance with the parameters set by Public Sector Audit Appointments Limited.

5. Legal Implications

5.1 The Local Audit and Accountability Act 2014 sets the framework for audit of the Council's accounts.

5.2 The Council will need to ensure that an auditor has been appointed by 31 December 2017. This could be by 'opting in' to an appointing person or by undertaking its own procurement advised by its Auditor Panel.

5.3 On 27 October 2016 the Council received a formal invitation from Public Sector Audit Appointments Limited issued under the Local Audit (Appointing Persons) Regulations 2015. The Council has until 9 March 2017 to 'opt in'.

- 5.4 The opt-in would apply to the audit of accounts for financial years 2018/19 to 2022/23. After that the Council will need to opt in again, or make alternative arrangements.
- 5.5 If the Council becomes an 'opted in authority' it cannot appoint its own auditor during the five-year period.
- 5.6 Audit fees for 'opted in authorities' are calculated using a scale set by the PSAA Ltd after consulting 'opted in' authorities and firms of accountants. Opted in authorities must pay the scale fee, together with any extra charges that apply – for example for producing public interest reports – any extra charges would be payable to any auditor.
- 5.7 Under regulation 19 of the Local Audit (Appointing Persons) Regulations 2015 the decision to become an opted in authority must be taken at a meeting of the Full Council.

6. List of Background Papers

- 6.1 Invitation from Public Sector Audit Appointments Limited dated 27 October 2016.