

CHESHIRE EAST COUNCIL

AUDIT AND GOVERNANCE COMMITTEE

Date of Meeting:	8 th December 2016
Report of:	Chief Operating Officer
Subject/Title:	Arrangements for the Appointment of External Auditors
Portfolio Holder:	Councillor Peter Groves

1.0 Report Summary

- 1.1 The report summarises the arrangements for appointing External Auditors following the closure of the Audit Commission and the end of the transitional arrangements at the conclusion of the 2017/18 audits.
- 1.2 The Council will need to consider the options available and put in place new arrangements. The deadline for appointments is 31 December 2017.
- 1.3 The available options are:
 - A. Establish a stand alone Auditor Panel to make the appointment on behalf of the Council;
 - B. Explore the establishment of local joint procurement arrangements with neighbouring authorities; or
 - C. Opt-in to the national Sector Led Body, Public Sector Audit Appointments Ltd (PSAA).
- 1.4 The report recommends Option C.
- 1.5 In order to opt into the national Sector Led body, a decision will be required at a meeting of the full Council in time to submit a formal acceptance to PSAA by the required date of 9 March 2017.

2.0 Recommendation

- 2.2 That the Audit and Governance Committee recommend to Council to accept the invitation from Public Sector Audit Appointments Ltd to 'opt in' to the sector led option for the appointment of external auditors for five financial years commencing 1 April 2018.

3.0 Reasons for Recommendations

- 3.1 The Local Government Association (LGA) and the Department of Communities and Local Government (DCLG) have approved the PSAA to become the sector led body. The PSAA is a not-for-profit company which already administers the current audit contracts.

- 3.2 A sector-wide procurement conducted by PSAA will produce better outcomes and will be less burdensome for the Council than any procurement undertaken locally. Without the national appointment, the Council would need to establish a separate independent audit panel, which could be costly and time consuming.
- 3.3 PSAA can ensure the appointed auditor meets and maintains the required quality standards and can manage any potential conflicts of interest much more easily than the Council.
- 3.4 Supporting the sector-led body will help to ensure there is a vibrant public audit market for the benefit of the whole sector and this Council going forward into the medium and long term.

4.0 Wards Affected

- 4.1 All.

5.0 Local Ward Members

- 5.1 Not applicable.

6.0 Policy Implications

- 6.1 None.

7.0 Implications for Rural Communities

- 7.1 None

8.0 Financial Implications

- 8.1 Current external audit fees levels are likely to increase when the current contracts end in 2018, regardless of the procurement option.
- 8.2 Opting-in to a national scheme provides maximum opportunity to ensure fees are as low as possible, whilst ensuring the quality of audit is maintained by entering in to a large scale collective procurement arrangement.

9.0 Legal Implications

- 9.1 The arrangements for local auditor appointment set out in the Local Audit and Accountability Act 2014 will apply for audit of the accounts of principal local authority bodies from 2018/19 onwards. Auditor appointments must be made for 2018/19 audits by 31 December 2017, as required by Section 7 of the Act. Appointments may be made by the audited body itself, by groups of audited bodies, or by a specified appointing person.

- 9.2 The Secretary of State for Communities and Local Government delegated statutory functions (from the Audit Commission Act 1998) on a transitional basis to PSAA by way of a letter of delegation issued under powers contained in the Local Audit and Accountability Act 2014.
- 9.3 Under these transitional arrangements, the company is currently responsible for appointing auditors to local government, police and local NHS bodies, for setting audit fees and for making arrangements for the certification of housing benefit subsidy claims.
- 9.4 In July 2016, the Secretary of State for Communities and Local Government specified PSAA as an appointing person under regulation 3 of the Local Audit (Appointing Person) Regulations 2015. This means that PSAA can make auditor appointments for audits of the accounts from 2018/19 of principal authorities that choose to opt into its arrangements.

10.0 Risk Management

- 10.1 The principal risks are that the Council fails to appoint an auditor in accordance with the new frameworks or does not achieve value for money in the appointment process. These risks are considered best mitigated by opting into the sector led approach through PSAA.

11.0 Background and Options

- 11.1 The Local Audit and Accountability Act 2014 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. On 5 October 2015 the Secretary of State Communities and Local Government (CLG) determined that the transitional arrangements for local government bodies would be extended by one year to also include the audit of the accounts for 2017/18.
- 11.2 The Act also set out the arrangements for the appointment of auditors for subsequent years, with the opportunity for authorities to make their own decisions about how and by whom their auditors are appointed. Regulations made under the Act allow authorities to 'opt in' for their auditor to be appointed by an 'appointing person'.
- 11.3 The 'appointing person', PSAA is inviting the Council to opt in, along with all other authorities, so that PSAA can enter into a number of contracts with appropriately qualified audit firms and appoint a suitable firm to be the Council's auditor.

The principal benefits from such an approach are as follows:

- PSAA will ensure the appointment of a suitably qualified and registered auditor and expects to be able to manage the appointments to allow for appropriate groupings and clusters of audits where bodies work together;

- PSAA will monitor contract delivery and ensure compliance with contractual, audit quality and independence requirements;
- Any auditor conflicts at individual authorities would be managed by PSAA who would have a number of contracted firms to call upon;
- It is expected that the large-scale contracts procured through PSAA will bring economies of scale and attract keener prices from the market than a smaller scale competition;
- The overall procurement costs would be lower than an individual smaller scale local procurement;
- The overhead costs for managing the contracts will be minimised through a smaller number of large contracts across the sector;
- There will be no need for the Council to establish alternative appointment processes locally, including the need to set up and manage an 'auditor panel';
- A sustainable market for audit provision in the sector will be easier to ensure for the future.

11.4 The scope of the audit will be specified nationally, the National Audit Office (NAO) is responsible for writing the Code of Audit Practice which all firms appointed to carry out the Council's audit must follow.

Other Options

11.5 If the Council did not opt in there would be a need to establish an independent auditor panel. In order to make a stand-alone appointment the auditor panel would need to be set up by the Council itself. The members of the panel must be wholly or a majority of independent members as defined by the Act. Independent members for this purpose are independent appointees; this excludes current and former elected members or officers and their close families and friends. This means that elected members will not have a majority input to assessing bids choosing which audit firm to award a contract for the Council's external audit.

11.6 Alternatively the Act enables the Council to join with other authorities to establish a joint auditor panel. Again this will need to be constituted of wholly or a majority of independent appointees. Further legal advice would be required on the exact constitution of such a panel having regard to the obligations of each Council under the Act and the Council would need to liaise with other local authorities to assess the appetite for such an arrangement.

11.7 Neither of these options is recommended as both these options would be more resource intensive processes to implement and without the bulk buying power of the sector led procurement, would be likely to result in a more costly service. It would also be more difficult to manage quality and independence requirements through a local appointment process.

12.0 Access to Information

The background papers relating to this report can be inspected by contacting the report writer:

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