

**TITLE OF REPORT: ITEM REFERRED FROM FINANCE, AUDIT AND RISK COMMITTEE: 21 NOVEMBER 2016 – APPOINTMENT OF AUDITORS FOR 2018/19 ONWARDS**

*The following is an extract from the Draft Minutes of the Finance, Audit and Risk Committee meeting held on 21 November 2016.*

**43. APPOINTMENT OF EXTERNAL AUDITORS FOR 2018/19 ONWARDS**

The Head of Finance, Performance and Asset Management presented a report in respect of the appointment of External Auditors for 2018/19 onwards.

The Head of Finance, Performance and Asset Management advised that the Local Audit and Accountability Act 2014 had abolished the Audit Commission. For an interim period, Public Sector Audit Appointments Ltd (PSAA) had arranged for audits to be undertaken by audit firms. However, for audits from 2018/19, local authorities were required to appoint their own auditors.

The Head of Finance, Performance and Asset Management commented that, whilst there were options available that allowed local authorities to have greater control over the process, it was considered that sector wide procurement would deliver cost and process efficiencies. This could be achieved by entering into the joint procurement arrangements undertaken by the PSAA.

The Head of Finance, Performance and Asset Management stated that auditors for 2018/19 needed to be appointed by 31 December 2017. The PSAA was therefore looking to award contracts by June 2017. To achieve this timing, the period for joining the PSAA arrangements was up until 9 March 2017.

The Head of Finance, Performance and Asset Management referred to the advantages of using the PSAA process, as described in Paragraph 7.4 of the report, and alternatives to using the process were set out in Paragraph 7.5 of the report. The report concluded that the PSAA option was considered to be the best one for the Council to choose.

The Committee noted that the maximum appointment period allowed by the regulations was 5 years. A maximum period was set as it helped to ensure the independence of the auditor. Appointing up to this maximum provided two advantages - it reduced the time taken up by re-procurement; and the auditor would build up a knowledge of the Council's systems and processes which could make the audit process more efficient.

In response to a Member's question, the Head of Finance, Performance and Asset Management commented that, as the PSAA process was new, there was no benchmarking information available to fully compare the benefits of it with other options, such as pooling with other Hertfordshire Authorities; however, the PSAA had an incentive to ensure value for money, otherwise authorities would not engage in future programmes. The Strategic Director of Finance, Policy and Governance added that, in any event, the other Hertfordshire Authorities and some 180 authorities who were members of the Society of District Council Treasurers had indicated a preference for adopting the PSAA process.

**RECOMMENDED TO CABINET:** That Council be requested to approve that the Council opts in to the appointing person arrangements made by Public Sector Audit Appointments Ltd (PSAA) for the appointment of external auditors, for a period of 5 years from the 2018/19 audit.

**REASON FOR DECISION:** To comply with the requirement under Regulation 19 of the Local Audit (Appointing Person) Regulations 2015 to appoint an external auditor; and to take forward the option that is most likely to provide the best value for money, both in terms of cost and time taken to deliver.

*The following is the report considered by the Finance, Audit & Risk Committee at its meeting held on 21 November 2016.*

**TITLE OF REPORT: APPOINTMENT OF EXTERNAL AUDITORS FOR 2018/19 ONWARDS**

REPORT OF THE HEAD OF FINANCE, PERFORMANCE AND ASSET MANAGEMENT

EXECUTIVE MEMBER: COUNCILLOR T.W. HONE

**1. SUMMARY**

- 1.1 The Local Audit & Accountability Act 2014 abolished the Audit Commission. For an interim period Public Sector Audit Appointments Ltd (PSAA) arranged for audits to be undertaken by audit firms. For audits from 2018/19, local authorities are required to appoint their own auditors.
- 1.2 Whilst there are options available that allow local authorities to have greater control over the process, it is considered that sector wide procurement would deliver cost and process efficiencies. This can be achieved by entering in to the joint procurement arrangements undertaken by the PSAA.
- 1.3 Under regulations this decision needs to be taken by Council.
- 1.4 Certification work (e.g. housing benefit subsidy claims) is not covered by this process, but the appointment of auditors for this purpose is not subject to the same panel selection requirements.

**2. RECOMMENDATIONS**

- 2.1 To recommend to Cabinet that Council be requested to approve that the Council opts in to the appointing person arrangements made by Public Sector Audit Appointments Ltd (PSAA) for the appointment of external auditors, for a period of 5 years from the 2018/19 audit.

**3. REASONS FOR RECOMMENDATIONS**

- 3.1 To comply with the requirement to appoint an auditor. Under regulation 19 of the Local Audit (Appointing Person) Regulations 2015 this decision has to be taken by Full Council.
- 3.2 To take forward the option that is most likely to provide the best value for money, both in terms of cost and time taken to deliver.

**4. ALTERNATIVE OPTIONS CONSIDERED**

- 4.1 The alternative options considered are:
  - Set up a procurement for North Hertfordshire District Council alone
  - Form a joint procurement with other authorities (e.g. other Hertfordshire Councils)
  - Join in with a joint procurement being led by another authority

**5. FORWARD PLAN**

- 5.1 This report contains a recommendation on a key decision that was first notified to the public on the Forward Plan on 9 September 2016.

## **6. CONSULTATION WITH EXTERNAL ORGANISATIONS AND WARD MEMBERS**

- 6.1 Through the Hertfordshire Chief Finance Officers (HCFO) Group, other Hertfordshire Councils have been consulted on their intentions. This group agreed that the PSAA appointment route is most likely to provide the best outcomes, and that there would not be a Hertfordshire wide procurement exercise.

## **7. BACKGROUND**

- 7.1 Public Sector Audit Appointments Limited (PSAA) is an independent company limited by guarantee incorporated by the Local Government Association (LGA). It was formed following the abolition of the Audit Commission and is currently responsible for appointing local government auditors and setting audit fees. This has been a transitional arrangement that will end following the 2017/18 audits.
- 7.2 For audits from 2018/19, local authorities are required to make their own arrangements for the external audit of their accounts. The Secretary of State for Communities and Local Government has specified PSAA as an appointing person under the Local Audit (Appointing Person) Regulations 2015. This means that PSAA can make auditor appointments for audits of local authorities.
- 7.3 Auditors for 2018/19 need to be appointed by 31 December 2017. As well as offering scale, best value will also be achieved by giving audit firms time to plan how they will deliver audits. The PSAA are therefore looking to award contracts by June 2017. To achieve this timing, the period for joining the PSAA arrangements is up until 9 March 2017.
- 7.4 The advantages of using the PSAA process are set out in their prospectus (see background papers) and include:
- assured appointment of a qualified, registered, independent auditor
  - 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
  - on-going management of independence issues
  - securing highly competitive prices from audit firms
  - minimising scheme overhead costs
  - savings from one major procurement as opposed to a multiplicity of small procurements
  - distribution of surpluses to participating bodies
  - a scale of fees which reflects size, complexity and audit risk
  - a strong focus on audit quality to help develop and maintain the market for the sector
  - avoiding the necessity for individual bodies to establish an auditor panel and to undertake an auditor procurement
  - enabling time and resources to be deployed on other pressing priorities
  - setting the benchmark standard for audit arrangements for the whole of the sector

- 7.5 The alternatives to using the PSAA process are:
- Set up a procurement for the Council alone
  - Form a joint procurement with other authorities (e.g. other Hertfordshire Councils)
  - Join in with a joint procurement being led by another authority
- 7.6 For any of the options referenced in 7.5, an auditor panel will need to be formed. This must have at least three members, a majority of whom are independent of the Council and must have an independent Chair. There would be a need to find people who could sit on the panel and then ensure that they have relevant knowledge and experience. There would also be a need for officers to manage the procurement process. Furthermore there would be an ongoing requirement to manage the contract, ensure auditor independence and deal with auditor replacement (if required).
- 7.7 The potential advantage from setting up a Council specific procurement is having a greater input in to how auditors are appointed. However, the appointment would be the decision of the panel and would need to be transparent. The overall market that can be appointed from is fairly limited due to the specific registration that is required. Any advantage needs to be weighed up against the process and time involved, as well as what is expected to be a higher price.
- 7.8 Some of the disadvantages of a Council specific procurement could be reduced or shared by a joint procurement (either being part of forming one or joining one that has formed), but this erodes any advantage at the same time. Therefore the PSAA option is considered to be the best one to choose.
- 7.9 As well as the main audit of our financial statements, our auditors also currently undertake certification work. This certification work covers grants and claims, with the main one being the housing benefit subsidy claim. The PSAA do not have any power to appoint auditors for this purpose. The grant paying body will set the requirements that need to be met, and the Council will need to appoint an auditor to comply with these requirements. This could be the same auditor used for the financial statements, but would be subject to a separate agreement between the Council and that audit firm. The Council could also appoint a different auditor, and this would not be subject to the auditor panel requirements required for the financial statement audit.
- 7.10 The maximum appointment period allowed by the regulations is 5 years. A maximum period is set as it helps to ensure the independence of the auditor. Appointing up to this maximum provides two advantages. Firstly it reduces the time taken up by reprocurement. Secondly the auditor builds up a knowledge of the Council's systems and processes which can make the audit process more efficient.

## **8. LEGAL IMPLICATIONS**

- 8.1 The Local Audit and Accountability Act ("the Act") requires that local authorities (as relevant authorities under the act) must have their accounts audited and that this is carried out by an auditor that is appointed in accordance with the Act.
- 8.2 Part 3 of the act sets out the process for appointing an auditor, including the timescales and the role of the audit panel. It also determines that a failure to appoint an auditor will be referred to the Secretary of State, who would make an appointment on behalf of that authority.

8.3 Section 17 of the Act allows for the Secretary of State to determine an appointing person. This person can appoint auditors on behalf of relevant authorities. Public Sector Audit Appointments Ltd (PSAA) have been determined to be an appointing person under the act.

8.4 Regulation 19 of the Act determines that an authority will need to make the decision to opt in to using an appointing person at full council.

## **9. FINANCIAL IMPLICATIONS**

9.1 The fees for the 2015/16 audit of the statement of accounts were £52k.

9.2 Using the PSAA joint procurement option is expected to offer the best value for money, as it spreads administration costs and provides contract lots that are more likely to appeal to audit firms. However it is not known at this stage how audit fees will compare to current fees. The PSAA will use a scale fee model, similar to that used currently. This means that fees are set based on size, complexity and audit risk. This seems to be a fair allocation of costs, whilst also providing authorities some protection from fluctuations in costs. Once the PSAA has covered their administration costs, any surpluses will be distributed back to participating authorities.

## **10. RISK IMPLICATIONS**

10.1 The PSAA procurement option is considered to be the lowest risk option, as it means that the council does not need to undertake a procurement process or set up an auditor panel.

10.2 The main potential risk from the PSAA procurement option is that the specification of work does not adequately reflect the Council's audit needs. However this is highly unlikely as the Council's current and future planned activities are in line with what other authorities are doing.

## **11. EQUALITIES IMPLICATIONS**

11.1 The Equality Act 2010 came into force on the 1 October 2010. The Act created a new Public Sector Equality Duty, which came into force on the 5 April 2011. There is a general duty that public bodies must meet, underpinned by more specific duties which are designed to help meet them.

11.2 In line with the Public Sector Equality Duty, public bodies must, in the exercise of its functions, give **due regard** to the need to eliminate discrimination, harassment, victimisation, to advance equality of opportunity and foster good relations between those who share a protected characteristic and those who do not.

11.3 The procurement undertaken by PSAA will be in line with contract regulations and open to the registered market of firms that can undertake this work. The PSAA have established an advisory panel to support the procurement process.

## **12. SOCIAL VALUE IMPLICATIONS**

12.1 As the recommendations made in this report do not constitute a public sector contract, the measurement of "social value" as required by the Public Services (Social Value) Act 2012 need not be applied.

### **13. HUMAN RESOURCE IMPLICATIONS**

- 13.1 The recommendations made in this report are expected to minimise the impact on both officer and member time. If one of the alternative options were chosen then this would involve learning and development activities to be undertaken, especially by the auditor panel.

### **14. CONTACT OFFICERS**

- 14.1 Ian Couper, Head of Finance, Performance and Asset Management  
[ian.couper@north-herts.gov.uk](mailto:ian.couper@north-herts.gov.uk), telephone 01462 474243
- 14.2 Norma Atlay, Strategic Director of Finance, Policy and Governance  
[norma.atlay@north-herts.gov.uk](mailto:norma.atlay@north-herts.gov.uk), telephone 01462 474297
- 14.3 Anthony Roche, Corporate Legal Manager and Monitoring Officer,  
[anthony.roche@north.herts.gov.uk](mailto:anthony.roche@north.herts.gov.uk), telephone 01462 474588
- 14.4 Kerry Shorrocks, Corporate Human Resources Manager  
[Kerry.shorrocks@north-herts.gov.uk](mailto:Kerry.shorrocks@north-herts.gov.uk), telephone 01462 474224

### **15. BACKGROUND PAPERS**

- 15.1 PSAA prospectus <http://www.psa.co.uk/wp-content/uploads/2016/08/PSAA-A5-web-portrait-August-2016.pdf>