

Changes to Arrangements for Appointment of External Auditors

Report of the Treasurer

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1 Purpose of Report

This report summarises the changes to the arrangements for the appointment of external auditors, following the closure of the Audit Commission and the end of the transitional arrangements at the conclusion of the 2017/18 audits. The Fire Authority will need to consider the options available and put in place new arrangements in time to make a first appointment by 31 December 2017.

2 Recommendations

The Committee is asked to consider the options for the appointment of external auditors as laid out in the report, and recommend a preferred approach to the Authority.

3 Background

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 for 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.

The Authority's current external auditor is Grant Thornton, this appointment having been made under a contract led by the Audit Commission. Following closure of the Audit Commission, the contract is currently managed by Public Sector Audit Appointments Limited (PSAA), the transitional body set up by the Local Government Association (LGA) with delegated authority from the Secretary of State. Over recent years the Authority has benefited from a reduction in fees of around 50%. This has been the result of a combination of factors including new contracts negotiated nationally with the firms of accountants, and savings from closure of the Audit Commission. The Authority's current external audit fees are £38,000 per annum.

When the current transitional arrangements come to an end on 31 March 2018, the Authority will be able to move to the local appointment of the auditor. There are a number of routes by which this can be achieved, each with varying risks and opportunities. Current fees are based on discounted rates offered by the firms in return for substantial market share. When the contracts were last negotiated nationally by the Audit Commission they covered NHS and local government bodies and offered maximum economies of scale.

The scope of the audit will still be specified nationally. The National Audit Office (NAO) is responsible for writing the Code of Audit Practice which all firms appointed to carry out authorities' audits must follow. Not all accounting firms will be eligible to compete for the work; they will need to demonstrate that they have the required skills and experience and be registered with a Registered Supervising Body approved by the Financial Reporting Council. The registration process has not yet commenced and so the number of firms is not known, but it is reasonable to expect that the list of eligible firms may include the top ten or twelve firms in the country, including the Authority's current auditor. It is unlikely that small local independent firms will meet the eligibility criteria.

4 Options for local appointment of External Auditors

There are three broad options open to the Authority under the Local Audit and Accountability Act 2014 (the Act):

Option 1

To make a stand-alone appointment

In order to make a stand-alone appointment the Authority will need to set up an Auditor Panel. 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 and choosing which firm of accountants to award a contract for the Authority's external audit. A new independent auditor panel established by the Authority will be responsible for selecting the auditor.

Advantages/benefits

- Setting up an auditor panel allows the Authority to take maximum advantage of the new local appointment regime and have local input to the decision

Disadvantages/risks

- There will be costs associated with the recruitment and servicing of the Auditor Panel, running the bidding exercise and negotiating the contract; in addition, on-going expenses and allowances will be incurred
- The Authority will not be able to take advantage of reduced fees that may be available through joint or national procurement contracts
- The assessment of bids and decision on awarding contracts will be taken by independent appointees and not solely by elected members

Option 2

Set up a Joint Auditor Panel / local joint procurement arrangements

The Act enables the Authority to join with others to establish a joint auditor panel. Again this will need to be constituted of wholly or a majority of independent appointees (members). Further legal advice will be required on the exact constitution of such a panel, having regard to the obligations of each authority under the Act, and the Authority's requirement to liaise with other local authorities to assess the appetite for such an arrangement.

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 greater opportunity for negotiating some economies of scale by being able to offer a larger combined contract value to the firms

Disadvantages/risks

- The decision making body will be further removed from local input. There will be potentially no input from elected members where a wholly independent auditor panel is used, or limited input where only one elected member is appointed to the joint panel to represent the Authority
- The choice of auditor could be complicated where individual authorities have independence issues. An independence issue occurs where the auditor has recently or is currently carrying out work such as consultancy or advisory work for the Authority. Where this occurs, some auditors may be prevented from being appointed by the terms of their professional standards. There is a risk that if the joint auditor panel choose a firm that is conflicted for this Authority, then a separate appointment, with all the attendant costs and loss of economies possible through joint procurement, may still be required.

Option 3 Opt-in to a Sector Led Body

In response to the consultation on the new arrangement, the LGA successfully lobbied for authorities to be able to 'opt-in' to a Sector Led Body, appointed by the Secretary of State under the Act. A Sector Led Body would have the ability to negotiate contracts with the firms nationally, maximising the opportunities for the most economic and efficient approach to procurement of external audit on behalf of the whole sector.

On 22 July 2016, the LGA confirmed that PSAA had been approved by the Government to become the body which is authorised to make future audit appointments on behalf of principal local authorities. The first appointments will commence in relation to the financial year 2018/19.

Advantages/benefits

- The costs of setting up the appointment arrangements and negotiating fees would be shared across all opt-in authorities
- By offering large contract values the firms would be able to offer better rates and lower fees than are likely to result from local negotiation
- Any conflicts at individual authorities would be managed by the Sector Led Body who would have a number of contracted firms to call upon.
- The Authority would not need to set up an Auditor Panel and therefore locally appointed independent members would not be required. Instead, a separate body would be set up to act in the collective interests of the 'opt-in' authorities. The LGA are considering setting up such a body utilising the knowledge and experience acquired through the setting up of the transitional arrangements.

Disadvantages/risks

- Individual elected members will have less opportunity for direct involvement in the appointment process other than through the LGA and/or stakeholder representative groups.
- In order for the Sector Led Body to be viable and to be placed in the strongest possible negotiating position, authorities would be required to indicate their intention to opt-in before final contract prices are known.

5 Next Steps

The Authority have until December 2017 to make an appointment. In practical terms this means that one of the options outlined in this report will need to be in place by spring 2017 in order that the contract negotiation process can be carried out during 2017.

The Authority has been asked by the LGA for an indication of the preferred approach in order that it can invest resources in providing appropriate support to authorities. The LGA is strongly supportive of the Sector Led Body approach, as it believes this offers best value to authorities by reducing set-up costs and having the potential to negotiate lowest fees.

6 Financial Implications

Current external fee levels are likely to increase when the current contracts end in 2018.

The cost of establishing a local or joint Auditor Panel outlined in options 1 and 2 above would need to be estimated and included in the Authority's budget from 2017/18. This would include the cost of recruiting independent appointees (members), servicing the Panel, running a bidding and tender evaluation process, letting a contract and paying members fees and allowances.

Opting-in to a national Sector Led Body provides maximum opportunity to limit the extent of any increases by entering in to a large scale collective procurement arrangement and would remove the costs of establishing an auditor panel. There will be no fee to join the sector led arrangements. The audit fees that opted-in bodies will be charged by the sector led body will cover the costs of appointing auditors. The LGA believes that audit fees achieved through block contracts will be lower than the costs that individual authorities will be able to negotiate. In addition, by using the Sector Led Body, authorities would avoid both the procurement process and the legal requirement to set up a panel of independent members.

7 Legal Comment

Section 7 of the Local Audit and Accountability Act 2014 (the Act) 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. 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. Section 8 provides that where a relevant authority is a local authority operating executive arrangements, the function of appointing a local auditor to audit its accounts is not the responsibility of an executive of the authority under those arrangements.

8 Initial Impact Assessment

This report contains merely statements of fact / historical data. An Initial Impact Assessment is not, therefore, required.

9 Appendices

There are no appendices to this report

10 Background Papers

There are no background papers associated with this report.