

Joint Audit and Governance Committee



Report of Head of Finance



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To: **Joint Audit and Governance Committee; South and Vale Councils**

23 Jan 2017 by Joint Audit and Governance Committee

14 Feb 2017 (V)/ 15 Feb 2017 (S) by Council

Appointment of external auditors

Recommendation

That Joint Audit and Governance Committee recommends both Councils to opt in to the appointing person arrangements made by Public Sector Audit Appointments (PSAA) for the appointment of external auditors.

Purpose of Report

1. To determine the approach the council will follow in appointing its external auditor.

Strategic Objectives

2. South - An independent external audit arrangement helps us maintain our strong financial position.
3. Vale - An independent external audit arrangement helps us run an effective council.

Background

4. Following the closure of the Audit Commission, new arrangements were needed for the appointment of external auditors. The Local Audit and Accountability Act 2014 requires authorities to either opt in to the appointing person regime or to establish an auditor panel and conduct their own procurement exercise.
5. As part of closing the Audit Commission the Government novated external audit contracts to Public Sector Audit Appoints (PSAA) on 1 April 2015. At the time the audits were due to expire following conclusion of the audits of the 2016/17 accounts, but could be extended for a period of up to three years by PSAA, subject to approval from the Department for Communities and Local Government.
6. In October 2015 the Secretary of State confirmed that the transitional provisions would be amended to allow an extension of the contracts for a period of one year. This meant that for the audit of the 2018/19 accounts it would be necessary for authorities to either undertake their own procurements or to opt in to the appointed person regime. What this means is that the authorities confirm they wish to use auditors who will be appointed to a panel by the PSAA following a tender process which will be run by the PSAA and is expected to commence in March 2017. By asking authorities to confirm they wish to opt in, the PSAA will be able to assess the demand and tailor their tender process accordingly with the intention of securing economies of scale.
7. The date by which authorities need to opt in to the appointing person arrangements is 9 March 2017. The decision needs to be endorsed by South and Vale Councils.
8. The main advantages of using PSAA are set out in its prospectus and are copied below; these can also be viewed as the disadvantages if the Councils were to decide to undertake their own procurement.
 - Assure timely auditor appointments
 - Manage independence of auditors
 - Secure highly competitive prices
 - Save on procurement costs
 - Save time and effort needed on auditor panels
 - Focus on audit quality
 - Operate on a not for profit basis and distribute any surplus funds to scheme members.

Financial Implications

9. Should the procurement result in a fee greater than the current fee this will lead to an unavoidable increase in the budget required. Both councils currently pay an annual fee of around £60,000 for external audit services.

Legal implications

10. The PSAA has been identified as an appointing person under the Local Audit (Appointing Person) Regulations 2015 and has power to make auditor

appointments for audits of accounts from 2018/19 on behalf of principal local government bodies that opt in, in accordance with the Regulations. The councils are entitled to opt in as district councils are included in the list of eligible bodies listed in Schedule 2 of the Local Audit and Accountability Act 2014. By opting in the councils would be accepting that they would be relying on the outcome of the PSAA tender process and the appointment by the PSAA of an auditor from their auditor panel established following their evaluation of tenders Risks

11. As set out in the report, use of PSAA minimises the risks inherent in undertaking our own procurement.

Other Implications

12. Should we chose to procure alone we would have to establish an auditor panel and conduct our own procurement. This is not recommended as it will be a far more resource intensive process and, without the bulk buying power of the sector led procurement, would be likely to result in a more costly service.

Conclusion

13. Following the demise of the Audit Commission new arrangements were needed for the appointment of external auditors. The Local Audit and Accountability Act 2014 requires authorities to either opt in to the appointing person regime or to establish an auditor panel and conduct their own procurement exercise.

14. Regulation 19 of the Local Audit (Appointing Person) Regulations 2015 requires that a decision to opt in must be made by Full Council (authority meeting as a whole). To comply with this regulation Joint Audit and Governance Committee is asked to make the recommendation above to South and Vale Councils.

Background Papers

- PSAA Prospectus
- PSAA – Appointing Person – Frequently Asked Questions