

To the Chair and Members of the COUNCIL

CHANGES TO THE ARRANGEMENTS FOR THE APPOINTMENT OF EXTERNAL AUDITORS

EXECUTIVE SUMMARY

1. This report summarises changes to the statutory process for the appointment of external auditors following the ending of the current external audit contract in March 2018. The changes arise because of the abolition of the Audit Commission, which used to appoint external auditors on behalf of councils. There are now various options open to councils with regard to future external auditor appointments.
2. The Audit Committee considered in detail the options available at its meeting on 17 November 2016, and recommends the Council to opt-in to a sector-led procurement option. Under this option the *Public Sector Audit Appointments Ltd*, which is a company incorporated by the Local Government Association (LGA), would appoint an external auditor on behalf of the Council, initially for a period of 5 years commencing in 2018/19.
3. Regulations require that any decision to opt-in to the sector-led alternative has to be made by the Full Council.

RECOMMENDATIONS

4. Members of Full Council are asked:
 - to note the options for appointing external auditors from April 2018 and the advantages and disadvantages of each option
 - to agree the recommendation of the Audit Committee to appoint the Public Sector Audit Appointments Ltd to negotiate and appoint the external auditor for Doncaster Council.

WHAT DOES THIS MEAN FOR THE CITIZENS OF DONCASTER

5. The external auditor provides independent assurance to the citizens of Doncaster as to whether the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources. The external auditor also provides an audit opinion on the Council's financial statements, confirming to the Public the accuracy and completeness of the statements.

BACKGROUND

6. The Local Audit and Accountability Act 2014 abolished the Audit Commission and established transitional arrangements for the appointment of external auditors for all local government and NHS bodies in England.
7. The Council's current external auditor is KMPG, this appointment having been made under a contract let by the Audit Commission and extended by the Government Department for Communities and Local Government (CLG). Following the final closure of the Audit Commission in March 2015, the management of external audit contracts was transferred by the CLG to the *Public Sector Audit Appointments Ltd* (PSAA), a body set up by the Local Government Association (LGA).
8. The current external audit contract expires on 31 March 2018 and the Council needs to make arrangements for the appointment of its external auditors beyond this date. There are various routes by which an external auditor appointment can be made under the Local Audit and Accountability Act 2014, each with varying risks and opportunities.
9. The Council's external audit fee for 2015/16 was £165,000. The fees reflect discounted rates offered by the auditing firms in return for maintaining a substantial market share. When the contracts were last negotiated nationally by the Audit Commission they covered most NHS and local government bodies and so offered maximum economies of scale.
10. The scope of the external audit will be specified nationally by the National Audit Office. Not all accounting firms will be eligible to compete for the work as 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, so the number of eligible auditing firms is not known, but it is reasonable to expect that the list will include the top 10 or 12 firms in the country. It is unlikely initially that any small local independent firms will meet the eligibility criteria.

OPTIONS CONSIDERED AND RECOMMENDED OPTION

11. The Council has until December 2017 to appoint its external auditors for 2018/19 onwards. However, the PSAA has stated that councils wishing to use the PSAA to make external audit appointments on their behalf, must advise the PSAA of their intention to do so by 9th March 2017. A decision needs to be made now, therefore, on the Council's preferred route.
12. There are three broad options open to the Council under the Local Audit and Accountability Act 2014:

Option 1 To make a stand-alone appointment

Option 2 Set up a Joint Auditor Panel/local joint procurement arrangements

Option 3 Opt-in to a sector led body Public Sector Audit Appointments Limited (PSAA)

13. **Option 1:** In order to make a stand-alone appointment the Council will need to set up an Auditor Panel. The members of the panel must be wholly or a majority 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 selecting the auditing firm to carry out the Council's external audit. The new independent auditor panel established by the Council would be responsible for selecting the auditor.

Advantages/benefit

- a) Setting up an auditor panel allows the Council to have some local input to the decision.

Disadvantages/risks

- a) Recruitment and servicing of the Auditor Panel, running the bidding exercise and negotiating the contract is estimated by the Local Government Association to cost in the order of £15,000 plus on going expenses and allowances.
- b) The Council will not be able to take advantage of reduced fees that may be available through joint or national procurement contracts.
- c) The assessment of bids and decision on awarding contracts will be taken by independent appointees and not solely by elected members.

14. **Option 2:** 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 will 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/public sector bodies to assess the appetite for such an arrangement.

Advantages/benefits

- a) The costs of setting up the panel, running the bidding exercise and negotiating the contract will be shared across a number of authorities.
- b) 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

- a) The decision making body will be further removed from local input, with potentially no input from elected members where a wholly independent auditor panel is used, or where council membership is very limited, depending on the constitution agreed with the other bodies involved.
 - b) The choice of auditor could be complicated where individual councils have independence issues, for example where an external auditor has recently or is currently carrying out work such as consultancy or advisory work for any council within the collaboration. Where this occurs, some auditors may be prevented from being appointed by the terms of their professional standards and this may reduce the competition for the contract. Additionally, there is a risk that if the joint auditor panel choose a firm that is conflicted for any council within the collaboration then the affected council may still need to make a separate appointment with all the attendant costs and loss of scale economies.
15. Discussions amongst the Sheffield City Region Treasurers has not indicated any preference for this option, which would be likely to mean that the Council would not be acting with its most obvious partners if it were to pursue a joint procurement option.
16. **Option 3:** The PSAA has been approved by the CLG to be a sector-led body for the appointment of external auditors for principal authorities (councils, police and fire bodies). The PSAA has 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. The length of the compulsory appointing period is the 5 consecutive financial years commencing 1 April 2018.

Advantages/benefits

- a) The costs of setting up the appointment arrangements and negotiating fees would be shared across all opt-in authorities.
- b) Auditing firms would be able to offer lower fees than are likely to result from local negotiation, because of the value of the contracts on offer.
- c) Any conflicts at individual authorities would be managed by the PSAA, who would have a number of contracted firms to call upon.
- d) The appointment process would not be made by a locally appointed independent panel. Instead, the PSAA would make appointments reflecting the collective interests of the 'opt-in' authorities. This option is most similar to the long-established and current approach, where appointments were made by the Audit Commission

Disadvantages/risks

- a) Individual members will have less opportunity for involvement in the appointment process other than through the LGA and/or stakeholder representative groups.
- b) In order for the PSAA to be viable and to be placed in the strongest possible negotiating position, the PSAA will need councils to indicate their intention to opt-in before final contract prices are known.

The way forward

- 17. The Council has until December 2017 to make an external auditor appointment to apply from April 2018 onwards. In practical terms, however, the approach to the appointment selected by the Council will determine the future timescale. If either option 1 or 2 is preferred, this needs to be agreed by Spring 2017 in order that the contract negotiation process can be carried out during 2017. In the case of option 3 – the sector-led option – the PSAA has stated that councils wishing to use the PSAA to make external audit appointments on their behalf must advise the PSAA of their intention to do so by 9th March 2017.
- 18. Option 3, the sector-led route, is an *opt-in* alternative. In accordance with Regulation 19 of the Local Audit (Appointing Person) Regulations 2015, any decision to choose the sector-led route must be made by the Full Council. The Audit Committee at its meeting on 17 November 2016 considered the options available to the Council and supported officers' recommendation to adopt the sector-led route.
- 19. The Audit Committee, therefore, recommends the Council to adopt a sector-led approach to the appointment of its external auditors on the basis of the financial benefits anticipated through:
 - a) The PSAA's ability to offer large contract values to firms who would be able to offer better rates and lower fees than are likely to result from local negotiation and
 - b) Removing the costs of setting up and maintaining a local audit panel.

There are also advantages in that conflicts of interest would be managed by the PSAA who would have a number of contracted firms to call upon and that the appointment process would be more independent than by a local panel

- 20. Consultation with neighbouring local authorities has identified a preference by all to choose the sector-led option.

IMPACT ON THE COUNCIL'S KEY OUTCOMES

Outcomes	Implications
<p>All people in Doncaster benefit from a thriving and resilient economy.</p> <ul style="list-style-type: none"> • <i>Mayoral Priority: Creating Jobs and Housing</i> • <i>Mayoral Priority: Be a strong voice for our veterans</i> • <i>Mayoral Priority: Protecting Doncaster's vital services</i> 	
<p>People live safe, healthy, active and independent lives.</p> <ul style="list-style-type: none"> • <i>Mayoral Priority: Safeguarding our Communities</i> • <i>Mayoral Priority: Bringing down the cost of living</i> 	
<p>People in Doncaster benefit from a high quality built and natural environment.</p> <ul style="list-style-type: none"> • <i>Mayoral Priority: Creating Jobs and Housing</i> • <i>Mayoral Priority: Safeguarding our Communities</i> • <i>Mayoral Priority: Bringing down the cost of living</i> 	
<p>All families thrive.</p> <ul style="list-style-type: none"> • <i>Mayoral Priority: Protecting Doncaster's vital services</i> 	
<p>Council services are modern and value for money.</p>	<p>Ensuring proper procurement processes are followed and utilising a national Sector Led Body will ensure that best value is obtained through negotiating on the Council's behalf to obtain better rates and lower fees than are likely to result from local negotiation.</p>
<p>Working with our partners we will provide strong leadership and governance.</p>	

RISKS AND ASSUMPTIONS

21. This report presents Members with options available to appoint the Council's external Auditors and the advantages and disadvantages and with these options. Option 3 to appoint PSAA is considered the option most likely to manage risk associated with failing to follow appropriate procurement processes and obtaining value for money within these arrangements.

LEGAL IMPLICATIONS

22. There is a statutory obligation on the Council to appoint an external auditor and this is set out in the Local Audit and Accountability Act 2014.

FINANCIAL IMPLICATIONS

23. 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 Council's budget for 2017/18 if either of these options was preferred by the Council. This will include the cost of recruiting independent appointees, servicing the panel, running a bidding and tender evaluation process, letting a contract and paying panel members' fees and allowances.
24. The Council's external audit fee for 2015/16 was £165,000.
25. Opting-in to a national sector-led option provides maximum opportunity to limit the extent of any fee increases by entering in to a large scale collective procurement arrangement and would remove the costs of establishing an auditor panel.

HUMAN RESOURCES IMPLICATIONS

26. There are no identified human resources implications arising from this report.

TECHNOLOGY IMPLICATIONS

27. There are no identified technology implications arising from this report.

EQUALITY IMPLICATIONS

28. There are no identified equal opportunity issues within this report.

CONSULTATION

29. Consultation has been carried out with neighbouring local authorities, which identified no appetite for a local appointment process and all authorities intending to use the PSAA.

30. The options were considered in full by the Audit Committee at its meeting on 17 November 2016.
31. The Director of Finance and Corporate Services supports the recommendation being made.

REPORT AUTHORS & CONTRIBUTORS

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BACKGROUND PAPERS

PSAA – Procurement and Appointment of External Auditors

**Steve Mawson
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