

**To the Chair and Members of the  
AUDIT COMMITTEE**

**CHANGES TO THE ARRANGEMENTS FOR THE APPOINTMENT OF  
EXTERNAL AUDITORS**

**EXECUTIVE SUMMARY**

1. This report summarises the changes to 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 audit, and makes recommendations for the future appointment of external auditors by the Council.
2. Regulations relating to external audit appointments require that any decision to opt-in to a sector-led procurement option has to be made by the full Council.

**RECOMMENDATIONS**

3. **The Audit Committee is asked:**
  - to note the options for appointing External Auditors from April 2018 resulting from the Local Audit and Accountability Act 2014, and the advantages and disadvantages of each option
  - to support a recommendation to the full Council in January 2017 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**

4. It is important that a robust appointment process takes place for an external auditor. The external auditor provides independent assurance to the citizens of Doncaster as to whether the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources and an audit opinion on the financial statements.

**BACKGROUND**

5. 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. 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.
6. The Council's current external auditor is KMPG, this appointment having been made under at a contract let by the Audit Commission and extended by the CLG. 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 CLG. The Council's external audit fee for 2015/16 was £165,000
7. When the current transitional arrangements come to an end on 31 March 2018 the Council will move to local appointment of its external auditor. There are a number of routes by which this can be achieved, each with varying
8. Current external audit 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 most NHS and local government bodies and so offered maximum economies of scale.
9. The scope of the audit will continue to be specified nationally. The National Audit Office (NAO) is responsible for writing the Code of Audit Practice which all firms appointed to carry out councils' audits must follow. 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 firms is not known, but it is reasonable to expect that the list may include the top 10 or 12 firms in the country, including our current auditor. It is unlikely initially that small local independent firms will meet the eligibility criteria.

#### **OPTIONS CONSIDERED AND RECOMMENDED OPTION**

10. The Council has until December 2017 to appoint its external auditors. 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 9<sup>th</sup> March 2017. A decision needs to be made now, therefore, on the Council's preferred route.
11. There are three broad options open to the Council under the Local Audit and Accountability Act 2014 (the Act):

**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**

12. **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 choosing which firm of accountants to award a contract for 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 take maximum advantage of the new local appointment regime and have 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 LGA 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.

13. **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 (members). 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 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 possible only one elected member representing each council, depending on the constitution agreed with the other bodies involved.
  - b) The choice of auditor could be complicated where individual councils 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 a council. 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 Council then the Council may still need to make a separate appointment with all the attendant costs and loss of economies possible through joint procurement.
14. 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.
15. **Option 3:** Public Sector Audit Appointments Limited (PSAA) has now been approved by the Department for Communities and Local Government (DCLG) to be a sector-led body 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) By offering large contract values, the firms would be able to offer lower fees than are likely to result from local negotiation.
- 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 locally appointed independent members. Instead a separate body, set up to act in the collective interests of the 'opt-in' authorities, would do this. In effect, this options continues the established / previous approach where appointments were made by the Audit Commission

#### *Disadvantages/risks*

- a) Individual elected members will have less opportunity for direct 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**

16. The Council has until December 2017 to make an appointment. In practical terms the option selected will determine the timescale required for a formal decision.
17. If 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. However, 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 9<sup>th</sup> March 2017.
18. Option 3, the sector-led route, is an opt-in option. 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. Although it is a Council decision, the Audit Committee should consider the options and is asked to support officers' recommendation to Council to adopt the sector-led route.
19. Consultation with neighbouring local authorities has identified a preference by all to choose the sector-led option.
20. This report recommends that option 3 be recommended to full council for approval 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 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

## IMPACT ON THE COUNCIL'S KEY OUTCOMES

	<b>Outcomes</b>	<b>Implications</b>
	<p>All people in Doncaster benefit from a thriving and resilient economy.</p> <ul style="list-style-type: none"> <li>• <i>Mayoral Priority: Creating Jobs and Housing</i></li> <li>• <i>Mayoral Priority: Be a strong voice for our veterans</i></li> <li>• <i>Mayoral Priority: Protecting Doncaster's vital services</i></li> </ul>	
	<p>People live safe, healthy, active and independent lives.</p> <ul style="list-style-type: none"> <li>• <i>Mayoral Priority: Safeguarding our Communities</i></li> <li>• <i>Mayoral Priority: Bringing down the cost of living</i></li> </ul>	
	<p>People in Doncaster benefit from a high quality built and natural environment.</p> <ul style="list-style-type: none"> <li>• <i>Mayoral Priority: Creating Jobs and Housing</i></li> <li>• <i>Mayoral Priority: Safeguarding our Communities</i></li> <li>• <i>Mayoral Priority: Bringing down the cost of living</i></li> </ul>	
	<p>All families thrive.</p> <ul style="list-style-type: none"> <li>• <i>Mayoral Priority: Protecting Doncaster's vital services</i></li> </ul>	
	<p>Council services are modern and value for money.</p>	<p>Ensuring proper procurement processes are followed and utilising a national Sector Led Body (Public Sector Auditor Appointments Limited) 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 associated risk 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 obtain value for money within these arrangements.

## **LEGAL IMPLICATIONS**

22. There is a statutory obligation on the Council to appoint an external auditor and these are 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 (members), servicing the Panel, running a bidding and tender evaluation process, letting a contract and paying members fees and allowances.
24. 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**

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

## **TECHNOLOGY IMPLICATIONS**

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

## **EQUALITY IMPLICATIONS**

27. We are aware of the Council's obligations under the Public Sector Equalities Duties and there are no identified equal opportunity issues within this report.

## **CONSULTATION**

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

This report seeks to consult with members of the Audit Committee and seek their support to a recommendation to the full Council to opt-in to the sector-led approach.

## **REPORT AUTHORS & CONTRIBUTORS**

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## **BACKGROUND PAPERS**

PSAA – Procurement and Appointment of Auditors

**Steve Mawson  
Chief Financial Officer  
and Assistant Director of Finance**