

Report To:	EXECUTIVE CABINET/OVERVIEW (AUDIT) PANEL
Date:	8 February 2017
Executive Member/Reporting Officer:	Cllr J M Fitzpatrick - First Deputy (Performance and Finance) Ian Duncan – Assistant Executive Director (Finance)
Subject:	LOCAL AUDIT AND ACCOUNTABILITY ACT 2014 – OPTIONS FOR APPOINTMENT OF EXTERNAL AUDITORS
Report Summary:	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 audits.
Recommendations:	Members are requested to RECOMMEND TO COUNCIL to approve that the Council participates in the Sector Led Procurement for External Auditors.
Links to Community Strategy:	The changes required by the Act will enable the Council to continue to be fully accountable to local people for its financial activities, as part of the Council's commitment to improvement, efficiency and good governance.
Policy Implications:	None
Financial Implications: (Authorised by the Section 151 Officer)	There will be a cost involved in the process of selecting auditors. Under the preferred option the cost is unknown as it will depend on how many authorities opt in. However it is expected that it will be less expensive than the other two options.
Legal Implications: (Authorised by the Borough Solicitor)	<p>The process is prescribed in the Local Audit and Accountability Act 2014 (the 2014 Act), which will need to be set out and followed to demonstrate transparency and commitment to the Local auditor appointment together with any guidance created under the Act and published by the Chartered Institute of Public Finance and Accountancy</p> <p>An Auditor Panel must be appointed under the 2014 Act, jointly if that is deemed the most pragmatic and cost effective way of doing so. A relevant authority (which includes the Council and the CCG) must consult with and take into account the advice of its auditor panel on the selection and appointment of a local auditor. Appointment of a local auditor can last for up to 5 years. This is not an Executive Cabinet Function. If 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. (schedule 3 of the 2014 Act.</p> <p>It should be noted however that if the Council does not comply with the Act within the prescribed time i.e. by December 2017, then notification must be made to the Secretary of State for Communities and Local Government, whereas failure by CCGs to do so must be to the NHS.</p>

Risk Management:

There is no immediate risk to the Council, however, early consideration by the Council of its preferred approach will enable detailed planning to take place so as to achieve successful transition to the new arrangement in a timely and efficient manner.

Access to Information:

The background papers can be obtained from the author of the report, Wendy Poole, Head of Risk Management and Audit Services by contacting:



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1. INTRODUCTION

- 1.1 In November 2016, the Audit Panel received a report on the Local Audit and Accountability Act 2014 - Changes to arrangements for appointment of External Auditors. The report presented the options open to the Council, outlined the advantages/benefit, disadvantages/risks for each and concluded that there was support across Greater Manchester (GM) for a GM level procurement and sought approval for this option to be pursued. This report provides an update on progress.

2. BACKGROUND TO THE ISSUE

- 2.1. 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 Communities and Local Government 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.
- 2.2. Section 7 of the Act 2014 states that a “relevant authority must appoint a local auditor to audit its accounts for a financial year not later than 31 December in the preceding financial year.” Therefore the appointment of an auditor must be completed by 31 December 2017 for the audit year 2018/19.
- 2.3. The Council’s current external auditor is Grant Thornton, this appointment having been made under a contract let by the Audit Commission. Following closure of the Audit Commission the contract is currently managed by Public Sector Audit Appointments Limited, the transitional body set up by the Local Government Association with delegated authority from the Secretary of State Communities and Local Government. Over recent years we have benefited from reduction in fees in the order of 50% compared with historic levels. 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 Council’s current external audit fees are £172,500 per annum.
- 2.4. The scope of the audit will still be specified nationally, the National Audit Office is responsible for writing the Code of Audit Practice which all firms appointed to carry out the Council’s audit 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 10 or 12 firms in the country, including our current auditor. It is unlikely that small local independent firms will meet the eligibility criteria.

3. OPTIONS FOR LOCAL APPOINTMENT OF EXTERNAL AUDITORS

- 3.1. There are three broad options open to the Council under the Local Audit and Accountability Act 2014 and a summary of each is provided below together with the Advantages/Benefit and Disadvantages/Risks.

Option 1 - To make a stand-alone appointment

- 3.2. 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. A new independent auditor panel established by the Council will be responsible for selecting the auditor (assuming there is no existing independent committee such as the Audit Committee that might already be suitably constituted).
- 3.3 The Chartered Institute of Public Finance and Accountancy has published guidance for establishing an Auditor Panel.

Advantages/Benefit

- 3.4 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

- 3.5 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.
- 3.6 The Council will not be able to take advantage of reduced fees that may be available through joint or national procurement contracts.
- 3.7 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

- 3.8 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.
- 3.9 The Joint procurement exercise could involve the ten Greater Manchester Councils and the Greater Manchester Combined Authority.
- 3.10 At present, eight of the ten Greater Manchester Councils are audited by Grant Thornton and two are audited by KPMG. Given the level of collaboration, joint working and similar core functions across the bodies, there are likely to be benefits from including the ten districts and the combined authority in this procurement. In addition to this, an option could be extended to include health bodies at a later date, although it should be noted that they are currently working to a different timetable for appointments.

Advantages/Benefits

- 3.11 The costs of setting up the panel, running the bidding exercise and negotiating the contract will be shared across a number of authorities.
- 3.12 There is greater opportunity for negotiating some economies of scale by being able to offer a larger combined contract value to the firms. It also enables the external auditor to obtain a fuller understanding of the audit requirements across the Greater Manchester level functions.

Disadvantages/Risks

- 3.13 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.
- 3.14 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 the 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.

Option 3 - Opt-in to a Sector Led Body

- 3.15 In response to the consultation on the new arrangement the Local Government Association successfully lobbied for Councils 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.

Advantages/Benefits

- 3.16 The costs of setting up the appointment arrangements and negotiating fees would be shared across all opt-in authorities.
- 3.17 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.
- 3.18 Any conflicts at individual authorities would be managed by the Sector Led Body who would have a number of contracted firms to call upon.
- 3.19 The appointment process would not be ceded to locally appointed independent members. Instead a separate body set up to act in the collective interests of the 'opt-in' authorities. Public Sector Audit Appointments Limited will be conducting a procurement exercise for all participating authorities; to date over 200 authorities have signed up for this option.

Disadvantages/Risks

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

4 FURTHER DEVELOPMENTS

- 4.1 Since the November 2016 Audit Panel Meeting, GM treasurers have engaged in further discussions and meetings with Public Sector Audit Appointments Limited (PSAAL) to explore whether the approach being developed could be utilised to better meet the needs of the GM local authorities. In particular PSSAL were asked whether their process would:-
- Enable the same external auditor to be appointed to all GM local authorities; and
 - Ensure an acceptable recognition of social value to be reflected in the procurement process.

If these requirements could be met then GM Treasurers were minded to opt into this sector led procurement approach given it could result in lower procurement costs and fees than might be achieved through a local appointment process.

- 4.2 Discussions with PSSAL have been ongoing over the last two months. It appears likely at this stage that they would be unable to guarantee the same external auditor for all GM local authorities but can provide reasonable assurance that it would be feasible for the same firm to be appointed for GMCA, TfGM and GMP. The City Treasurer and other GM Treasurers are accepting of this position.
- 4.3 The weighting to be afforded to social value in the procurement process has been clarified and GM Treasurers at their meeting on 20 January 2017 agreed that the sector led procurement potentially offers greater value for money.
- 4.4 The deadline to opt into the sector led approach is 9 March 2017 and is a decision that must be approved at Full Council.

5 RECOMMENDATION

- 5.1 As set out on the front of the report.