

HAVANT BOROUGH COUNCIL

GOVERNANCE AND AUDIT COMMITTEE

20 February 2017

APPOINTMENT OF EXTERNAL AUDITOR

Report by the Head of Finance

**FOR RECOMMENDATION
TO COUNCIL**

Portfolio and Cabinet Lead: Finance, Cllr Cheshire

Key Decision: No

1.0 Purpose of Report

- 1.1 The purpose of this report is to recommend to Full Council the future process for external auditor appointments. This report was considered by Cabinet on 8 February 2017, who agreed the recommendation set out below.

2.0 Recommendation

- 2.1 That the Governance and Audit Committee recommends to Full Council that this Council opts in to the appointing person arrangements made by Public Sector Audit Appointments (PSAA) for the appointment of external auditors

3.0 Summary

- 3.1 Following the demise of the Audit Commission new arrangements are 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.
- 3.2 As part of closing the Audit Commission the Government novated external audit contracts to PSAA on 1 April 2015. 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.
- 3.3 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 is necessary for authorities to either undertake their own procurements or to opt in to the appointed person regime.
- 3.4 There was a degree of uncertainty around the appointed person regime until July 2016 when PSAA were specified by the Secretary of State as an appointing

person under regulation 3 of the Local Audit (Appointing Person) Regulations 2015. The appointing person is sometimes referred to as the sector led body and PSAA has wide support across most of local government. PSAA was originally established to operate the transitional arrangements following the closure of the Audit Commission and is a company owned by the Local Government Association's Improvement and Development Agency (IDeA).

3.5 It is likely that a sector wide procurement conducted by PSAA will produce better outcomes for the Council than any procurement we undertook by ourselves or with a limited number of partners. Use of the PSAA will also be less resource intensive than establishing an auditor panel and conducting our own procurement.

3.6 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 Council was to decide to undertake its 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.

3.7 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 Audit Committee is asked to make the recommendation above to Council.

4.0 Processes for Opting in and Out

4.1 Process for Opting In:

Authorities will need to opt in to the appointing person arrangements by 9 March 2017.

PSAA will commence the formal procurement process after this date. It expects to award contracts in summer 2017 and consult with authorities on the appointment of auditors so that it can make an appointment by the statutory deadline of December 2017.

It is hoped that the PSAA will be able to appoint the same auditors to all authorities signed up to the 5 Councils arrangements. This would ensure further efficiencies by reducing duplication of audits of financial and other systems.

PSAA will look to award contracts to five firms plus a sixth contingency firm to ensure that they can make an independent auditor appointment to every opted-in authority. PSAA has a statutory duty to consult each opted-in authority on its

proposed auditor appointment. This process will start in September 2017 and run through to December 2017.

If an authority is unhappy with PSAA proposal, it can make representations to PSAA to consider and propose an alternative auditor, where this is appropriate.

4.2 Process for Opting Out:

Authorities will need to opt out of the appointing person arrangements by 9 March 2017. In accordance with Local Audit and Accountability Act 2014 (included as supplementary paper), Section 7 of 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 financial year. For the 2018/19 accounts, a local auditor must be appointed by 31 December 2017

There are **two** options open to the Council under the Act. In summary, these comprise:

- a) Setting up an independent Auditor Panel and undertaking an individual external auditor procurement and appointment exercise;
- b) Joining with other councils to set up a joint independent Auditor Panel and undertaking a joint audit procurement and appointing exercise; or

5.0 Implications for Opting In

Resources

- 5.1 In agreeing to opt in via PSAA, there will be reduced resourcing requirements through Legal and Finance compared to the position if the authority were to opt out and seek to procure its own external auditor.

Legal

- 5.2 Reduced resourcing requirements in terms of procurement and contractual obligations.

Financial

- 5.3 The current external audit firm that HBC use are Ernst and Young and the cost for 2016/17 audit is £46.8k scale fee + 9.2k grant certification. Procurement was previously undertaken by the audit commission before it was disbanded so there was no direct cost to the organisation and there will be no cost of procurement using PSAA. Procurement for external Audit falls outside of 5 council procurement responsibility. It is anticipated that there would be some financial benefit towards having a shared external auditor across five councils but this will not be quantified until appointment.

Appendices: Nil

Background Papers: PSAA Prospectus
PSAA – Appointing Person – Frequently Asked Questions

Agreed and signed off by:

Legal Services: 1 February 2017
Head of Service: 1 February 2017
Cabinet Lead: 1 February 2017

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