

Appendices :

1. PSAA invitation to opt-in to National Scheme



AUDIT COMMITTEE REPORT

Report Title	External Auditor appointment – extension and future procurement
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AGENDA STATUS: PUBLIC

Audit Committee Meeting Date:	14 November 2016
Policy Document:	No
Directorate:	Management Board
Accountable Cabinet Member:	Cllr B Eldred

1. Purpose

- 1.1 To advise Audit Committee of the extension to the current appointment of KPMG as External Auditors to the Council, and for Audit Committee to agree the process for appointing external auditors for the 2018/19 accounts onwards

2. Recommendations

- 2.1 Audit Committee are asked to recommend to the next council meeting that Northampton opt to join the national scheme for external auditor appointments for five financial years commencing 1st April 2018 being offered by Public Sector Audit Appointments (PSAA), and then for officers to formally respond by the deadline of 9th March 2017.

3. Issues and Choices

3.1 Report Background

- 3.1.1 The current appointment of KPMG as the council's external auditors up to and including the audit of the 2016/17 accounts was made by the Audit Commission who were disbanded in 2015. The Secretary of State for Communities and Local Government then delegated statutory functions on a transitional basis from the Audit Commission to PSAA. The Chief Finance Officer received notification from PSSA in September 2016 that the current contract with KPMG would be extended to include audit of the 2017/18 accounts.

- 3.1.2 This is an extension of the appointment made under section 3 of the Audit Commission Act for the audit of the accounts up to 2016/17, under the audit contracts previously let by the Audit Commission. The auditor appointment has been extended for one year as a consequence of the extension of the transitional arrangements made by the Department of Communities and Local Government. The appointment of KPMG LLP under the current audit contracts will conclude with the completion of the audit of the accounts for 2017/18.
- 3.1.3 The authority has 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.
- 3.1.4 For the audit of the 2018/19 accounts onwards Local Authorities will be required to set up an 'Auditor Panel', or opt into any sector-led body that may be established as the appointing person under the Local Audit and Accountability Act and relevant regulations. The key areas that the auditor panel (or equivalent) is responsible for advising an authority on are as follows:
- the selection and appointment of the auditor
 - whether the authority should adopt a policy on obtaining non-audit services from the auditor, including the contents of such a policy
 - any proposal by the authority to enter into a liability limitation agreement
 - maintaining an independent relationship with its auditor
 - the outcome of any investigation of an auditor's resignation from office, if this occurs, or
 - on any proposal to remove a local auditor from office
- 3.1.5 The scope of the audit will still be specified nationally, the National Audit Office (NAO) 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
- 3.1.6 The current fee audit fee structure was as a result of national contract negotiations by the Audit Commission, with audit firms prepared to offer substantial discounts to achieve greater market share and offered maximum economies of scale.

3.2 Choices (Options)

3.2.1 There are three broad options available:

3.2.2 Option 1 - To make a stand-alone appointment

3.2.3 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.

3.2.4 Advantages/benefits

- 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.

3.2.5 Disadvantages/risks

- 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 £15k plus on going expenses and allowances
- The Council will not be able to take advantage of reduced fees that may be available through joint or national procurement contracts.
- The assessment of bids and decision on awarding contracts will be taken by independent appointees and not solely by elected members.

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

3.2.7 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 will need to liaise with other local authorities to assess the appetite for such an arrangement.

3.2.8 Advantages/benefits

- The costs of setting up the panel, running the bidding exercise and negotiating the contract will be shared across a number of authorities.
- There is greater opportunity for negotiating some economies of scale by being able to offer a larger combined contract value to the firms.

3.2.9 Disadvantages/risks

- 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.

- 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.

3.2.10 Option 3 - Opt-in to a sector led body

3.2.11 In response to the consultation on the new arrangement the LGA successfully lobbied for Councils to be able to 'opt-in' to a Sector Led Body (SLB) appointed by the Secretary of State under the Act. An SLB 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.

3.2.12 Advantages/benefits

- The costs of setting up the appointment arrangements and negotiating fees would be shared across all opt-in authorities
- 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
- Any conflicts at individual authorities would be managed by the SLB who would have a number of contracted firms to call upon.
- The appointment process would not be led by locally appointed independent members. Instead a separate body set up to act in the collective interests of the 'opt-in' authorities. The current approved SLB is PSAA who will be utilising the knowledge and experience acquired through the setting up of the transitional arrangements.

3.2.13 Disadvantages/risks

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

4. Conclusions and way forward

4.1 The Council have until December 2017 to make an external auditor appointment, and in order to achieve this deadline will need to have made a decision over which procurement route to follow by early 2017. This will allow the auditors to be in place for April 2018 so they can commence interim audit work during 2018/19.

4.2 The Local Government Association (LGA) have supported the development of the Sector Led Body – PSAA, which has now been approved to nationally procure public sector external audit contracts. The LGA is strongly supportive of this nationally procured approach as it believes this will offer best value to councils by reducing set-up costs and having the potential to negotiate the lowest fees. It will also have the resources to monitor the standard of audit contracts and ensure consistency.

4.3 The Council received a formal invitation from PSAA on 27th October to opt-in to the national scheme for auditor appointments. Details of the national scheme are included in Appendix 1. An estimated timetable was provided as follows:

- Invitation to opt in issued 27 October 2016
- Closing date for receipt of notices to opt in 09 March 2017
- Contract notice published 20 February 2017
- Award audit contracts By end of June 2017
- Consult on and make auditor appointments By end of December 2017
- Consult on and publish scale fees By end of March 2018

4.4 Informal discussions with neighbouring Local Authority finance staff indicate that most are considering the benefits of a sector led approach by opting-in to the PSAA national scheme. However they would like to work with the PSAA to try and secure a common external auditor where possible to enable a consistent audit approach across the area.

5. Implications (including financial implications)

5.1 Policy

5.1.1 There are no policy implications arising from this report.

5.2 Resources and Risk

5.2.1 There is no immediate risk to the authority, although at this stage it is not possible to estimate whether the cost of external audit provision will remain at the current reduced levels even if the council opts to be part of the national scheme.

5.2.2 If options 1 or 2 above are selected as the preferred route, then the cost and time resource of establishing a local or joint Auditor Panel will need to be estimated and included in future Council budgets. This would 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

- 5.2.3 It is likely that inclusion in the national scheme being offered by PSAA will provide the greatest chance of obtaining competitive fee rates and would remove the costs of establishing an auditor panel.

5.3 Legal

- 5.3.1 Section 7 of the Local Audit and Accountability Act 2014 (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 year. Section 8 governs the procedure for appointment including that the authority must consult and take account of the advice of its auditor panel on the selection and appointment of a local auditor. Section 8 provides that where 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;
- 5.3.2 Section 12 makes provision for the failure to appoint a local auditor: the authority must immediately inform the Secretary of State, who may direct the authority to appoint the auditor named in the direction or appoint a local auditor on behalf of the authority.
- 5.3.3 Section 17 gives the Secretary of State the power to make regulations in relation to an 'appointing person' specified by the Secretary of State. This power has been exercised in the Local Audit (Appointing Person) Regulations 2015 (SI 192) and this gives the Secretary of State the ability to enable a Sector Led Body to become the appointing person.

5.4 Equality

- 5.4.1 There are no equality implications arising from this report.

5.5 Consultees (Internal and External)

- 5.5.1 Finance staff have consulted with other finance staff in neighbouring Local Authorities, and the Council's own Chief Executive and Monitoring Officer.

5.6 Other Implications

- 5.6.1 There are no other implications arising from this report.

5. Background Papers

- 5.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) – Dec 2015 Guide to Auditor Panels
- 5.2 Local Government Association website – External Audit support page

- 5.3 Local Audit and Accountability Act 2014 (the Act) and also the Local Audit (Auditor Panel) Regulations 2014 (the Auditor Panel Regulations)

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