

HERTFORDSHIRE COUNTY COUNCIL

AUDIT COMMITTEE

WEDNESDAY, 30 NOVEMBER 2016 AT 10.15 AM

APPOINTMENT OF AUDITORS 2017/18 AND BEYOND

Report of the Director of Resources

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Executive Member: C M Hayward, Resources and Performance

1. Purpose of the Report

- 1.1. To provide details of the options available to the Council on appointing their own external auditors for the audit of the 2018/19 accounts;
- 1.2. To outline potential issues which may influence which option is pursued, and
- 1.3. To seek comments on the proposed approach.

2. Summary

- 2.1. Current auditor appointments are managed by Public Sector Audit Appointments Limited (PSAA), an independent company established by the Local Government Association (LGA) to manage the existing appointments under transitional arrangements. These audit contracts will end with the completion of the 2017/18 audits for principal local government bodies.
- 2.2. The new appointments for auditors need to be made by December 2017. Preparations for establishing Auditor Panels will need to commence in 2016 to enable panels to be engaged in specifying the Invitation to Tender and running the procurement exercise in 2017.

3. Recommendations

- 3.1. The Committee is invited to note the contents of this report, and discuss and provide a view on which option should be taken forward for appointing an external auditor for the audit of the 2018/19 accounts and beyond.

4. Background

- 4.1. In August 2010 the then Secretary of State for Communities and Local Government, Eric Pickles, announced that he intended to close the Audit Commission, the body that appointed external auditors to Local Government and NHS organisations (excluding Foundation Trusts). As part of this announcement, he also stated that organisations whose appointments were previously controlled by the Audit Commission should have the freedom to appoint their own external auditors.

- 4.2. The Local Audit & Accountability Act 2014 ('the Act') abolished the Audit Commission which closed on 31 March 2015. At that time contracts were already in place for local government and NHS external audit appointments that covered audits up to and including the financial year 2016/17. Within these contracts there was an option to extend for a maximum of three further years, i.e. up to and including the financial year 2019/20.
- 4.3. A consultation exercise with key stakeholder groups was undertaken, and the Government decided that for local government bodies the contracts will be extended by one year, so incorporating the audit of the 2017/18 financial year. After this, local authorities must make arrangements to appoint the external auditors themselves.

5. Options for appointing External Auditors

- 5.1. There are three options for local authorities to appoint auditors:
 - 5.1.1. Establish an independent auditor panel. The panel must be made up of a majority, or of wholly independent members and must be chaired by an independent member,
 - 5.1.2. Jointly establish an auditor panel with other authorities, or
 - 5.1.3. Opt-in to an approved sector led body (SLB) to be specified by DCLG to act as the Appointing Person on behalf of opted-in authorities
- 5.2. The LGA has been working with PSAA in developing a sector led body offering (Option 3) as an alternative to each council setting up a separate Auditor Panel. Formal invitations to opt-in will be issued before December 2016 and opt-in will require Full Council Approval (*Regulation 19, Local Audit (Appointing Person) Regulations 2015*). A response to the formal invitation will be required by March 2017.
- 5.3. The LGA is supporting the sector led approach because of the benefits for the sector as a whole. These benefits include:
 - Purchasing power to negotiate competitive audit fees worth an estimated £30m annually.
 - Savings on the costs of Invitation to Tender exercises at some 470 local government sector bodies alone.
 - Savings on the costs of bid appraisal, contract specification and negotiation
 - Economies of scale to be achieved from collective procurement, enabling the firms to plan and resource audits more efficiently and effectively.
 - Quality monitoring and other information sharing across contracts (subject to protections over confidentiality).
 - Sensible distribution of audit appointments taking in to consideration joint working between individual Councils and other public bodies, managing rotations where conflicts of interest arise.
- 5.4. In July 2016, PSAA was specified by the Secretary of State as an appointing person. A national collective scheme for appointment has now been published by PSAA and an invitation to opt in has been issued, with a response required by 9 March 2017. Initial interest has been expressed by 200 authorities, suggesting significant economies of scale.

6. Evaluation

6.1. Officers have considered the advantages and disadvantages of the options available:

6.1.1. **Option 1:** Establish an independent auditor panel - Whilst option 1 would give Hertfordshire County Council complete autonomy over the whole process, the costs involved in setting up a new panel and carrying out a procurement exercise are expected to be significant. In addition, it is unlikely the Council will have sufficient purchasing power to be able to obtain the best value on its own.

6.1.2. **Option 2:** Jointly establish an auditor panel with other authorities - A joint set-up and procurement with other partners would still have significant costs involved in the set-up of the panel and carrying out the procurement exercise. Whilst there could be opportunities to realise small additional efficiencies, and combine purchasing power, even a shared procurement with all authorities in Hertfordshire would be unlikely to achieve material economies of scale as it would be significantly smaller than those undertaken by a national body (for example, Audit Commission procurements in 2012 and 2014 were for 750 and 260 audited bodies, and achieved savings of 40% and 25% respectively).

6.1.3. **Option 3:** Opt-in to an approved sector led body (SLB) - Use of a SLB (PSAA) to act as the Appointing Person to appoint auditors would allow the Council to retain the benefits of national procurement, allow local procurement resources to be focused on core business activities, and ensure the actual and perceived independence of auditors is maximised through the separation of the Council from decision-making.

7. Conclusions

7.1. Having considered the costs and benefits of each of the options, the preferred option would be opting into the PSAA appointing person arrangement (option 3), subject to confirmation of the final details of the scheme. The potential for continued value for money through a national procurement exercise make Option 3 the most attractive one available.