

HERTFORDSHIRE COUNTY COUNCIL

**CABINET
MONDAY, 20 FEBRUARY 2017 AT 2.00PM**

**COUNTY COUNCIL
TUESDAY, 21 FEBRUARY 2017 AT 10.00AM**

APPOINTMENT OF AUDITORS 2018/19 AND BEYOND

Report of the Director of Resources

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<u>Cabinet Agenda Item No:</u> 6
<u>County Council Agenda Item No.</u> 11

1. Purpose of the Report

- 1.1. To provide details of the options available to the Council for appointing external auditors for the Council for the audit of the 2018/19 accounts and beyond;
- 1.2. To outline potential issues which may influence which option is pursued, and
- 1.3. To enable Cabinet and County Council to consider a proposal that the Council uses Public Sector Audit Appointments Limited (PSAA) as the Appointing Person to appoint external auditors for the audit of the Council's accounts for the five financial years commencing on 1 April 2018.

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. Audit Committee considered the available options at its meeting on 30 November 2016 and supported option 3 as detailed at paragraph 6, as it gave continued value for money through a national procurement exercise.

3. Recommendation

3.1. That Cabinet recommends to Council that Council:

- (a) accepts Public Sector Audit Appointments Limited's invitation to 'opt in' to the sector led option for the appointment of external auditors for five financial years commencing on 1 April 2018
- (b) authorises the Director of Resources to sign the notice of acceptance of the invitation referred to in (a) above.

3.2 Cabinet's recommendation/s to County Council will be set out in the County Council Order of Business.

4. Background

- 4.1. In August 2010, the Secretary of State for Communities and Local Government 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 would 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.
- 4.4. The Act also set out arrangements for the appointment of auditors for subsequent years with the opportunity for authorities to make their own decisions about how and by whom their auditors are appointed. Regulations under the Act all authorities to 'opt in' for their auditor to be appointed by an 'appointing person'.
- 4.5. In July 2016, PSAA were specified by the Secretary of State as an appointing person under regulation 3 of the Local Audit (Appointing Person) Regulations 2015. PSAA is an independent not for profit company limited by guarantee and established by the Local Government Association ('LGA').
- 4.6. On 27 October 2016 PSAA invited the Council along with all other authorities to become an opted in authority for the purposes of the appointment of an auditor under the provisions of the Act and the requirements of the Local Audit (Appointing Person) Regulations 2015.

5. Options for appointing External Auditors

5.1. There are three options for local authorities to appoint auditors:

- 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,
- Jointly establish an auditor panel with other authorities, or
- Opt-in to scheme as developed by an approved sector led body to be specified by the Secretary of State Communities and Local Government 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. As mentioned in paragraph 4.6, formal invitations to opt-in were issued on 27 October 2016 and as of 2 February 2017 264 authorities had opted in to the PSSA led scheme. Opt-in will require Full Council Approval (*Regulation 19, Local Audit (Appointing Person) Regulations 2015*). A response to the formal invitation from PSAA is required by 9 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 given the large number local government sector bodies that are likely to opt into the scheme.
- 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).
- Sensibly 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 The opt in scheme provides for the appointment of a suitably qualified audit firm for each of the five financial years commencing on 1 April 2018.

6. Evaluation

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

- **Option 1:** Establish an independent auditor panel - Whilst option 1 would give the 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.

- **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).
- **Option 3:** Opt-in to an approved sector led body scheme (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. Financial Implications

The costs of these arrangements will be determined during the procurement process. There are no other financial implications from this report.

8. Conclusions

Having considered the costs and benefits of each of the options, the preferred route would be opting into the PSAA sector led option for appointment of external auditors (option 3). The potential for continued value for money through a national procurement exercise make Option 3 the most attractive one available. This approach was agreed by Audit Committee.

Background Information

Report to and Minutes, Audit Committee, November 2016

[Audit Committee Documents - November 2016](#)