



SHEFFIELD CITY COUNCIL Report to Council

Report of: Acting Executive Director, Resources

Date: 4th January 2017

Subject: Appointment of External Auditors 2018/19 and beyond

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Summary:

This report sets out the proposals for appointing the external auditor to the Council for the 2018/19 accounts and beyond, as the current transitional arrangements expire after the 2017/18 audits.

The Audit and Standards Committee have considered the options presented by the Local Audit and Accountability Act 2014, and concluded that it is likely that a sector-wide procurement conducted by Public Sector Audit Appointments' (PSAA) will produce better outcomes for the Council than any procurement undertaken locally. Use of PSAA will also be less resource intensive than establishing and operating an auditor panel and conducting a direct local procurement.

If the Council is to take advantage of the national scheme for appointing auditors to be operated by PSAA for the subsequent years, Full Council needs to take the decision to do so now.

Recommendations:

That Full Council, endorse the recommendation from the Audit and Standards Committee and:-

- (a) accepts Public Sector Audit Appointments' (PSAA) invitation to 'opt in' to the sector led option for the appointment of external auditors for 5 financial years commencing 1 April 2018.
- (b) Authorises the Acting Executive Director, Resources, to give notice of acceptance of the invitation to 'opt in' to the PSAA prior to the closing date for acceptance of the invitation.

Background Papers:

1. Letter from PSAA re opting into SLB
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Statutory and Council Policy Checklist

Financial Implications
YES Cleared by: D Phillips
Legal Implications
YES Cleared by: Deborah Eaton
Equality of Opportunity Implications
NO Cleared by: Michael Bowles
Tackling Health Inequalities Implications
NO
Human rights Implications
NO:
Environmental and Sustainability implications
NO
Economic impact
NO
Community safety implications
NO
Human resources implications
NO
Property implications
NO
Area(s) affected
Relevant Scrutiny Committee if decision called in
Not applicable
Is the item a matter which is reserved for approval by the City Council?
YES
Press release
NO

**DECISION TO OPT IN TO THE NATIONAL SCHEME FOR AUDITOR
APPOINTMENTS WITH PSAA AS THE 'APPOINTING PERSON'**

January 2017

1. Purpose of Report and Summary Points

- 1.1 This report sets out the proposals for appointing the external auditor to the Council for the 2018/19 accounts and beyond. The auditors are currently working under a contract originally let by the Audit Commission that was transferred to Public Sector Audit Appointments (PSAA) as part of transitional arrangements following the closure of the Audit Commission.
- 1.2 The Audit and Standards Committee have considered the options presented by Local Audit and Accountability Act 2014, and concluded that it is likely that a sector-wide procurement conducted by Public Sector Audit Appointments' (PSAA) will produce better outcomes for the Council than any procurement undertaken locally. Use of PSAA will also be less resource intensive than establishing and operating an auditor panel and conducting a direct local procurement.
- 1.3 If the Council is to take advantage of the national scheme for appointing auditors to be operated by PSAA for the subsequent years, Full Council needs to take the decision to do so now.

2. Recommendation

- 2.1 (a). Full Council accepts Public Sector Audit Appointments' (PSAA) invitation to 'opt in' to the sector led body for the appointment of external auditors for 5 financial years commencing 1 April 2018 and

(b) Authorises the Acting Executive Director, Resources, to give notice of acceptance of the invitation to 'opt in' to the PSAA prior to the closing date for acceptance of the invitation.

3. Background

- 3.1 The Local Audit and Accountability Act 2014 (the Act) 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 (CLG) 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.

- 3.2 The Act also set out the 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 made under the Act allow authorities to 'opt in' for their auditor to be appointed by an 'appointing person'.
- 3.3 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. The appointing person is sometimes referred to as the sector led body and PSAA has wide support across local government. PSAA was originally established to operate the transitional arrangements following the closure of the Audit Commission under powers delegated by the Secretary of State. PSAA is an independent, not-for-profit company limited by guarantee and established by the Local Government Association (LGA).
- 3.4 PSAA is inviting the Council to opt in, along with all other authorities, so that PSAA can enter into a number of contracts with appropriately qualified audit firms and appoint a suitable firm to be the Council's auditor.
- 3.5 The principal benefits from such an approach are as follows:
- PSAA will ensure the appointment of a suitably qualified and registered auditor and expects to be able to manage the appointments to allow for appropriate groupings and clusters of audits where bodies work together – in the case of SCC, this will likely include the City Region and Passenger Transport Executive;
 - PSAA will monitor contract delivery and ensure compliance with contractual requirements, audit quality and independence requirements;
 - Any auditor conflicts at individual authorities would be managed by PSAA who would have a number of contracted firms to call upon;
 - It is expected that the large scale contracts procured through PSAA will bring economies of scale and attract keener prices from the market than a smaller scale competition;
 - The overall procurement costs would be expected to be lower than an individual smaller scale local procurement;
 - The overhead costs for managing the contracts will be minimised though a smaller number of large contracts across the sector;
 - There will be no need for the Council to establish alternative appointment processes locally, including the need to set up and manage an 'auditor panel', see below; and
 - A sustainable market for audit provision in the sector will be easier to ensure for the future.

- 3.6 The Council's current external auditor is KPMG. Over recent years authorities have benefited from a reduction in fees in the order of 55% compared with fees in 2012. This has been the result of a combination of factors including new contracts negotiated nationally with the audit firms and savings from closure of the Audit Commission. The Council's external audit fee for 2016/17 is **£187,000**.
- 3.7 The proposed fees for the subsequent years cannot be known until the procurement process has been completed, as the costs will depend on proposals from the audit firms.
- 3.8 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 audit 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.

4. Other options

- 4.1 If the Council did not opt into the sector-led body there would be a need to establish an independent auditor panel. In order to make a stand-alone appointment the auditor panel would need to be set up by the Council itself. The members of the panel must be wholly or a majority of 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 audit firm to award a contract for the Council's external audit.
- 4.2 Alternatively 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 would be required on the exact constitution of such a panel having regard to the obligations of each Council/Authority under the Act and the Council would need to liaise with other local authorities to assess the appetite for such an arrangement.
- 4.3 Both of these options have been considered in detail by the Council's Audit and Standards Committee and neither is recommended. Both these options would be more resource intensive processes to implement and without the bulk buying power of the sector led procurement, would be likely to result in a more costly service. It would also be more difficult to manage quality and independence requirements through a local appointment process.

5. The invitation

- 5.1 PSAA has now formally invited this Council to opt in. Details relating to PSAA's invitation are provided in Appendix A to this Report.
- 5.2 In summary the national opt-in scheme provides the following:

- The appointment of a suitably qualified audit firm for each of the 5 financial years commencing 1 April 2018;
- Appointing the same auditor to other opted in bodies that are involved in formal collaboration or joint working initiatives to the extent this is possible with other constraints;
- Managing the procurement process to ensure both quality and price criteria are satisfied. PSAA will seek views from the sector to help inform its detailed procurement strategy;
- Ensuring suitable independence of the auditors from the bodies they audit and managing any potential conflicts as they arise;
- Minimising the scheme management costs and returning any surpluses to scheme members;
- Consulting with authorities on auditor appointments;
- Consulting with authorities on the scale of audit fees and ensuring these reflect scale, complexity and audit risk; and
- Ongoing contract and performance management of the contracts once these have been let.

6. The way forward

- 6.1 Regulation 19 of the Local Audit (Appointing Person) Regulations 2015 requires that a decision to opt in must be made by a meeting of the Full Council (meeting as a whole). The Council then needs to formally respond to PSAA's invitation by 9th March 2017 in the form specified by PSAA.
- 6.2 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.

7. Risk Management

- 7.1 The principal risks are that the Council fails to appoint an auditor in accordance with the new frameworks or does not achieve value for money in the appointment process. These risks are considered best mitigated by opting in to the sector led approach through PSAA.

8. Legal implications

- 8.1 Section 7 of the Local Audit and Accountability Act 2014 requires a relevant Council/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 Council/Authority must consult and take account of the advice of its auditor panel on the selection and appointment of a local auditor.

- 8.2 Schedule 3 paragraph 1 provides that where a relevant Council is a local Council/Authority operating executive arrangements, the function of appointing a local auditor to audit its accounts is not the responsibility of an executive of the Council/Authority under those arrangements;
- 8.3 Section 12 makes provision for the failure to appoint a local auditor: the Council/Authority must immediately inform the Secretary of State, who may direct the Council/Authority to appoint the auditor named in the direction or appoint a local auditor on behalf of the Council/Authority.
- 8.4 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. In July 2016 the Secretary of State specified PSAA as the appointing person.

9. Financial Implications

- 9.1 There is a risk that current external fees levels could increase when the current contracts end in 2018.
- 9.2 Opting-in to a national scheme provides maximum opportunity to ensure fees are as low as possible, whilst ensuring the quality of audit is maintained by entering in to a large scale collective procurement arrangement.
- 9.3 If the national scheme is not used some additional resource will be needed to establish an auditor panel and conduct a local procurement. The LGA estimates this to be in the region of £15,000, plus ongoing expenses.
- 9.4 Until a procurement exercise is completed it is not possible to state what, if any, additional resource may be required for audit fees for 2018/19.

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