

AUDIT COMMITTEE – 18TH JANUARY 2017

APPOINTMENT OF THE COUNCIL'S EXTERNAL AUDITOR FROM 2018/19 ONWARDS

1. Purpose of Report

- 1.1 To brief members of the Audit Committee regarding the Council's options in respect of the routes available for the procurement of external audit services from 2018/19 onwards.

2. Introduction

- 2.1 From 2018/19, the Authority will have the power to choose the method by which it appoints its external auditor, with three main options available:
- Option 1 – Standalone Tender;
 - Option 2 – Combined Tender; and
 - Option 3 – The Authority opts in to a sector led procurement scheme where an Appointed Person appoints the external auditor on the Authority's behalf.

3. Recommendation

It is recommended that:

- **Members note the options available for the Council in respect of the routes available for the procurement of external audit services; and**
- **Members agree that the Council seeks to opt in to the sector led scheme for appointing auditors.**

4. Background

- 4.1 Historically, external auditors have been appointed by the Audit Commission, which was abolished on 31st March 2015 as per the Local Audit and Accountability Act 2014. Under the transitional arrangements of the legislation, these current contracts are to be continued through until 2017/18 financial year, managed by Public Sector Audit Appointments Ltd (PSAA).
- 4.2 Therefore, from 2018/19 onwards, the Authority will have the power to make the choice of the procurement route with regards external audit services.
- 4.3 The Authority's current external auditors are KPMG who provide external audit services for the public sector within the entire Yorkshire & Humber region.

5. **Option Appraisal**

Option 1

- 5.1 Option 1 is where the Authority would individually tender for external audit services on a standalone basis.
- 5.2 If the Authority was to choose this procurement route, it would have to establish an Audit Panel as per the statutory regulations, which would be an independent committee, consisting wholly (or the majority) of independent members.
- 5.3 The primary role of the Audit Panel would be to advise the Authority on:
- The maintenance of an independent relationship with the appointed local auditor; and
 - The selection and appointment of a local auditor.
- 5.4 The adoption of this procurement route would give the Authority the greatest discretion and autonomy over the approach to be followed.
- 5.5 Should the Authority adopt this procurement route, it is expected that there will be an increased burden to the Authority both financially with regards establishment and administration of the Audit Panel but also non financially with respect to an increased obligation in relation to staff time associated with compiling the procurement exercise as well as the governance of the Audit Panel itself.
- 5.6 This approach, if replicated elsewhere, could lead to the panels in each authority in the Yorkshire & Humber region, with associated administration and governance to create and maintain each panel. Procurement would then be undertaken for the Authority where the small size of the audit contract may not be attractive to the bidders, who in reality are likely to be from the larger accounting firms.

Option 2

- 5.7 Option 2 is where the Authority collaborates with a number of other authorities for tendering for the external audit service as a joint procurement exercise.
- 5.8 If the Authority was to choose this procurement route, it would have to establish a single, joint Audit Panel with the other authorities, as per the requirements detailed in paragraphs 4.2 and 4.3 above, and would result in a single external audit contract for the entire collaboration.
- 5.9 If this procurement route was agreed, it would aim to take advantage of increased purchasing power and provide a more attractive offer for the bidders, which is particularly important as local authority audit is a specialised activity.
- 5.10 These firms would be unlikely to seek work for one or two potentially isolated areas, making procurement potentially problematic.

- 5.11 In terms of financials, this approach would seek to take advantage of both a more competitive audit fee than Option 1 but also reap the financial and non-financial benefits from a shared procurement exercise and the shared establishment and administration of a joint Audit Panel (in comparison to Option 1).
- 5.12 Notwithstanding this, there would be some additional bureaucracy associated with the creation and management of a joint Audit Panel, albeit not to the same levels as Option 1, though it would avoid the need for each body to source its own independent members. In reality, the joint Audit Panel is unlikely to meet very often and the governance arrangements once established should be relatively straightforward to manage. This approach would require delegations from (or to) the Authority to (or from) other authorities to form a lead authority for the appointment of the panel and for future governance and procurement purposes.

Option 3

- 5.13 Option 3 is where the Authority opts in to a sector led procurement of the external audit service. The Local Audit (Appointing Person) Regulations 2015 enables the Secretary of State to specify an Appointing Person to appoint a local auditor to audit the accounts of an opted in authority, that organisation being the continuation of Public Sector Audit Appointments Ltd (PSAA).
- 5.14 This option is attractive as it removes a great deal of the financial and administrative burdens that would need to be incurred if Option 1 or Option 2 were chosen, e.g. no requirement for an Audit Panel.
- 5.15 This procurement method would improve the effectiveness of procuring in what is a specialised activity area, with the market currently being very limited and at present, only the larger accounting firms having experience and specialist staff to undertake the work. These firms would be much more likely to bid for work through a bigger procurement exercise rather than seek work from one or two isolated areas. In contrast, a contract for Yorkshire & Humber (as at present) would be more attractive and would potentially attract the right players and maintain economies of scale.
- 5.16 The Local Government Association (LGA) supports the appointing person arrangements and encourages as many principal bodies as possible to opt in, to provide certainty about the volume of work included in the procurement exercise and to secure the best possible prices.
- 5.17 The statutory regulations state that the decision to opt in for any authority has to be one from that authority's Full Council (or equivalent). The deadline for opting in to the sector led procurement is 9th March 2017.

6. Proposal and Justification

- 6.1 The preferred option is Option 3. This offers the potential for economies of scale and importantly a high probability of securing auditors with the necessary experience and knowledge to effectively audit the Authority. If the Authority approves this option, during the compulsory appointing period, the Authority will need to give notice to the Appointing Person of the decision to become an opted authority.