

**AUDIT COMMITTEE**  
**24 JANUARY 2017**

**ARRANGEMENTS FOR THE APPOINTMENT OF EXTERNAL AUDITORS FROM 2017/18**

**Cabinet Member** Cllr Peter Hare-Scott  
**Responsible Officer** Director of Finance, Assets and Resources, Andrew Jarrett

**Reason for Report:** To decide whether to recommend to Full Council to opt in to the Public Sector Led body to appoint external auditors for five years from 2018/19.

**RECOMMENDATION(S):** To recommend to Full Council that MDDC accepts Public Sector Audit Appointments' (PSAA) invitation to "opt in" to the sector led option for the appointment of external auditors for up to five financial years commencing 1 April 2018.

**Relationship to Corporate Plan:** Effective External Audit plays a fundamental role in assisting the Council to deliver its corporate plan.

**Financial Implications:** The Council's external audit fees are £47,700 for 2016/17, there is a risk that fee levels could increase when the current contracts end in 2018.

**Legal Implications:** In July 2016, the Secretary of State for Communities and Local Government specified Public Sector Audit Appointments Ltd (PSAA) as an appointing person under regulation 3 of the Local Audit (Appointing Person) Regulations 2015. This means that PSAA can make auditor appointments for audits of the accounts of principal authorities, which choose to opt into its arrangements, from 2018/19.

**Risk Assessment:** There is no immediate risk to the Council; however, early consideration by the Council of its preferred approach will enable detailed planning to take place so as to achieve successful transition to the new arrangement in a timely and efficient manner.

## **1.0 Introduction**

- 1.1 This is a further update to the report which was presented to the Audit Committee on the 20 September 2016.
- 1.2 On 27 October 2016 the Chief Officer of Public Sector Audit appointments wrote to our Chief Executive making the formal Invitation to opt into the national scheme for auditor appointments. The letter includes useful information about the national scheme which is all included as Appendix A.
- 1.3 The deadline for formal acceptance of this invitation is 9 March 2017 which means that this meeting of the Audit Committee must make its recommendation in order that it can be considered by Full Council at its meeting on 20 February 2017.

- 1.4 For information purposes the Devon Audit Group were contacted on 1 December regarding this matter and as at that date all had decided to opt in except Torbay who hadn't decided then.

## **2.0 The Options Open to MDDC**

### **Option 1: Undertake a Stand Alone Procurement**

- 2.1 In order to make a stand-alone appointment, the Council would need to set up and maintain an Auditor Panel. The majority of the panel members must be independent appointees, which precludes current and former elected members (or officers) and their close families and friends. The Panel role cannot, therefore, be performed by the Audit Committee. The Auditor Panel selects the external auditor and awards the contract.

- 2.2 Although this option would allow the Council to take maximum advantage of the new local appointment regime, there are significant drawbacks:

#### *Disadvantages / Risks*

- 2.3 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 £15,000 plus ongoing expenses and allowances.
- 2.4 The Council would not be able to take advantage of reduced fees that may be available through joint or national procurement contracts.
- 2.5 The assessment of bids and decision on awarding the contract would be made by independent appointees and not solely by elected members.

### **Option 2: Set up a Joint Auditor Panel / Local Joint Procurement Arrangement**

- 2.6 The Act enables the Council to join with other authorities to establish a joint auditor panel. Again, this would need to be constituted of a majority of independent appointees. The advantages of this approach would be shared costs of the panel and procurement exercise, as well as greater opportunity for negotiating economies of scale.

#### *Disadvantages / Risks*

- 2.7 The Council is further removed from local input as each participant may only have one elected member representing each Council on the panel.
- 2.8 The choice of auditor could be complicated if independence issues prevented the chosen auditor operating in a Council to which it provides consultancy or advisory services. Should this occur the Council may still need to make a separate procurement with all the associated costs and loss of economies possible through the joint approach.

### **Option 3: Opt in to the Sector Led Body – PSAA**

2.9 PSAA has the ability to negotiate contracts with firms nationally, maximising the opportunities for the most economic and efficient approach to procurement of external audit on behalf of the whole sector.

Other advantages include:

- The costs of setting up appointment arrangements and negotiating fees are shared across all opt in authorities.
- By offering large contract values it will bring economies of scale with firms able to offer better rates and lower fees than are likely to result from local negotiation.
- PSAA will ensure appointed auditors are suitably qualified and registered, and expect to be able to manage the appointments to allow for appropriate groupings and clusters where audited bodies work together. This could be relevant to MDDC due to our joint working with neighbouring authorities.
- Any conflicts at individual authorities will be managed by PSAA who will have a number of contracted firms to call upon.
- PSAA will monitor contract delivery and ensure compliance with contractual, audit quality, and independence requirements.
- PSAA is able to act in the collective interests of opted in authorities. Their prospectus pledges significant financial benefits to participants.

*Disadvantages / Risks*

2.10 Individual elected members have less opportunity for direct involvement other than through the LGA and/or stakeholder representatives. PSAA will, however, consult with authorities on auditor appointments, giving the Council the opportunity to influence which auditor is appointed.

2.11 Councils need to commit before final contract prices are known as the costs will depend on the proposals from the participating audit firms.

### **3.0 Conclusion and Next Steps**

3.1 In considering the options, we must firstly rule out Option 2 (joint local appointment) as almost all Councils Devon-wide are opting into the PSAA approach, which leaves little or no scope for joint arrangements.

3.2 Currently there are only nine providers that are eligible to audit local authorities, all of these being firms with a national presence. This means that a local procurement exercise would most likely seek tenders from the same firms that the PSAA will be dealing with, plus it would incur the costs in time and resources for the requisite Auditor Panel.

- 3.3 The primary aim of the PSAA procurement strategy is to secure high quality audit services at the most competitive prices and to maximise the value for “opted-in” local government bodies. Best value for MDDC is therefore most likely to be achieved through joining the PSAA approach as opposed to going it alone.
- 3.4 Nationally, the LGA states that the present joint commissioning arrangements have achieved reductions in auditor fees in the region of 50%. This was certainly the case for MDDC. Opting in to the sector-led national approach would therefore seem a logical way of maintaining the collective purchasing power that a national framework would provide.
- 3.5 The PSAA approach aims to minimise the scheme management costs returning any surpluses to scheme members.
- 3.6 The date by which principal authorities will need to opt into the appointing person arrangement is 9 March 2017. The aim is to award contracts to audit firms by the end of June 2017, giving six months to consult with authorities on appointments before the 31 December 2017 deadline.
- 3.7 This is a decision that requires a recommendation to be made to Full Council.

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**Circulation of the Report:** Leadership Team and Cllr Peter Hare-Scott

**List of Background Papers:**