

**TO: GOVERNANCE AND AUDIT COMMITTEE
25TH JANUARY 2017**

**APPOINTMENT OF LOCAL EXTERNAL AUDITORS
BOROUGH TREASURER**

1 PURPOSE OF REPORT

- 1.1 To update the Committee on the new arrangements for the appointment of local external auditors introduced as part of the Local Audit and Accountability Act 2014.

2 RECOMMENDATION

- 2.1 **The Committee reviews the options and recommends to Council that Bracknell Forest joins the Public Sector Auditor Appointments collective procurement arrangement to appoint an External Auditor from the 2018/19 financial year on the grounds that this approach is most likely to achieve best value in a relatively restricted market and avoids the need and cost of the Council itself undertaking a complex and time consuming procurement process and establishing and administering a new independent Auditor Panel.**

3 REASONS FOR RECOMMENDATION(S)

- 3.1 To put in place arrangements for procuring local external auditors in time for the 2018/19 accounting year.

4 ALTERNATIVE OPTIONS CONSIDERED

- 4.1 The options of the Council undertaking its own procurement or doing so in partnership with one or more local council, which would include establishing an independent Auditor Panel to advise on the selection process, have been evaluated but are not recommended, for the reasons detailed in the report.

5 SUPPORTING INFORMATION

Background

- 5.1 At its meeting on 30 March 2016 the Governance and Audit Committee received a report from the Borough Treasurer setting out changes to the process for appointing External Auditors under the Local Audit and Accountability Act 2014, following the closure of the Audit Commission which had previously undertaken this role for local authorities and the NHS.
- 5.2 The March 2016 report set out in detail the context that had led to the new national arrangements and the Government's delegation of powers to Public Sector Audit Appointments Ltd (PSAA) to appoint external auditors for a transitional period that ends following audit of the 2017/18 accounts.
- 5.3 PSAA is a company limited by guarantee without any share capital and is a subsidiary of the Improvement and Development Agency (IDeA) which is wholly owned by the Local Government Association. PSAA is currently responsible for appointing auditors to local government, police and local NHS bodies, for setting audit fees and for making arrangements for the certification of housing benefit subsidy claims.

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- 5.4 With the transitional arrangements coming to an end effectively later this year, Councils now need to put plans in place to appoint their local external auditors by 31 December 2017, so that the new auditors are in place by 1st April 2018. They will only be able to appoint an audit firm from a register of firms licensed by the registered supervisory bodies (under delegation from the Financial Reporting Council), hence the market will effectively be limited to firms who are currently undertaking external audit work for local authorities. As an indication, PSAA currently only contracts with five audit firms for the delivery of public sector external audit.
- 5.5 The March 2016 report noted that a number of options exist for councils to consider, as follows:
- i) Opt in to a collective procurement arrangement established by the local government sector, through “an appointing person” under the Local Audit (Appointing Person) Regulations;
 - ii) Undertake their own individual procurement process. This would need to be supported by the creation of an independent Auditor Panel to advise on the selection and appointment of a local external auditor and policies to govern the relationship between the council and the auditor;
 - iii) Work with one or more other councils to undertake a joint procurement process, potentially creating a joint Auditor Panel to advise.
- 5.6 Having considered the available options and the advantages and disadvantages of each, the Committee resolved that:
- 1 An interest be expressed in participating in the sector-led collective procurement arrangements, without commitment at this stage.
 - 2 Other options continue to be reviewed, and a further report be presented to the Committee when more information is available.

Update on Options Available

- 5.7 In July 2016, the Secretary of State for Communities and Local Government officially recognised PSAA as an “appointing person” able to act on behalf of local authorities in auditor appointments. This has happened with the support of the LGA, which had an objective of “establishing a national sector-led body which is able to deliver high quality, economic and efficient external audit arrangements for all authorities that choose to opt into its scheme”. In effect, the PSAA is a shared service arrangement that is open to all local authorities.
- 5.8 PSAA issued a prospectus in August 2016 and subsequently invitations to all authorities on 27 October 2016 to opt in to its collective arrangements. An outline procurement strategy was published in November 2016 that sets out how PSAA intends to fulfil the LGA’s objectives in practice. The prospectus and procurement strategy can be found on the PSAA website (www.psaa.co.uk) and are attached as background information at Annexes A and B of this report.
- 5.9 The closing date for acceptance of the opt-in invitation is 9 March 2017. Effectively this means that all authorities need to have reached an agreed Full Council position for the appointment of their local auditor by that date.
- 5.9 As at 4 January 2017, 177 of the 493 eligible local authorities had formally opted in to PSAA, including 31 unitary and county councils. The Borough Treasurer has sought information since then on the intention of other unitary authorities across the country.

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Of the 33 authorities which have responded, 31 intend to opt in to the PSAA arrangement, 1 is yet to decide and only 1 is set to take its own path.

- 5.10 In relation to the other options available to local authorities, CIPFA published in December 2015 a guide to Auditor Panels, which are required if authorities do not opt in to an “appointing person” arrangement. The CIPFA guide is attached as Annex C to this report for ease of reference.
- 5.11 The minimum number of members for an Auditor Panel is 3, of which 2 must be considered independent from the authority. A panel member job description should be drawn up and agreed before commencing recruitment and the requirement or desire for relevant knowledge or expertise should be clearly determined. Vacancies must be publicly advertised, as is good practice for any public appointment, but particularly as a person may only be appointed as an independent member of an auditor panel if that vacancy has been advertised in accordance with the Auditor Panel Regulations.
- 5.12 CIPFA highlighted that appropriate skills and knowledge need to be sought when appointing members to an Auditor Panel. Some of these can be fairly generic, such as knowledge of the authority itself, values of good governance and ethics and public procurement rules. However, others are likely to be fairly specialist, including understanding of:
- a. local authority finance
 - b. accountancy (public sector or commercial)
 - c. audit processes and regulation (public or private sector, external/local audit or internal audit), including more specifically,
 - d. the role and responsibilities (statutory duties) of a local public auditor in local government.
- 5.13 As part of its consideration of the creation and role of Auditor Panels, CIPFA set out on pages 4 and 5 of the Guide the available options and its views on the possible advantages and disadvantages of each. The key points from CIPFA’s analysis are:
- Individual authorities may not be well placed to secure competitive bids from potential auditors and may find it difficult to attract sufficient, knowledgeable independent members to form a new Auditor Panel or join an existing Committee or Sub-Committee
 - A shared approach with one or more other authority may help address these issues, while requiring a degree of compromise on the auditor appointment
- 5.14 The issue of what level of allowances and expenses to pay Panel members is at the discretion of individual organisations. CIPFA suggests that authorities may wish to mirror arrangements for other allowances within their governance arrangements. There would clearly be an expectation of some financial recompense to engage a suitably qualified, independent individual which would to be taken into consideration.
- 5.15 Turning to the actual auditor appointment, this will need to be taken in accordance with EU procurement rules which specify particular stages and timescales. There are five key stages of the process which are likely to be common across authorities:
- i) decide on the appointment process (a decision for Council whether to use the sector led body or appoint independently)
 - ii) (if appointing independently) determine the important criteria to be considered when selecting the auditor and invite expressions of interest against these
 - iii) evaluate expressions received

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- iv) final evaluation of tenders
 - v) recommendation to the authority.
- 5.16 While the Auditor panel would play a key role at each of these stages, in reality the detailed work to inform the Panel's considerations would need to be undertaken by Council officers. While the skills exist to do so, the issue of capacity in the context of reducing resources is a key challenge across the local government sector. This is a key factor cited by other authorities who have decided to opt in to the PSAA arrangement.

Conclusions

- 5.17 Based on the following key issues, the Borough Treasurer does not recommend that Bracknell Forest Council independently seeks to appoint its local external auditor:
- As a small unitary authority, the Council is unlikely to attract competitive prices from suitably qualified organisations;
 - It is likely to prove difficult to attract sufficient independent members for an Auditor Panel that have an understanding of the authority and the broader skills required to play a key advisory role;
 - There is insufficient capacity internally to support the appointment process without affecting the successful delivery of the Transformation Programme.
- 5.18 It is arguable that working with other local councils could address at least some of the above issues. In this regard, 2 other Berkshire authorities have clearly signalled their intention to join the PSAA arrangement, leaving 3 other possible partners within the county who have yet to commit to a particular route.
- 5.19 Recent years have seen increased partnership working across the Berkshire unitaries, to deliver a range of specific functions. This indicates that such an approach could potentially be applied to the appointment of a local external auditor. However, to date no proposal has been made or received by Bracknell Forest for joint working in this area. This should not be taken as an indication that there is no interest, but rather as a reflection of the scale of other challenges facing authorities at this time.
- 5.20 A key issue for consideration is the timescale involved. Authorities must have appointed an auditor for their 2018/19 accounts by no later than 31 December 2017. An important and necessary first stage in this is to make a formal decision on their approach to appoint a local auditor and, if necessary, to establish an Auditor Panel by no later than 9 March. While this represents a timetable determined by the PSAA, it also reflects a realistic deadline to start a formal and complex procurement process to ensure a local auditor is in place.
- 5.22 Another factor is that the approach to local authority audit is tightly defined by the Local Audit and Accountability Act 2014 and the National Audit Office's (NAO) Code of Audit Practice, which came into force on 1 April 2015. There is no real scope for local variation of the approach required and the number of bodies qualified to audit local authority accounts is very small.
- 5.23 For these reasons, together with the likelihood of the PSAA being able to secure better value bids for work through a national collective process, very few authorities are expected to undertake their own procurement processes for a local auditor. The Borough Treasurer has also been unable to find any examples of unitary authorities working together outside of the PSAA arrangement, for the same reasons.
- 5.24 Therefore, while recognising the potential in future years to develop a local partnership that can learn from the experience of appointing a local auditor for the

first time, the Borough Treasurer recommends that Bracknell Forest should join the overwhelming majority of local authorities in opting in to the collective arrangements of the PSAA.

6 ADVICE RECEIVED FROM STATUTORY AND OTHER OFFICERS

Borough Solicitor

- 6.1 As set out in the report the Local Audit and Accountability Act 2014 Act creates a legal framework enabling the Government to nominate a 'person' to act as a joint procurement body for local audit and to give that body the powers and duties to operate collective procurement arrangements. Such a body is required to appoint auditors to those local authorities which 'opt in' to the collective procurement arrangement. Any decision to opt in would be reserved to Full Council and not the Executive

Borough Treasurer

- 6.2 The Borough Treasurer recommends the Council opting in to the PSAA collective arrangements, for the reasons detailed in the report.

Equalities Impact Assessment

- 6.3 Not applicable

Strategic Risk Management Issues

- 6.4 There is a risk costs may potentially rise if the procurement option chosen does not maximise economies of scale. There are also risks that authorities cannot attract sufficient independent individuals with relevant experience to sit on the Panels.

Other Officers

- 6.5 Not applicable

7 CONSULTATION

Principal Groups Consulted

- 7.1 Not applicable

Background Papers

Annexes A to C

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