

**TO: GOVERNANCE AND AUDIT COMMITTEE  
30<sup>TH</sup> MARCH 2016**

---

**APPOINTMENT OF LOCAL EXTERNAL AUDITORS  
BOROUGH TREASURER**

**1 PURPOSE OF REPORT**

- 1.1 To inform the Committee of the new arrangements for the appointment of local external auditors.

**2 RECOMMENDATION**

- 2.1 **The Committee reviews the options and endorses Option 1 as the preferred option.**

**3 REASONS FOR RECOMMENDATION(S)**

- 3.1 To put in place arrangements for procuring local external auditors.

**4 ALTERNATIVE OPTIONS CONSIDERED**

- 4.1 None

**5 SUPPORTING INFORMATION**

- 5.1 In August 2010 the then Secretary of State for Communities and Local Government, Eric Pickles, announced that he intended to close the Audit Commission and that organisations whose appointments were previously controlled by the Audit Commission should have the freedom to appoint their own external auditors. The Audit Commission 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. The current external auditors for Bracknell Forest are Ernst and Young (EY).

To cover the transition period, the Secretary of State for Communities and Local Government delegated statutory functions (from the Audit Commission Act 1998) to Public Sector Audit Appointments Ltd (PSAA) by way of a letter of delegation issued under powers contained in the Local Audit and Accountability Act 2014. PSAA was incorporated by the Local Government Association (LGA) in August 2014. 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 LGA. 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.

- 5.2 Following a consultation exercise with key stakeholder groups, the Government decided that for local government bodies the contracts will be extended by one year, so incorporating the audit of the 2017/18 financial year. In practice, this means that the Council must appoint their local auditors by 31 December 2017 so that the new auditors are in place by 1<sup>st</sup> April 2018. Councils will only be able appoint an audit firm from a register of firms licensed by the registered supervisory bodies (under delegation from the Financial Reporting Council) to undertake 'local audit work' hence the market will be limited. This register is coming out shortly. However, as an indication, PSAA currently only contract with five audit firms for the delivery of public sector external audit.

5.3 There are broadly 2 routes the Council could go down. Firstly the Council could opt in to collective procurement arrangement established by the local government sector or secondly it could undertake its own procurement either opting to do this independently or jointly with other bodies. Should the Council wish to undertake its own procurement either jointly or independently, an Auditor Panel would need to be established to advise on

- the selection and appointment of the auditor;
- whether the authority should adopt a policy on obtaining non-audit services from the auditor, including the contents of such a policy;
- any proposal by the authority to enter into an agreement that limits the amount of a liability owed to a relevant authority by the auditor in respect of any negligence, default, breach of duty or breach of trust occurring in the course of the audit of accounts, of which the auditor may be guilty in relation to the authority,;
- maintaining an independent relationship with its auditor; and
- the outcome of any investigation of an auditor's resignation from office, if this occurs, or on any proposal to remove a local auditor from office.

The Panel's advice to the Authority must be published. The Local Audit (Auditor Panel) Regulations 2014 (the Auditor Panel Regulations) are clear that the minimum number of members for an Auditor Panel is three of which at least two must be considered independent

5.4 The options available to the Council are as follows:

Option 1

The Local Audit (Appointing Person) Regulations allows authorities to opt into collective procurement arrangements established by the local government sector. The Regulations set out the process for the Government to approve an organisation to act as a sector-led body taking on the role of "an appointing person" with the necessary powers and duties to act as a collective procurement body. The sector-led body has yet to be determined although PSAA is working with the LGA, IDeA Board and other stakeholders to explore the feasibility and viability of PSAA applying to be a sector-led body.

The Regulations set out the process by which authorities can choose to participate in the sector-led arrangements. Essentially, the appointed person must invite authorities to become opted in authorities. The authorities to whom the invitation is issued must then individually decide whether to accept the invitation. The decision to accept the invitation may only be accepted by the full council. If an authority accepts then, the appointment of the auditor is made by the appointing person.

Authorities that opt in and do not make their own appointment will not need to establish an independent Auditor Panel. Using Public Sector Audit Appointments as the Appointing Person is attractive as it removes a great deal of administration and arrangements that will need to be put in place and improves the effectiveness of procuring in what is a specialised activity area. The market for this service is very limited and at present, only the larger accounting firms have the 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 authorities or even an area as large as Berkshire. A contract for the south east (as at present) would be more attractive and would potentially attract the right players and maintain economies of scale.

Option 2

Alternatively, the Council could form its own Auditor Panel and undertake its own procurement arrangements. This approach if replicated elsewhere, could lead to Panels in each authority in Berkshire, with associated administration and governance to create and maintain each Panel. Procurement would then be undertaken solely for this Council and the small size of the audit contract may not be attractive to or achieve best value from the bidders, who in reality are likely to be from the bigger accounting firms. This approach also raises the question as to whether there is an available and willing source of independent members across Berkshire to appoint to numerous Auditor Panels. The Panel will have limited responsibilities and in reality will meet infrequently and will be dealing with an area that is to some degree specific to local authorities.

Option 3

The Council could seek to form a joint auditor panel and a joint procurement arrangement with other authorities with a single Auditor Panel and single external audit contract for the entire area (however defined). This would aim to take advantage of better purchasing power and provide a more attractive offer for the external auditor bidders. This is particularly important as local authority audit is a specialised activity. The market for this service may develop, but we should not assume it will, and at present, only the larger accounting firms have the experience and specialist staff to undertake the work. These firms would be unlikely to seek work for one or two individual authorities and hence procurement could be problematic. A contract for Berkshire would be more attractive and would potentially maintain economies of scale. There may be some additional bureaucracy associated with creation and management of a joint Auditor Panel, although it would avoid the need for each body to source its own independent members. In reality the panel is unlikely to meet very often and the governance arrangements once established should be relatively easy to manage. This approach would require delegations from (or feasibly to) this Council from other Councils to form a lead authority for the appointment of the panel and for future governance and procurement purposes. There would also need to be joint arrangements in place to introduce and manage an allowance scheme for the Panel.

Option 4

The Council could have a hybrid of options 2 and 3. It could form its own Auditor Panel, but seek to procure jointly with one or more Berkshire authorities. This would allow the Council's own Auditor Panel to advise this Council, whilst benefiting from joint procurement as described above. However, all participating Councils in this arrangement would have to pass the same resolution which may cause difficulties if the different Panels gave conflicting advice. It also raises the same question of available and willing independent members as described above

Preferred Option

5.4 It would seem sensible to pursue Option 1. Whatever option is taken, the same limited number of firms will be the only permissible bidders for the work as this is a specialised service with few providers. Option 1 offers the greatest potential for economies of scale, securing auditors with the necessary experience to effectively audit the Council's accounts and minimising governance bureaucracy. If the Council approves this option, the Council will need to give notice to the Appointing Person of our decision to become an opted authority.

## **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 Option 1 on the grounds of efficiency and value for money.

### 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

CIPFA Guide to Auditor Panels

### Contact for further information

Sally Hendrick, Head of Audit and Risk Management - 01344 352092

[Sally.hendrick@bracknell-forest.gov.uk](mailto:Sally.hendrick@bracknell-forest.gov.uk)