

WELWYN HATFIELD BOROUGH COUNCIL
COUNCIL – 6 FEBRUARY 2017
REPORT OF THE EXECUTIVE DIRECTOR

EXTERNAL AUDITOR APPOINTMENTS

1 Executive Summary

- 1.1 The Local Audit & Accountability Act 2014 ('the Act') abolished the Audit Commission, and required principal local authorities to appoint their own external auditors by 31 December 2017 for the audit of their accounts from financial year 2017/18.
- 1.2 There are four options for local authorities to appoint auditors:
1. by establishing their own auditor panel (which may be an existing committee or sub-committee of the authority),
 2. by jointly establishing an auditor panel with other authorities,
 3. by using the services of an auditor panel established by another authority, or
 4. by delegating appointment to an appointing person and participate in a national appointment scheme (which would effectively continue to operate in the same fashion as the Audit Commission).
- 1.3 The Council has received an invitation to opt into the national scheme of auditor appointments and this report seeks approval to accept the invitation and respond as such before the deadline of 9 March 2017.

2 Recommendations

- 2.1 That the Council accept the invitation from the Public Sector Audit Appointments Limited, agrees to opt into the national scheme for auditor appointments for each of the five financial years beginning 1 April 2018 and agrees to be an 'opted-in' authority for the purposes of the Regulations.
- 2.2 That delegated authority be provided to the Executive Director to complete and return the Form of Notice of Acceptance of the Invitation to Opt In on behalf of the Council.

3 Explanation

- 3.1 Local authority external auditors have, since the mid-1980s been commissioned or carried out by the Audit Commission. However, the Local Audit & Accountability Act 2014 ('the Act') abolished the Audit Commission, and requires principal local authorities such as Welwyn Hatfield Borough Council to appoint

their own external auditors for the audit of the 2017/18 accounts by 31 December 2017.

- 3.2 There are four options for local authorities to appoint auditors:
- Option 1.** by establishing their own auditor panel (which may be an existing committee or sub-committee of the authority),
 - Option 2.** by jointly establishing an auditor panel with other authorities,
 - Option 3.** by using the services of an auditor panel established by another authority, or
 - Option 4.** by delegating appointment to an appointing person (which would effectively continue to operate in the same fashion as the Audit Commission previously).
- 3.3 Where an auditor panel is used, it must be formed of a minimum of three members with a majority of independent members and an independent Chair. Where a panel is shared, independence may be differently assessed for different authorities.
- 3.4 Officers have considered the advantages and disadvantages of the four options listed in 3.2 and have sought the views of the Audit Committee:
- Option 1:** The costs involved in setting up a new panel and carrying out a procurement exercise could be significant, and the benefits of procuring locally could be limited. This is because the local authority audit market is a limited one (with specific registration required by providers). There are also challenges in setting up an appropriate committee because members are required to offer relevant general knowledge and experience (guidance from the Chartered Institute of Public Finance & Accountancy suggests local authority finance, accountancy, audit process and regulation, and the role and responsibility of auditors as specifically relevant areas).
- Option 2:** A joint set-up and procurement with other partners could be a more attractive option than option 1, as it provides an opportunity to realise more local benefits (such as the procurement of a firm offering commitment to apprenticeships in Hertfordshire). There may also be an opportunity to realise small additional efficiencies, for example through a single assessment of the Shared Internal Audit Service. However, there would still be significant cost involved in the set-up of the panel and carrying out the procurement. Even a shared procurement is unlikely to achieve economies of scale as it would be significantly smaller than those undertaken by a national body (for example, Audit Commission procurements in 2012 and 2014 were for 750 and 260 audited bodies respectively, and achieved savings of 40% and 25%). There is also no guarantee that additional efficiencies would be achieved, or local social value commitments obtained.
- Option 3:** Use of another authority's panel would effectively be a combination of options 1 and 2, keeping the flexibility (and expense) of individual procurement whilst avoiding the work involved in setting up a panel (though having to share the cost). This option would also require a suitable partner to be identified.
- Option 4:** Use of an appointing person to appoint auditors would allow the Councils to retain the benefits of national procurement, allow local procurement resources to be focused on core business activities, and ensure the actual and perceived independence of auditors to be maximised through the separation of the Councils from decision-making.

- 3.5 The decision to appoint auditors is a Council Function, as is the appointment of auditor panel members, should an option involving an auditor panel be chosen. However, as the committee with responsibility for monitoring corporate governance and assurance framework, the opinion and recommendation of the Audit Committee has been sought in advance of a Council decision. After a discussion on the subject at its meeting on 17 October 2016 the Committee were minded to support the recommendation to join the national appointment scheme.
- 3.6 Officers have consulted informally with other Hertfordshire Authorities, via the Hertfordshire Chief Finance Officers' Association. This group felt that there would be limited value in forming a shared panel and procuring locally. This means that it is unlikely that partners would be available for the pursuit of options 2 and 3, even if these were considered to offer value for money.
- 3.7 In the interim period between the abolition of the Audit Commission and this first round of appointments, audit contracts have been managed by Public Sector Audit Appointments Ltd. (PSAA), a not-for-profit company established by the Local Government Association (LGA).
- 3.8 In July 2016, PSAA was specified by the Secretary of State as an appointing person and has published a prospectus on how they are going about developing a national appointment scheme. Available on the following website: <http://www.psaa.co.uk/wp-content/uploads/2016/07/PSAA-prospectus-July-2016.pdf>. They have formally invited the Council to opt into the national auditor appointment scheme and the invitation and opt in form are provided in appendix 1 and 2 respectively. The Council is asked to give delegated authority to the Executive Director to complete the acceptance form.
- 3.9 Securing a high level of acceptances to the opt-in invitation should provide the best opportunity for the PSAA to achieve the most competitive prices from audit firms. The LGA has previously sought expressions of interest in the appointing person arrangements, and we are told they have received positive responses from over 270 relevant authorities. The PSAA is hopeful of ultimately achieving participation from the vast majority of eligible authorities.
- 3.10 The PSAA invitation in appendix 1 provides an outline of how they will ensure high quality audits, the procurement strategy to the appointments and also how fee scales will be managed.
- 3.11 The summary timetable outlined in the invitation is as follows:
- | | |
|---|-------------------------|
| • Invitation to opt in issued | 27 October 2016 |
| • Closing date for receipt of notices to opt in | 9 March 2017 |
| • Contract notice published | 20 February 2017 |
| • Award audit contracts | By end of June 2017 |
| • Consult on and make auditor appointments | By end of December 2017 |
| • Consult on and publish scale fees | By end of March 2018 |

Implications

4 Legal Implications

- 4.1 PSAA is an appointed person for the purposes of the Local Audit (Appointing Person) Regulations 2015 (the Regulations).
- 4.2 The failure to appoint an auditor must be reported to the Secretary of State, who may direct an authority to appoint a named auditor or appoint an auditor on that authority's behalf.

5 Financial Implications

- 5.1 The cost of the Council's external audit in 2015/16 was £71,000. This was a reduction of £36,000 on the previous year (2014/15) when the cost was £107,000. This reduction reflects the saving to the Authority since the abolition of the Audit Commission.
- 5.2 The costs of the PSAA for setting up and managing the scheme will need to be covered by audit fees, as it is currently. They expect the annual operating costs to be lower than current costs because they expect to employ a smaller team to manage the scheme. PSAA will pool scheme costs and charge fees to audited bodies in accordance with a fair scale of fees which has regard to size, complexity and audit risk, most likely as evidenced by audit fees for 2016/17. Pooling means that everyone in the scheme will benefit from the most competitive prices. Fees will reflect the number of scheme participants – the greater the level of participation, the better the value represented by our scale fees.

6 Risk Management Implications

- 6.1 There is a risk that quotes for the provision of an audit service through a procurement process are in excess of the budget available. Mitigation of this may be achieved through a collective procurement which achieves economies of scale.
- 6.2 Not appointing an external auditor risks the Secretary of State appointing an auditor on the authority's behalf, causing reputational and potentially financial issues. Mitigation is by following the outlined timetable to appoint an external auditor in good time and before the deadline.

7 Security & Terrorism Implication(s)

- 7.1 There are no security or terrorism implications.

8 Procurement Implication(s)

- 8.1 The Council's procurement rules will be followed in the appointment of the external auditor, regardless of the method selected.

9 Climate Change Implications

- 9.1 There are no direct climate change implications to consider.

10 Link to Corporate Priorities

- 10.1 The subject of this report is linked to the Council's Corporate Priority of engaging with our communities and provide value for money and specifically with regard to delivering value for money.

11 Equalities and Diversities

- 11.1 Officers will seek assurance that appropriate equalities considerations are part of any procurement process, regardless of the method selected.

Author: Tim Neill, ext: 2425
Title: Head of Resources
Date: November 2016

Appendix

- Appendix 1 Invitation to Opt Into the National Scheme for Auditor Appointments
Appendix 2 Form of Notice of Acceptance of the Invitation to Opt In