

Report to:	Council
Relevant Officer:	Mr Steve Thompson, Director of Resources
Relevant Cabinet Member:	Leader of the Council, Councillor Simon Blackburn
Date of Meeting :	25 January 2017

APPOINTMENT OF LOCAL EXTERNAL AUDITOR

1.0 Purpose of the report:

1.1 Section 7 of the Local Audit and Accountability Act 2014 states that a “relevant authority must appoint a local auditor to audit its accounts for a financial year not later than 31 December in the preceding financial year”. Current auditor contracts have been extended for 12 months, therefore for Blackpool Council the appointment of an auditor must be completed by 31 December 2017 for the audit year 2018/2019. The purpose of this report is to outline the options, one of which has a deadline to opt-in of 9 March 2017 and requires a decision of “the members of the authority meeting as a whole”.

2.0 Recommendation(s):

2.1 To opt-in to the Local Government Association (LGA)-endorsed sector-led body appointed by the Secretary of State, namely Public Sector Audit Appointments (PSAA), by the due deadline of 9 March 2017 for them to undertake the Council’s local auditor appointment process.

3.0 Reasons for recommendation(s):

PSAA will negotiate with external audit firms nationally, maximising the opportunities for the most economic and efficient approach to procurement of external audit on behalf of the whole Local Government sector and ensuring independence of provision.

3.2a Is the recommendation contrary to a plan or strategy adopted or approved by the Council? No

3.2b Is the recommendation in accordance with the Council’s approved budget? Yes

3.3 Other alternative options to be considered:

1. Make a stand-alone appointment.

2. Collaborate on a local joint procurement arrangement.

4.0 Council Priority:

4.1 The relevant Council Priorities are “The economy: Maximising growth and opportunity across Blackpool” and “Communities: Creating stronger communities and increasing resilience”.

5.0 Background Information

5.1 The Local Audit and Accountability Act 2014 (the Act) disestablished the Audit Commission and established transitional arrangements for the appointment of external auditors and the setting of audit fees for all Local Government and NHS bodies in England. On 5 October 2015, the Secretary of State for Communities and Local Government determined that the transitional arrangements for Local Government bodies would be extended by one year to also include the audit of accounts for 2017/ 2018. The current external auditor for Blackpool Council is KPMG, this appointment having been made under a contract, which was originally let by the Audit Commission.

5.2 Following closure of the Audit Commission, the contract is currently managed by Public Sector Audit Appointments (PSAA), the transitional body set up by the LGA with delegated authority from the Secretary of State for Communities and Local Government. When the current transitional arrangements come to an end on 31 March 2018, the Council will be able to move to a local appointment of its auditor. There are a number of routes by which this can be achieved, each with varying risks and opportunities.

5.3 Current audit fees are based on discounted rates offered by the firms in return for a substantial market share. When the contracts were last negotiated nationally by the Audit Commission they covered NHS and Local Government bodies and offered maximum economies of scale. The scope of the audit will still be specified nationally by the National Audit Office (NAO), which is responsible for writing the Code of Audit Practice. All firms appointed to carry out the Council’s audit must follow these requirements.

5.4 Not all accounting firms will be eligible to compete for the work. They will need to demonstrate that they have the required skills and experience and be registered with a Registered Supervising Body approved by the Financial Reporting Council. The registration process is in progress and so the number of eligible and interested firms is not known at this stage, but it is reasonable to expect that the list will include the top ten firms in the country, including the Council’s current external auditor. It is unlikely that small independent firms will be able to meet the required eligibility criteria.

- 5.5 There are three broad options open to the Council under the Act for the appointment of a new external auditor, which has to be made by December 2017 regardless of which option is chosen:

Option 1 – Make a stand-alone appointment

To make a stand-alone appointment the Council would need to establish an independent Auditor Panel, comprising of at least three members, the majority of whom (including the Chairman) are required to be independent members as defined under the Act. Independent members for this purpose are independent appointees and for the Council this would exclude all current and former elected members or officers and their close families and friends. This means that elected members would not have a majority input into the process for the assessment and appointment of the firm of accountants to provide the Council's external audit.

The Auditor Panel role is different to that of the Audit Committee. Its functions are to advise the authority on the selection and appointment of the auditor; the resignation or proposals to remove the auditor; adoption of a policy on non-audit services; maintenance of independent relationship with the auditor; and any proposals to enter into limited liability agreements. There is no specific reference in the Act of the Auditor Panel carrying out a contract oversight role, but guidance from the Chartered Institute of Public Finance and Accountancy (CIPFA) does indicate that this is a possible additional function that might be helpful.

This option would allow the Council to take maximum advantage of the new local appointment regime and have local input to the decision. However, recruitment and servicing of the Auditor Panel, running the bidding exercise and negotiating the contract are estimated by the LGA to cost in the order of £15,000 plus ongoing expenses and allowances. In addition, the Council would not benefit from reduced fees that may be available through joint or national procurement contracts.

Option 2 - Collaborate on a local joint procurement arrangement

The Act enables the Council to join with other Local Authorities to establish a joint independent Auditor Panel, which again would need to be made up of a majority of independent members. Further advice would be required on the exact constitution of such a Panel having regard to the obligations of each body under the Act and as such the Council would need to liaise with other Authorities to assess the appetite for this arrangement. For example, across the county footprint the current arrangements for the 15 Lancashire local authorities are that 11 are served by Grant Thornton and four by KPMG. In addition to these, an option could be extended to include Lancashire Police, Lancashire PCC, Lancashire Fire and Rescue, the Combined Authority and health bodies at a later date, although it should be noted that the latter are currently working to a different timetable for appointments.

Advantages of this approach are that the costs of setting up the panel, running the bidding process and negotiating the contract are shared across a number of Authorities and there is greater opportunity for negotiating economies of scale by being able to offer a larger combined contract value to firms across an area that is also more attractive logistically to manage.

However, this option is not without risk. The decision-making body is further removed from local input, it is unlikely that elected members from every Authority could be represented on an independent auditor panel. There is a risk that the larger accountancy and audit firms may decline to bid for a package of external audit work due to independence issues (a successful firm would be unable to undertake substantial advisory work as to do so would be in contravention of professional standards, independence safeguards and terms of appointment established by the PSAA).

Option 3 - Opt-in to a sector-led body

In response to the consultation on the new arrangement the LGA successfully lobbied for Councils to be able to 'opt-in' to a sector-led body appointed by the Secretary of State under the Act. This body has been confirmed as PSAA, which will negotiate with external audit firms nationally, maximising the opportunities for the most economic and efficient approach to procurement of external audit on behalf of the whole Local Government sector and ensuring independence of provision. Social value will be expected to feature as a criterion within the contract tender specification.

Under this approach the costs of setting up the appointment arrangements and negotiating fees would be shared across all opt-in Authorities (numbering 166 as at 4 January) and by offering large contract values the firms would be able to offer better rates and lower fees than are likely to result from local negotiation. Any conflicts at individual Authority level would be managed by PSAA who would have a number of contracted firms to call upon. The appointment process would not be ceded to locally-appointed independent members, but to a separate body set up to act in the collective interests of the 'opt-in' authorities.

Does the information submitted include any exempt information?

No

List of Appendices

None.

6.0 Legal considerations:

6.1 PSAA will oversee a legally-compliant procurement process.

7.0 Human Resources considerations:

7.1 There are potential TUPE issues between any existing and prospective local external audit providers, but these will be facilitated by PSAA.

8.0 Equalities considerations:

8.1 None.

9.0 Financial considerations:

9.1 As with any tendering process costs may increase as a consequence, but the scale upon which this procurement process is based should mitigate this outcome and indeed maximise economies and efficiencies. Provisional fees should be available for consultation in autumn 2017.

10.0 Risk management considerations:

10.1 The NAO's Code of Audit Practice provides the framework for external audit governance and delivery. The PSAA's procurement process will ensure that escalation procedures are incorporated should performance be deemed unsatisfactory.

11.0 Ethical considerations:

11.1 The recommended option should give the Council greater confidence and assurance in the independence of external audit opinion offered. Successful firms will also have to demonstrate that they meet the Financial Reporting Council's Auditor's Ethical Standard.

12.0 Internal/ External Consultation undertaken:

12.1 A draft of this report has been shared for comment with the Leader of the Council, Chairman of Audit Committee, Corporate Leadership Team, Chief Internal Auditor, Head of Procurement, Chief Accountant and current external auditor, KPMG.

13.0 Background Papers

13.1 None.