

Meeting: **AUDIT COMMITTEE**
 / EXECUTIVE
 / COUNCIL

Council Agenda
Item:

13

Portfolio Area: Resources

Date: **9 November 2016**

APPOINTMENT OF EXTERNAL AUDITOR (FOR AUDITS OF ACCOUNTS FROM 2019/20 ONWARDS)

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1. PURPOSE

- 1.1 To identify the preferred mechanism for the appointment of the council’s external auditors for the Statement of Accounts, 2018/19 onwards.

2. RECOMMENDATIONS

- 2.1 To recommend to the Executive and Council that the Council opts in to the appointing person arrangements provided by Public Sector Audit Appointments (PSAA) for the appointment of external auditors for a five year period commencing on the 1 April 2018.

3. BACKGROUND

- 3.1 Stevenage Borough Council’s external auditor appointment is made under the audit contracts formerly let by the Audit Commission and now managed by Public Sector Audit Appointments (PSAA) under transitional arrangements. PSAA was originally established to operate the transitional arrangements following the closure of the Audit Commission in March 2015 and is a company owned by the Local Government Association’s Improvement and Development Agency (IDeA).
- 3.2 The council’s current contract is with Ernst Young (first year audit 2015/16) and is due to end on the completion of the 2017/18 audit of accounts (August 2018).
- 3.3 When the current transitional arrangements come to an end the Local Audit and Accountability Act 2014 requires authorities to make their own arrangements to appoint auditors. This can be achieved by either;
- a) Establishing an auditor panel and conducting their own procurement exercise or,
 - b) Opt in to the appointing person regime (discussed further in section 4.2).

Failure by an authority to appoint an auditor will result in an appointment being made by the Secretary of State.

- 3.4 The Assistant Director (Finance) submitted an expression of interest to PSAA in 2016 so that option b) remained open to Stevenage Borough Council, however new appointments for the 2018/19 audit of accounts must be made under the provisions of the 2014 Act and confirmed by the 31 December 2017.

4. REASONS FOR RECOMMENDED COURSE OF ACTIONS AND OTHER OPTIONS

4.1 Auditor Panel

- 4.1.1 Under the new arrangements local authorities can set up an auditor panel and conduct a procurement exercise on their own or jointly with other local authorities. This is not recommended as it is a far more resource intensive process and, without the bulk buying power of the sector led procurement, is likely to result in a more costly service.

4.2 Appointing person regime

- 4.2.1 Local authorities can also opt into the appointing person regime which is likely to result in better buying power than contracting as a single entity. The Local Audit (Appointing Person) Regulations 2015 require that a (principal) authority may only make the decision to opt into the appointing person arrangement by the members of the authority meeting as a whole, i.e. at Council.

- 4.2.2 There was a degree of uncertainty around the appointed person regime until July 2016 when PSAA were specified by the Secretary of State as an appointing person under regulation 3 of the Local Audit (Appointing Person) Regulations 2015. The appointing person is sometimes referred to as the sector led body and PSAA has wide support across most of local government.

- 4.2.3 The date by which authorities will need to opt in to the appointing person arrangements is 9 March 2017, and the authority has now received an invitation to opt into the arrangement. The arrangement would cover a five year period commencing on the 1 April 2018.

- 4.2.4 The main advantages of using PSAA are set out in its prospectus and are summarised below;

- Assure timely auditor appointments
- Manage independence of auditors
- Secure highly competitive prices
- Save on procurement costs
- Save time and effort needed on auditor panels
- Focus on audit quality
- Operate on a not for profit basis and distribute any surplus funds to scheme members.

- 4.2.5 It is likely that a sector wide procurement conducted by PSAA will produce better outcomes for the Council than any procurement we undertook by ourselves or with

a limited number of partners. Use of the PSAA will also be less resource intensive than establishing an auditor panel and conducting our own procurement.

4.2.6 The indicative timetable provided by PSAA is shown in the following table:

| PSAA indicative timetable for award of external audit contract | |
|---|---|
| 31 October 2016 | Establish overall strategy for procurement |
| 9 March 2017 | Achieve “sign-up” of scheme members |
| 31 March 2017 | Invite tenders from audit firms |
| By 30 June 2017 | Award Contracts |
| By 31 December 2017 | Consult on and make final auditor appointments |
| By 31 March 2018 | Consult on proposed audit fees and publish fees |

4.2.7 To facilitate the indicative timetable and to comply with the Local Audit (Appointing Person) Regulations 2105, Members of the Audit committee are requested to recommend to Executive and Council the preferred appointed person route for the procurement of External Audit services.

5. IMPLICATIONS

5.1 Financial Implications

5.1.1 There is an existing budget provision for external audit services.

5.2 Legal Implications

5.2.1 The Local Audit and Accountability Act 2014 requires authorities to either opt in to the appointing person regime or to establish an auditor panel and conduct their own procurement exercise.

5.2.2 The Local Audit (Appointing Person) Regulations 2015 require that a (principal) authority may only make the decision to opt into the appointing person arrangement by the members of the authority meeting as a whole, i.e. at Council.

BACKGROUND PAPERS

None

APPENDICES

Appendix 1 – Invitation to opt in
Appendix 2 - PSAA Prospectus