

Informal Joint Performance and Audit Scrutiny Committee

Title of Report:	Arrangements for appointment of External Auditors for the West Suffolk Council	
Report No:	PAS/SE/18/025	
Report to and dates:	Performance and Audit Scrutiny Committee	25 July 2018
	Shadow Executive (Cabinet)	18 September 2018
	Shadow Council	25 September 2018
Portfolio holders:	Cllr Stephen Edwards Portfolio Holder for Resources and Performance Tel: 07904 389982 Email: stephen.edwards@forest-heath.gov.uk	Cllr Ian Houlder Portfolio Holder for Resources and Performance Tel: 07970 729435 Email: ian.houlder@stedsbc.gov.uk
Lead officer:	Rachael Mann Assistant Director (Resources and Performance) Tel: 01638 719245 Email: rachael.mann@westsuffolk.gov.uk	
Purpose of report:	To consider the options available for appointing External Auditors for the new West Suffolk Council.	

Recommendation:		Performance and Audit Scrutiny Committee	
		<p>It is <u>RECOMMENDED</u> that :</p> <p>(1) Arrangements for appointing External Auditors for the new West Suffolk Council and Shadow West Suffolk Council is <u>noted</u>; and</p> <p>(2) Option 3, to 'opt-in' to the sector led body (Public Sector Audit Appointments Ltd (PSAA)) for the independent appointment of the Council's External Auditor, beginning with responsibilities for the financial year 2019/20, is recommended to the Shadow Executive (Cabinet) and West Suffolk Shadow Council for <u>approval</u>.</p>	
Key Decision:		<i>Is this a Key Decision and, if so, under which definition?</i>	
<i>(Check the appropriate box and delete all those that do not apply.)</i>		Yes, it is a Key Decision - <input type="checkbox"/> No, it is not a Key Decision - <input checked="" type="checkbox"/>	
Consultation:		<ul style="list-style-type: none"> • Consultation has taken place with Ministry for Housing, Communities and Local Government (MHCLG) regarding options for appointment of auditors. 	
Alternative option(s):		<ul style="list-style-type: none"> • Auditors must be appointed using one of the options detailed in the report. 	
Implications:			
<i>Are there any financial implications? If yes, please give details</i>		Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> <ul style="list-style-type: none"> • As set out in the body of this report. 	
<i>Are there any staffing implications? If yes, please give details</i>		Yes <input type="checkbox"/> No <input checked="" type="checkbox"/> <ul style="list-style-type: none"> • 	
<i>Are there any ICT implications? If yes, please give details</i>		Yes <input type="checkbox"/> No <input checked="" type="checkbox"/> <ul style="list-style-type: none"> • 	
<i>Are there any legal and/or policy implications? If yes, please give details</i>		Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> <ul style="list-style-type: none"> • As set out in the body of this report. 	
<i>Are there any equality implications? If yes, please give details</i>		Yes <input type="checkbox"/> No <input checked="" type="checkbox"/> <ul style="list-style-type: none"> • 	
Risk/opportunity assessment:		<i>(potential hazards or opportunities affecting corporate, service or project objectives)</i>	
Risk area	Inherent level of risk (before controls)	Controls	Residual risk (after controls)
	Low/Medium/ High*		Low/Medium/ High*

Successful transition not achieved for the new West Suffolk Council	Low	Early consideration of the 'opt in' process. Early discussions with the PSAA to confirm 'opt in' process	Low
Option 3 is not available	Medium	Shared approach across Suffolk gives reassurance of market need	Low
West Suffolk Council does not experience the reduction in Audit fees that the business case anticipates.	Medium	PSAA is a collaborative procurement that should be offering the opportunity to keep the audit fees down. Negotiation to take place with PSAA to understand proposed audit fee a.s.a.p.	Low
Ward(s) affected:	All Wards		
Background papers: <i>(all background papers are to be published on the website and a link included)</i>	http://www.psa.co.uk/supporting-the-transition/procurement-and-appointment-of-auditors/ FHDC 2016 Report PAS.FH.16 SEBC 2016 Report PAS.SE.16		
Documents attached:	None		

1. Key issues and reasons for recommendations

1.1 All Councils have a statutory requirement to make arrangements to appoint an External Auditor. Either Councils can make arrangements to appoint their own auditor, or they can opt into national schemes.

1.2 In September 2016, both Performance and Audit Scrutiny Committee's recommended for Forest Heath and St Edmundsbury Councils to 'opt in' to the PSAA audit arrangements for the statement of accounts work for 2018/19. As a result of the transition to a new West Suffolk Council both Forest Heath and St Edmundsbury will cease to exist and officers will notify PSAA they will longer be part of this arrangement. However, the new West Suffolk Council will need to confirm its audit arrangements to appoint a local audit to audit its accounts for 2019/2020.

1.2 West Suffolk Council - Options

1.2.1 West Suffolk Council, for 2019/20 onwards can choose one of the following options:

- a) Establish a stand-alone Auditor Panel to make the appointment on behalf of the Council;
- b) Commence work on exploring the establishment of local joint procurement arrangements with neighbouring authorities.

1.3 Background

1.3.1 The Local Audit and Accountability Act 2014 brought to a close 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 Communities and Local Government (CLG) determined that the transitional arrangements for local government bodies would be extended by one year to also include the audit of the accounts for 2017/18.

1.3.2 For the 2018/19 accounts local authorities were required to set out their position in advance of that financial year end with regards to their audit appointment. As set out in paragraph 1.1 above, both Councils' chose at that stage to be part of the PSAA arrangements through opting into that process. The Councils current auditors are Ernst and Young LP, through that new contract which was negotiated nationally.

1.3.3 Advice from the PSAA has confirmed that West Suffolk Council will need to formally opt in the PSAA arrangements. Those arrangements cannot transition across. Therefore Members are being asked to reaffirm their commitment to option 3 below, which is to 'opt in' to the PSAA arrangements. For completeness this report provides all 3 of the options again for Members consideration. It should be noted that this report is only coming to Members due to the arrangements to move to a new Council, not through any dissatisfaction with the PSAA process or appointment of auditors to date.

West Suffolk Shadow Council

1.3.4 Officers have been in dialogue with the Ministry of Housing Local Government (MHCLG) with regards to audit arrangements (if relevant) for the Shadow Authority. The Order to create the new Council required the Shadow Council to be subject to the Local Audit and Accountability Act 2014, which would require an external auditor to be appointed to the Shadow Council as well. At the point of writing this report those discussions had not concluded, albeit a range of options were being explored to minimise the cost and impact of an audit assessment given the low levels of expenditure that will be incurred by the Shadow Council. Officers will provide Members with an update of those discussions at the meeting.

1.4 Overall considerations

1.5 Legal implications

1.5.1 Section 7 of the Local Audit and Accountability Act 2014 (the Act) requires a relevant authority to appoint a local auditor to audit its accounts for a financial year not later than 31 December in the preceding year. Section 8 governs the procedure for appointment including that the Authority must consult and take account of the advice of its auditor panel on the selection and appointment of a local auditor. Section 8 provides that where a relevant authority is a local authority operating executive arrangements, the function of appointing a local auditor to audit its accounts is not the responsibility of an executive of the authority under those arrangements;

- a) Section 12 makes provision for the failure to appoint a local auditor: the authority must immediately inform the Secretary of State, who may direct the authority to appoint the auditor named in the direction or appoint a local auditor on behalf of the authority.
- b) Section 17 gives the Secretary of State the power to make regulations in relation to an 'appointing person' specified by the Secretary of State. This power has been exercised in the Local Audit (Appointing Person) Regulations 2015 (SI 192) and this gives the Secretary of State the ability to enable a Sector Led Body to become the appointing person.

1.6 Financial Implications

1.6.1 Both Councils' experienced audit fee reductions in the first year of the PSAA arrangements. Under a single West Suffolk Council it is likely there may be some transitional fees in respect of the audit of establishment of a new local authority. However, in the long term it is anticipated that the audit fee will reduce under a new single local authority and the business case for single council makes some assumptions around potential levels of savings. However, these cannot be confirmed until a process has been adopted and negotiations can take place with the PSAA.

1.6.2 The cost of establishing a local or joint Auditor Panel outlined in options 1 and 2 below would need to be estimated and included in the Council's budget moving forward if either of those options are progressed. This

would include the cost of recruiting independent appointees (members), servicing the Panel, running a bidding and tender evaluation process, letting a contract and paying members fees and allowances.

- 1.6.3 Opting-in to a national Sector Led Body provides maximum opportunity to limit the extent of any increases by entering in to a large scale collective procurement arrangement and would remove the costs of establishing an auditor panel.

1.7 Options for local appointment of External Auditors

- 1.7.1 There are three broad options open to the Council under the Local Audit and Accountability Act 2014 (the Act):

1.7.2 Option 1: To make a stand-alone appointment

- 1.7.2.1 In order to make a stand-alone appointment the Council will need to set up an Auditor Panel. The members of the panel must be wholly (or a majority) independent members as defined by the Act. Independent members for this purpose are independent appointees; this excludes current and former elected members (or officers) and their close families and friends. This means that elected members will not have a majority input to assessing bids and choosing which firm of accountants to award a contract for the Council's external audit. A new independent auditor panel established by the Council will be responsible for selecting the auditor.

1.7.2.2 Advantages/benefit

Setting up an auditor panel allows the Council to take maximum advantage of the new local appointment regime and have local input to the decision.

1.7.2.3 Disadvantages/risks

Recruitment and servicing of the Auditor Panel, running the bidding exercise and negotiating the contract is estimated by the LGA to cost in the order of £15,000 plus on going expenses and allowances

- 1.7.2.4 The Council will not be able to take advantage of reduced fees that may be available through joint or national procurement contracts.

- 1.7.2.5 The assessment of bids and decision on awarding contracts will be taken by independent appointees and not solely by elected members.

- 1.7.2.6 The Council is required to have appointed its auditor by 31 December. The process of appointing a panel, and then recruiting an auditor using a procurement process, is unlikely to be complete in sufficient time.

1.7.3 Option 2: Set up a Joint Auditor Panel/local joint procurement arrangements

1.7.3.1 The Act enables the Council to join with other authorities to establish a joint auditor panel. Again this will need to be constituted of wholly (or a majority) of independent appointees (members). Further legal advice will be required on the exact constitution of such a panel having regard to the obligations of each Council under the Act and the Council will need to liaise with other local authorities to assess the appetite for such an arrangement. As the vast majority of Councils are now opted into the PSAA, the opportunity to do this may be limited.

1.7.3.2 **Advantages/benefits**

The costs of setting up the panel, running the bidding exercise and negotiating the contract will be shared across a number of authorities.

1.7.3.3 There is greater opportunity for negotiating some economies of scale by being able to offer a larger combined contract value to the firms.

1.7.3.4 **Disadvantages/risks**

The decision making body will be further removed from local input, with potentially no input from elected members where a wholly independent auditor panel is used, or possibly only one elected member representing each Council, depending on the constitution agreed with the other bodies involved.

1.7.3.5 The choice of auditor could be complicated where individual Councils have independence issues. An independence issue occurs where the auditor has recently or is currently carrying out work such as consultancy or advisory work for the Council. Where this occurs, some auditors may be prevented from being appointed by the terms of their professional standards. There is a risk that if the joint auditor panel selects a firm that is conflicted for this Council, then the Council may still need to make a separate appointment with all the attendant costs and loss of economies possible through joint procurement.

1.7.4 **Option 3: Opt-in to a sector led body**

1.7.4.1 In response to the consultation on the new appointment arrangement, the LGA successfully lobbied for Councils to be able to 'opt-in' to a Sector Led Body (SLB) appointed by the Secretary of State under the Act. An SLB would have the ability to negotiate contracts with the firms nationally, maximising the opportunities for the most economic and efficient approach to procurement of external audit on behalf of the whole sector.

1.7.4.2 **Advantages/benefits**

1.7.4.3 The costs of setting up the appointment arrangements and negotiating fees would be shared across all opt-in authorities

1.7.4.4 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

- 1.7.4.5 Any conflicts at individual authorities would be managed by the SLB who would have a number of contracted firms to call upon.
- 1.7.4.6 The appointment process would not be ceded to locally appointed independent members. Instead a separate body is set up to act in the collective interests of the 'opt-in' authorities.
- 1.7.4.7 The Councils' experience of the 'opt in' process and first year of delivery has been successful with no significant issues raised. Therefore officers feel this is an appropriate option to continue into the new West Suffolk Councils.
- 1.7.4.8 All of the other Suffolk Authorities are opted into the PSAA arrangements and have Ernst and Young as their appointed auditors.
- 1.7.4.9 **Disadvantages/risks**
- Individual elected members will have less opportunity for direct involvement in the appointment process other than through the LGA and/or stakeholder representative groups.
- 1.7.4.10 In order for the SLB to be viable and to be placed in the strongest possible negotiating position the SLB will need Councils to indicate their intention to opt-in before final contract prices are known.

1.8 The way forward

- 1.8.1 The Council has until December 2018 to make an appointment. In practical terms this means one of the options outlined in this report will need to be in place as soon as possible.
- 1.8.2 All of the other Suffolk Authorities are opted into the PSAA arrangements and have Ernst and Young as their appointed auditors. East Suffolk Council will be undertaking similar considerations.

1.9 Conclusion

- 1.9.1 The Council must, by the 31 December 2018, take action to implement new arrangements for the appointment of external auditors from April 2019 under a new West Suffolk Council. In order that more detailed proposals can be developed, the Council is asked to give early consideration to the preferred approach.