

SOUTH HOLLAND DISTRICT COUNCIL

Report of: Interim S151 Chief Finance Officer

To: Governance and Audit Committee 15th September 2016
Full Council 26th October 2016

Author: Emma Hodds, Internal Audit Consortium Manager

Subject: Appointment of External Auditors

Purpose: To agree to a new system for the appointment of the External Auditors

Recommendation(s) to Governance and Audit Committee:

To consider the contents of the report, to note the recommendations to Full Council, and to submit any relevant comments where appropriate.

Recommendation(s) to Full Council:

- 1) That the council agrees to join a national collective scheme, led by the Public Sector Audit Appointments (PSAA).
- 2) That delegated authority be given to the Section 151 officer (or deputy in their absence) to communicate the willingness of the council to join the scheme, led by PSAA and to enter into the scheme after a satisfactory examination / negotiation of the proposed terms & conditions is concluded.

1.0 BACKGROUND

- 1.1 The Local Audit and Accountability Act 2014 (the Act) introduced the necessity for Local Authorities to establish an auditor panel and manage their own procurement.
- 1.2 Therefore all local authorities will need to decide how their auditors will be appointed in the future, whether they make the appointment themselves, in conjunction with other bodies, or join a national collective scheme.
- 1.3 The current audit contracts are administered by Public Sector Audit Appointments limited (PSAA), which is a not-for-profit company established by the Local Government Association (LGA). These powers are time limited and will cease when these contracts with audit firms expire with the completion of the 2017/18 audits for local government bodies.
- 1.4 Thereafter the council will need to have exercised a choice about whether to opt in to the authorised national scheme, or whether to make other arrangements to appoint their own auditors.
- 1.5 The LGA has played a leadership role in anticipating the changes and influencing the range of options available to local bodies. In particular it has lobbied to ensure that, irrespective of size, scale, responsibility or location, local government bodies can, if they wish, subscribe to a specially authorised national scheme which will take full responsibility for local auditor appointments which offer a high quality professional service and value for money.

1.6 PSAA is leading the development of this national option and ideally are looking for principal bodies to give firm commitment to join the scheme during Autumn 2016.

1.7 High quality independent audit is one of the cornerstones of public accountability, it gives assurance that taxpayers' money has been well managed and properly expended. It helps inspire trust and confidence in the organisations and people responsible for managing public money.

2.0 **OPTIONS**

2.1 The council can appoint auditors directly but this is not recommended as it would be costly to run our own procurement exercise, and being an individual Authority we would be unlikely to benefit from economies of scale and achieve a competitive price.

2.2 Auditors can be appointed in conjunction with other local authorities. This was initially explored with Lincolnshire County Council leading on a potential County wide procurement exercise. However again this is not recommended as it would incur procurement costs for the authorities involved and would also mean each Authority would then need to manage and monitor the performance of the contract that was entered into.

2.3 To avoid prohibitive costs and ensure a sound contractual framework is in place for assessment of Auditors it is recommended that the Council join the National scheme subject to the applicable terms and conditions being acceptable to the council and within the constitution.

2.4 To do nothing is not recommended as it would contravene the Act.

3.0 **REASONS FOR RECOMMENDATION(S)**

3.1 A top priority for PSAA is to seek to obtain the best possible price; the current thinking is that this can be achieved by letting a three year contract, with the option to extend to five years, to a relatively small number of appropriately registered firms in two or three large contract areas nationally. By having contracts with a number of firms PSAA will be able to ensure independence and avoid dominance of the market by one or two firms.

3.2 The procurement strategy will prioritise the importance of demonstrably independent appointments, in terms of both the audit firm appointed to each audited body and the procurement and appointment processes used.

3.3 PSAA will ensure that fee levels are carefully managed by securing competitive prices from firms and by minimising PSAA's own costs. 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. Pooling therefore means that everyone within the scheme will benefit from the most competitive prices (current fees are set on this basis).

4.0 **EXPECTED BENEFITS**

4.1 Auditors must be independent of the bodies they audit, to enable them to carry out their work with objectivity and credibility, and in a way that commands public confidence. PSAA will ensure that every auditor appointment passes this test and the committee will be informed on the parameters used in this assessment.

4.2 The scheme will endeavour to appoint the same auditors to bodies which are involved in a formal collaboration / joint working initiatives or within combined authority areas thereby avoiding duplication of effort wherever possible.

4.3 PSAA will only contract with firms which have a proven track record in undertaking public audit work. In accordance with the Act firms must be registered with one of the chartered accountancy institutes acting in the capacity of a Recognised Supervisory Body (RSB), and the quality of the work will be subject to scrutiny by both the RSB and the Financial Reporting Council (FRC).

5.0 **IMPLICATIONS**

5.1 **Constitution & Legal**

5.1.1 In Part 3, Section D – Delegations to committees, of the constitution , the Governance and Audit committee is asked to investigate/consider and make recommendations to full Council as necessary on the following matters:.

5.1.2 The appointment of the external audit and assessment of the independence of the external auditor;

5.1.3 The external audit fee and pre-approval of any fees in respect of non-audit services provided by the external auditors, subject to permitted levels established by the Cabinet and ensuring that the provision of non-audit services does not impair the external auditors' independence or objectivity;

5.1.4 Following discussions with the external auditors before the audit commences, the nature and scope of the audit to review the auditors' quality control procedures and steps taken by the auditor to respond to changes in regulatory and other requirements.

5.2 **Contracts**

5.2.1 The current contract is with KPMG and this will expire after the end of the 2017/18 Audit.

5.3 **Financial**

5.3.1 Scale fee charges are currently set by PSAA and the fee for 2015/16 is £44,537 which is 25% lower than the 2014/15 fee of £59,382.

5.3.2 Fees are set annually and as there are no planned changes to the scope of work the fee for 2016/17 remains at £44,537.

5.4 **Risk Management**

5.4.1 The national framework will be subject to scrutiny at all levels to ensure it is acceptable to the council and all other authorities who choose to enter the scheme. This will ensure that the appropriate level of competence for Auditors is assured.

5.4.2 In the event that there are onerous terms and conditions in the National Framework these will be reported back to committee before any decision by the s151 officer is taken in respect of joining the scheme.

6.0 **WARDS/COMMUNITIES AFFECTED**

6.1 All Wards are affected

7.0 **ACRONYMS**

7.1 PSAA - Public Sector Audit Appointments limited

7.2 LGA – Local Government Association

7.3 RSB – Recognised Supervisory Body

7.4 FRC – Financial Reporting Council

Background papers:- PSAA Corporate Plan 2015-2018

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Key Decision: No

Exempt Decision: No

This report refers to a Mandatory Service

Appendices attached to this report:

Appendix A Objectives for PSAA