

Council
22 September 2016

Appointment of External Auditors

Recommendation

That Council agrees that Warwickshire County Council opt-in to the approved sector-led body for the appointment of the authority's external auditors from April 2018.

1. Purpose of the Report

- 1.1. The Local Audit and Accountability Act 2014 brought the Audit Commission to a close 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. For local authorities this transitional arrangement finishes after the audit of the 2017/18 accounts. As a result the County Council will need to have new arrangements in place in time to appoint its external auditors by 31 December 2017.
- 1.2. This report summarises the changes to the arrangements for appointing external auditors and considers the options available to the authority. It concludes with a recommendation to opt-in to a sector-led approach and outlines the next steps for the authority in implementing the agreed approach.

2. Background

- 2.1. The Council's current auditor is Grant Thornton UK LLP. Their appointment was made under a contract let by the Audit Commission. Following closure of the Audit Commission this contract has been managed by Public Sector Audit Appointments Limited (PSAA), the transitional body set up by the Local Government Association (LGA) with delegated authority from the Secretary of State for Communities and Local Government.
- 2.2. Over recent years we have benefitted from a reduction in fees of about 60% compared with historic levels. This has been the result of a combination of factors including new contracts negotiated nationally with the major accountancy firms and savings from the closure of the Audit Commission. The

Council's current external audit fees are £95,000 a year for the County Council and £24,000 for the Warwickshire Pension Fund.

- 2.3. When the current transitional arrangements come to an end, on 31 March 2018, the Council will move to local appointment of the external auditor. There are a number of routes by which this can be achieved, each with varying risks and opportunities. Current 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 the NHS and local government bodies and offered maximum economies of scale.
- 2.4. The scope of the audit work will still be specified nationally, with the National Audit Office (NAO) responsible for writing the Code of Audit Practice which any firm appointed to carry out the Council's audit must follow. Not all accounting firms will be eligible to compete for the work. All firms 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.
- 2.5. The number of firms registered is not yet known but it is expected that the list of eligible firms will include the biggest 10 or 12 firms in the country, including our current auditor. It is thought to be unlikely that small local independent firms will meet the eligibility criteria.

3. Options for the Local Appointment of External Auditors

- 3.1. There are three broad options open to the Council under the Local Audit and Accountability Act 2014:
 - Make a stand-alone appointment
 - Set up a Joint Auditor Panel/local joint procurement arrangements
 - Opt-in to a sector-led body

The remainder of this section considers the advantages/benefits and disadvantages/risks of each of these options.

Option 1: Local Appointment of External Auditors

- 3.2. 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 of 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 or friends. This means that elected members will not have a majority input to assessing bids and choosing

which firm of accountants to award with a contract for the Council's external audit.

Advantages/benefits

- Setting up an Auditor Panel allows the Council to take maximum advantage of the new local appointment regime and have some local input to the decision.

Disadvantages/risks

- Recruitment and servicing of the Auditor Panel, running the bidding exercise and negotiating the contract is estimated to cost £15,000 to £20,000 plus on-going expenses and allowances.
- The Council will not be able to take advantage of reduced fees that may be available through joint or national procurement contracts.
- The assessment of bids and the awarding of contracts will have limited elected member involvement.

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

- 3.3. The Act enables the Council to join with other authorities to establish a Joint Auditor Panel. Again this will need to be constituted wholly or a majority of independent appointees. Legal advice will be required on the constitution and governance arrangements of such a panel and the Council will need to liaise with other local authorities to assess the appetite for such an arrangement.

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.
- Greater opportunity for negotiating some economies of scale by being able to offer a larger combined contract.

Disadvantages/risks

- The decision-making body will be further removed from local input, with potentially no or little input from elected members, depending on the constitution agreed with the other bodies involved.
- 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 consultancy or advisory work for a council. Where this occurs some auditors may be prevented from being appointed by the terms of their professional standards or a council may be excluded from the appointment by the Auditor Panel and need to make their own arrangements.

Option 3: Opt-in to a Sector-Led Body

- 3.4. As part of the consultation on the new arrangements 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. A sector-led body would have the ability to negotiate contracts with the accountancy firms nationally, maximising the opportunities for the most economic and efficient approach to the procurement of external audit on behalf of the whole sector.

Advantages/benefits

- The costs of setting up the appointment arrangements and negotiating fees would be shared across all opt-in authorities.
- By offering large contract values the accountancy 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 the sector-led body that would have a number of contracted firms to call upon.

Disadvantages/risks

- Individual elected members would have less opportunity for direct involvement in the appointment process other than through the LGA and/or stakeholder representative groups.
- In order for the sector-led body to be viable and to be placed in the strongest negotiating position the sector-led body will need councils to indicate their intention to opt-in before final contract prices are known.

4. Proposed Way Forward

- 4.1. The Council has until December 2017 to make an appointment, with the contract for the new auditors starting in April 2018. In practical terms this means one of the options outlined in this report will need to be in place by spring 2017 in order that the contract negotiation process can be carried out during 2017.
- 4.2. It is recommended that the authority opts-in to a sector-led arrangement as it is the most economical and efficient option and also minimises the senior management time needed to arrange the appointment of an independent Auditor Panel and negotiate such a contract for the first time.
- 4.3. The sector-led option would be PSAA Limited, as on 25 July 2016 the Department for Communities and Local Government named PSAA as the body authorised to make future audit appointments on behalf of local

authorities in England. Nearly 270 councils and local bodies have already expressed an interest in joining the national scheme which PSAA will manage and develop. These authorities and the County Council, if the recommended option is agreed, will now be required to take a formal decision to opt-in.

- 4.4. As the body that approves the annual Statement of Accounts the final decision on which option to pursue lies with full Council. The Audit and Standards Committee have considered this issue and support the recommendation that the County Council opts-in to the approved sector-led body (PSAA) arrangements for the appointment of the Council's external auditor from April 2018.

5. Financial Implications

- 5.1. The current external audit fees are expected to increase when the current contracts end in 2018. The extent of any additional budget provision required and whether this can be managed from within existing resources depends on the level of fees negotiated going forward and the option chosen.
- 5.2. Opting in to the national sector-led body provides the 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.

6. Background Papers

None.

	Name	Contact Information
Report Author	Virginia Rennie	vrennie@warwickshire.gov.uk Tel: 01926 41 (2239)
Head of Service	John Betts	johnbetts@warwickshire.gov.uk
Strategic Director	David Carter	davidcarter@warwickshire.gov.uk
Portfolio Holder	Alan Cockburn	alancockburn@warwickshire.gov.uk

The report was circulated to the following members prior to publication:

None