



Hinckley & Bosworth
Borough Council

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FORWARD TIMETABLE OF CONSULTATION AND DECISION MAKING

Audit Committee

13 October 2016

WARDS AFFECTED: All Wards

ARRANGEMENTS FOR THE APPOINTMENT OF EXTERNAL AUDITORS

Report of Interim Head of Finance

1. PURPOSE OF REPORT

- 1.1 This report summarises the changes to the arrangements for appointing External Auditors following the closure of the Audit Commission and the end of the transitional arrangements at the conclusion of the 2017/18 audits.
- 1.2 The Council has a statutory responsibility to appoint an external auditor to audit its 2018/19 accounts by the 31 December 2017 and will need to consider the options available and put in place new arrangements in time to make a first appointment by that date.

2. RECOMMENDATION

- 2.1 The Audit Committee is asked to note the future implications for external audit procurement arrangements.
- 2.2 The Audit Committee is asked for its preferred option.

3. BACKGROUND TO THE REPORT

- 3.1 The Local Audit and Accountability Act 2014 (the Act) 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 5th 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 the accounts for 2017/18.
- 3.2 The Council's current external auditor is Ernst & Young LLP; this appointment having been made under a contract managed by 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. The Council's current external audit fees are £49,410 per annum (excluding certification of claims and returns).

- 3.3 When the current transitional arrangements come to an end on 31st March 2018, the Council will move to the local appointment of its auditor. There are a number of options by which this can be achieved. Current fees are based on rates negotiated by the Audit Commission and its following transitional body (PSAA) and reflect substantial market share offered in framework contracts. When the contracts were last negotiated nationally by the Audit Commission, they covered NHS and local government bodies and offered maximum economies of scale.
- 3.4 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 which all audit firms appointed to carry out the Council's audit must follow. Not all accounting firms will be eligible to compete for the work as 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 number of eligible firms under the previous process was only eight including the council current external auditors. These firms are currently covered by contracts by PSAA. It is unlikely that small local independent firms will meet the eligibility criteria.
- 3.5 The Council has until December 2017 to make an appointment, therefore to ensure appointment progresses controlled way, 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.

Options for local appointment of External Auditors

Option One – To make a stand-alone appointment

- 3.6 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.

Advantages / benefits

- 3.7 Setting up an auditor panel allows the Council to take advantage of the new local appointment regime and have local input to the decision. Also, the Council will have full control over which external audit company will be appointed.

Disadvantages / risks

- 3.8 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.
- 3.9 The Council will not be able to take advantage of reduced fees that may be available through joint or national procurement contracts.
- 3.10 The assessment of bids and decision on awarding contracts will be taken by independent appointees and not solely by elected members.

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

- 3.11 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 need to liaise with other local authorities to assess the appetite for such an arrangement.

Advantages/benefits

- 3.12 The costs of setting up the panel, running the bidding exercise and negotiating the contract will be shared across a number of authorities.
- 3.13 There is greater opportunity for negotiating some economies of scale by being able to offer a larger combined contract value to the firms.

Disadvantages/risks

- 3.14 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.
- 3.15 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 choose a firm that is conflicted for this Council, for example PWC who supply Internal Audit services, then the Council may still need to make a separate appointment with all the attendant costs and loss of economies possible through joint procurement.

Option 3 Opt-in to a sector led body

- 3.16 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 appointed by the Secretary of State under the Act. PSAA has been approved by the Department of Communities & Local Government (DCLG) as the Sector Led Body and has 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.

Advantages / benefits

- 3.17 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 firms would be able to offer better rates and lower fees than are likely to result from local negotiation. Any conflicts at individual authorities would be managed by the Sector Led Body who would have a number of contracted firms to call upon. The appointment process would not be ceded to locally appointed independent members. Instead a separate body set is up to act in the collective interests of the 'opt-in' authorities.

Disadvantages / risks

- 3.18 Individual elected members will have less opportunity for direct involvement in the appointment process other than through the LGA and / or stakeholder representative groups.
- 3.19 In order for the Sector Led Body to be viable and to be placed in the strongest possible negotiating position it will need Councils to indicate their intention to opt-in before final contract prices are known.

4. EXEMPTIONS IN ACCORDANCE WITH THE ACCESS TO INFORMATION PROCEDURE RULES

- 4.1 This report can be taken in open session

5. FINANCIAL IMPLICATIONS [AW]

- 5.1 The LGA expect that current external fees levels are likely to increase when the current contracts end in 2018. However, competition between auditors may mean this is not the case when bids are reviewed.
- 5.2 The cost of establishing a local or joint Auditor Panel outlined in options 1 and 2 above will need to be estimated and included in the Council's budget for 2016/17 and 2017/18. This will 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.
- 5.3 Opting-in to a national SLB 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.

6. LEGAL IMPLICATIONS [AR]

- 6.1 Contained within the body of this report.

7. CORPORATE PLAN IMPLICATIONS

- 7.1 Adoption of the proposal in this paper will contribute to the achievement of the following Corporate Aims:
- Creating a vibrant place to work and live
 - Empowering communities

8. CONSULTATION

- 8.1 Consultation and discussion, at a formal and informal level, have taken place between the Council and the Hinckley Town Centre Partnership/Business Improvement District (BID) and the Hinckley Chamber of Trade.

9. RISK IMPLICATIONS

- 9.1 It is the Council's policy to proactively identify and manage significant risks which may prevent delivery of business objectives.
- 9.2 It is not possible to eliminate or manage all risks all of the time and risks will remain which have not been identified. However, it is the officer's opinion based on the

information available, that the significant risks associated with this decision / project have been identified, assessed and that controls are in place to manage them effectively.

9.3 There is no immediate risk to the Council, however, early consideration by the Council of its preferred approach will enable detailed planning to take place so as to achieve successful transition to the new arrangement in a timely and efficient manner.

10. CORPORATE IMPLICATIONS

11.1 By submitting this report, the report author has taken the following into account:

- Community Safety implications
- Environmental implications
- ICT implications
- Asset Management implications
- Procurement implications
- Human Resources implications
- Planning implications
- Data Protection implications
- Voluntary Sector

Background papers: None

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