Audit, Governance and Standards Committee
30 November 2016
External Audit Arrangements from 2018/19
Report by Director of Finance

Purpose

To outline the options for the external auditor appointment process from the 2018/19 audit onwards.

Recommendation

To Resolve to Recommend to the Council that Public Sector Audit Appointments (PSAA) Limited be appointed to select the Council's external auditors and that, as supported by the London Borough of Sutton, request the PSAA to appointed the same auditor for both boroughs.

Key Points

A. As part of the changes enacted through the Local Audit and Accountability Act 2014, local authorities, along with other public bodies have been given the freedom to appoint their own external auditors for the 2018/19 audit process onwards.

B. Local authorities can seek to directly appoint an auditor either as a single authority, as part of a group of public bodies, or they can utilise the Public Sector Audit Appointments (PSAA) to appoint and manage external audit arrangements on their behalf.

C. Taking into account the economies of scale, collective bargaining position and less onerous governance requirements of the PSAA offer, it is recommended that the Council appoint the PSAA to manage the external auditor appointment process from 2018/19 onwards.

D. Under The Local Audit (Appointing Person) Regulations 2015, the decision on procurement arrangements for external audit is one which is required to be made by the Council.

Context

1. The Local Audit and Accountability Act 2014 brought in a new audit regime for public bodies, moving away for the prescribed audit service provided by the Audit Commission to one which utilised private audit firms to deliver an external audit service.

2. The current auditor appointment arrangements are due to end with the 2017/18 audit and Local Authorities are required to appoint an auditor by 31 December 2017 to carry out the 2018/19 audit and beyond. The auditor appointment is for a maximum of 5 years after which a reprocurement is required.
Proposal and Options

3. The Council has 2 options for the external auditor appointment process, direct appointment or utilising the PSAA to carry out the procurement and appointment process on its behalf.

Direct Appointment

4. To carry out its own appointment process, the Council would be required to create an Independent Auditor Appointment Panel (The Panel) which would be responsible for advising the Council on the selection and appointment of an auditor as well as ensuring an independent relationship is maintained. Any advice provided by The Panel would not be binding, although the Council would be required to publish its reasons for not following the Panel’s advice.

5. The Panel must have a majority of independent members as well as having an independent chair. The current composition of the Council’s committees mean no existing committee could fulfil this role, therefore a new committee would be required at additional cost to the Council. It is unclear how easily the Council could recruit suitable independent members within the required timescale, but it is likely that such people would seek to be remunerated for this work.

6. Whilst appointment via The Panel would mean the Council could set the scope of the contract, the evaluation criterion (e.g. lowest cost, appropriate quality thresholds) and terms and conditions, as a minimum any contract would need to meet the audit requirements as set out by the Secretary of State.

7. It is also unclear how the audit market will react to individual authority audit contracts as a large number of authorities have already expressed an interest in the PSAA offer and it is expected that should most authorities formally opt-in, audit firms will utilise their resources to bid and fulfil these (PSAA) contracts as a priority before engaging with individual authorities’ procurements.

Procurement by the PSAA

8. The PSAA is a subsidiary of the Local Government Association (LGA) and currently manages audit contracts for public bodies, including appointing auditors, setting fees, ensuring value for money and overseeing the delivery of consistent high quality audits. The PSAA is offering to continue this role beyond its current agreement which is due to end with the 2017/18 audit.

9. The PSAA will tender, procure and manage audit contracts on behalf of opted-in authorities which is expected to generate lower costs through economies of scale and lowering the administrative burden for individual authorities. There is no direct fee for using the PSAA service as their costs will be recovered as part of the audit fees charged to authorities. As a not-for-profit company, any surplus generated will be returned to opted-in authorities.

10. The PSAA process does not require the Council to have an auditor appointment panel or engage in any other procurement activity beyond opting in to the service. The PSAA does allow authorities to outline any requirements they would like to be considered as part of the appointment process.

11. Due to our close working relationship with the London Borough of Sutton (LBS), which will soon include a shared finance function, the appointment of the same
audit firm across both boroughs would create a more efficient audit process, avoiding duplicate activities when auditing shared functions and allowing the new shared finance service to support one audit approach rather than two.

12. LBS are also recommending the use of the PSAA for their auditor appointment process and share the view that a consistent auditor appointment across both boroughs would be beneficial. Therefore as part of the opt-in process it is recommended that RBK request the PSAA to consider appointing the same audit firm across both boroughs.

13. It should be noted that auditor appointment via the PSAA does not stop an authority from engaging this or any other audit firm to carry out other activities for it. Further engagement with audit firms will be required as the PSAA appointment only covers the audit of the main and Pension Fund accounts. Grant certifications will not be covered and will therefore require separate agreements.

14. Due to the lower administrative requirements, lower expected costs and successful track record of the PSAA in managing the Council external audit requirements, it is recommended that the Council opt-in to the PSAA offer.

Audit, Governance and Standards Committee

15. The Audit, Governance and Standards Committee is the primary forum where matters relating to the Council’s Statement of Accounts and the auditing of these is discussed and approved following the statutory requirements.

16. Whilst the decision to appoint the PSAA rests with Council, because of the key relationship between the Committee and the external auditors, it would be appropriate for this Committee to offer its recommendation to Council drawing upon its experience to date with the PSAA and audit process.

Timescale

17. The deadline for opting into the PSAA arrangements is 9 March 2017. Following this a tender process will begin and auditor appointments will be made between July and December 2017.

Resource Implications

18. It is unclear what the fee level will be until the tender and appointment exercise has been carried out by the PSAA, however this would be the case with either option available. As indicated above, it is likely that the number and size of contracts awarded by PSAA will ensure that more competitive pricing will be secured than through the Council carrying out its own procurement exercise.

19. If the Council wished to carry out its own procurement, as indicated above, it would first need to appoint an Independent Panel to advise on the appointment of auditors. It is likely that there would be costs associated with this process which will not be incurred if the PSAA approach is chosen.

Legal Implications

20. These are set out above.
Risk Assessment

21. The risks associated with procuring through PSAA are low - opting into a tested process which should bring benefits of scale as well as minimise the level of detailed work required by RBK.

22. As indicated above, if the Council made its own arrangements outside of the PSAA process, there is a risk that the resulting service is not as effective because the firms focus their resources on the larger contracts let via PSAA.

Equalities Impact Assessment

23. None

Road Network Implications

24. None

Environmental Implications

25. None

Background papers - held by author of the report, Neilesk Kakad - Finance Accounting Capability Lead - tel 020 8547 5670 - email neilesh.kakad@kingston.gov.uk

- None other than those referred to in this report