

Agenda Item No:	12	
Committee:	COUNCIL	
Date:	15th December 2016	
Report Title:	Future Arrangements for Appointing the Council's External Auditors	

Cover sheet:

1 Purpose / Summary

This report sets out the options available to the Council regarding the future appointment of an external auditor for 2018/2019 and later years following the closure of the Audit Commission in March 2015.

2 Key Issues

- The Audit Commission closed in March 2015. The Council's current auditor appointment was made under audit contracts previously let by the Audit Commission and now managed by Public Sector Audit Appointments Ltd (PSAA) under transitional arrangements. These audit contracts will end under the completion of the 2017/2018 audit.
- A new appointing person arrangement is required, so that the appointment of an external auditor for the accounts of 2018/2019 and later years can be made.
- New appointments for the 2018/2019 accounts must be made under the provisions of the Local Audit and Accountability Act 2014 (the Act), and confirmed by 31 December 2017.
- Councils have three potential options to consider when appointing auditors, including opting into the PSAA arrangement for appointing external auditors. These are set out in the report with the view that the Council should opt into the PSAA arrangement.
- Corporate Governance Committee considered the options and recommendation at their meeting on the 6th December 2016.

3 Recommendations

Corporate Governance Committee recommend to Council:

- That Fenland District Council opt-in to the PSAA sector led auditor appointment arrangements for the Council, subject to receiving a satisfactory invitation to opt into the PSAA's appointing person arrangements; and
- To delegate acceptance of the invitation to the Corporate Director & Chief Finance Officer, as the Council's Section 151 Officer.

Wards Affected	All
Forward Plan Reference	

Portfolio Holder(s)	Cllr Chris Seaton, Portfolio for Finance Cllr Mark Buckton, Chairman of Corporate Governance Committee
Report Originator(s)	Rob Bridge, Corporate Director & Chief Finance Officer
Contact Officer(s)	Rob Bridge, Corporate Director & Chief Finance Officer Carol Pilson, Corporate Director & Monitoring Officer Mark Saunders, Chief Accountant Kathy Woodward, Shared Internal Audit Manager
Background Paper(s)	Future Arrangements for Appointing the Council's External Auditors - Corporate Governance Committee, 6th December 2016

1 Background

- 1.1 The Audit Commission closed in March 2015. The Council's current auditor appointment was made under audit contracts previously let by the Audit Commission and now managed by PSAA under transitional arrangements. These audit contracts will end under the completion of the 2017/2018 audit.
- 1.2 A new appointing person arrangement is required, so that the appointment of an external auditor for the accounts of 2018/2019 and later years can be made.

2 Options for the Appointing Person Arrangement

- 2.1 New appointments for the 2018/2019 accounts must be made under the provisions of the Local Audit and Accountability Act 2014 (the Act), and confirmed by 31 December 2017. There are three options available to the Council for appointing an auditor:
 - OPTION 1: to undertake an individual auditor procurement and appointment exercise;
 - OPTION 2: to undertake a joint audit procurement and appointing exercise with other bodies, those in the same locality for example; or
 - OPTION 3: to join a "sector led body" arrangement where specified appointing person status has been achieved under the relevant Regulations.
- 2.2 For the first two options, the legislation requires an Auditor Panel to be established. Requirements include:
 - At least three members, two of which must be independent;
 - A majority of independent members; and
 - An independent chairperson.
- 2.3 The Council could set up its own Auditor Panel; set up a Panel with one or more other authorities; use an existing Committee or Sub-Committee, providing that the requirements above are met; or ask another council's Panel to carry out the functions on its behalf.
- 2.4 Guidance on Auditor Panels has been issued by CIPFA for local government bodies. The guidance includes a table of advantages and disadvantages of the different ways an Auditor Panel could be set up. This table is reproduced at Appendix A for information.
- 2.5 Option 3 requires the Secretary of State for Communities and Local Government to specify a person to appoint a local auditor to opted-in authorities (also known as a sector-led body).
- 2.6 PSAA is an independent company limited by guarantee incorporated by the Local Government Association in August 2014. In July 2016, the Secretary of State for Communities and Local Government specified PSAA as an appointing person under regulation 3 of the Local Audit (Appointing Person) Regulations 2015. This means that PSAA can make auditor appointments for audits of the accounts from 2018/2019 of principal authorities that choose to opt into its arrangements.
- 2.7 Over 200 authorities have indicated their interest in the PSAA's scheme, which is currently being designed to reflect authorities' needs and views. Fenland District Council, in consultation with the Council's Corporate Governance Committee, did express an interest.
- 2.8 The scheme will be an authorised national scheme which will take full responsibility for local auditor appointments and aim to ensure a high quality professional service and value for money.

- 2.9 The PSAA intends that the scheme will save time and resources for Councils and avoid the necessity to establish an auditor panel and manage their own auditor procurement. Assuming a high level of participation, the scheme should be able to attract the best audit suppliers and command competitive prices.
- 2.10 Moreover, the scheme will aim to appoint the same auditors to bodies which are involved in formal collaborations and joint working initiatives. It is known that a number of councils across Cambridgeshire have expressed an interest in this scheme.
- 2.11 Councils have until the 9th March 2017 to formally opt into the PSAA arrangement. The PSAA aim to award contracts to audit firms by June 2017, giving six months to consult on appointments with authorities before 31 December 2017 deadline.
- 2.12 The Local Audit (Appointing Person) Regulations 2015 require that the Council may only make the decision to opt into the appointing person arrangement by the members of the Council meeting as a whole. This report therefore asks Council to agree to the recommendation from the Corporate Governance Committee (from their meeting of the 6th December 2016) that the PSAA's invitation is accepted to opt-in.

Appendix A: Configuration of an Audit Panel: Advantages / Disadvantages

Option	Possible Advantages	Possible Disadvantages
<p>Setting up own separate and individual Auditor Panel to oversee separate and individual procurement</p>	<ul style="list-style-type: none"> • Full ownership of the process • Fully bespoke contract with the auditor • Tendering process more based on local circumstances (within EU procurement rules) 	<ul style="list-style-type: none"> • May experience difficulties in appointing majority independent panel members and independent panel chair • Will need to ensure that panel members are suitable qualified to understand and participate in the panel's functions • Will have to cover panel expenses completely • May not be able to procure at a low cost, eg depending on authority location, risk of limited provider choice and a single authority contract may be less attractive to some providers • Will not achieve economies of scale
<p>Set up a panel jointly with other authority / authorities as part of a procurement exercise for joint contract covering more than one authority or multiple separate contracts</p>	<ul style="list-style-type: none"> • Less administration than a sole auditor panel • Will be able to share administration expenses • May be easier to attract suitable panel members <p>If procuring a joint audit contract:</p> <ul style="list-style-type: none"> • May still be a relatively tailored process • May be able to achieve some economies of scale 	<p>If procuring a joint audit contract:</p> <ul style="list-style-type: none"> • May need to compromise on arrangements or auditor contract • May not end up with first choice of auditor, compared to an individual auditor panel. If a large group of authorities work together and decide to appoint one joint audit contract across all authorities a joint panel may be more

	<p>If procuring separate audit contracts:</p> <ul style="list-style-type: none"> • An opportunity for fully bespoke contracts with the auditor if the group of authorities can agree 	<p>likely to advise appointment of an auditor it considers suitable for all authorities taken together</p> <ul style="list-style-type: none"> • Need to agree appointment of members across multiple authorities and set up a joint decision making process
<p>Use existing committee or sub-committee</p>	<ul style="list-style-type: none"> • Existing administrative structure in place • Existing (sub) committee should already have better basic understanding of the authority's objectives and requirements 	<ul style="list-style-type: none"> • Possible need to appoint new (sub) committee members to comply with independence regulations
<p>Use another authority's panel</p>	<ul style="list-style-type: none"> • Will not have to set up an auditor panel • Possible more independent options for the authority using the host authority's panel 	<ul style="list-style-type: none"> • The panel may not understand the specific needs of the authority • May need a formal arrangement with the other authority • May be difficult to find an authority willing to enter into such an arrangement • May be more difficult to ensure adequate liaison with authority's own Audit Committee