



REPORT of INTERIM DIRECTOR OF RESOURCES

**to
COUNCIL
5 APRIL 2017**

EXTERNAL AUDITOR APPOINTMENT – NEW ARRANGEMENTS

1. PURPOSE OF THE REPORT

- 1.1 This report sets out options in relation to new arrangements for appointing this Council's auditor, further to the Local Audit and Accountability Act 2014 (the Act).
- 1.2 The report was considered by the Audit Committee on 8 December 2017 and the Committee resolved to recommend to the Council as follows:

Minute No. 797:

“RESOLVED that Option 3, set out in the report of the options available to the Council for appointing an auditor for the 2018 / 19 accounts and beyond, that Maldon District Council opt into a “sector led body” scheme where specified “appointing person” status has been granted under the relevant Regulations be agreed.”

2. RECOMMENDATION

That Option 3 as set out in paragraphs 3.4 and 4.3 below be approved as considered and resolved by the Audit Committee.

3. SUMMARY OF KEY ISSUES

- 3.1 The Act abolished the Audit Commission as at 1 April 2015 and established new arrangements for the audit of organisations previously audited by the Audit Commission.
- 3.2 Before 1 April 2015, auditors were appointed under contracts let by the Audit Commission. Under transitional arrangements, Public Sector Audit Appointments (PSAA) is responsible for managing the existing contracts which will end when the audit of the 2017 / 18 accounts are completed. PSAA is an independent company limited by guarantee incorporated by the Local Government Association in August 2014.
- 3.3 External auditors must be appointed by 31 December 2017 for the 2018 / 19 accounts, under one of the new processes provided for in the Act. The Council needs to take a decision about which appointment process to adopt so that the appointment may be made in a timely manner no later than 31 December 2017.

- 3.4 There are three options available to the Council for appointing an auditor for the 2018 / 19 accounts and beyond:
- **Option 1:** undertake an individual auditor procurement and appointment exercise;
 - **Option 2:** undertake a joint audit procurement and appointing exercise with other bodies;
 - **Option 3: opt into** a ‘sector led body’ scheme where specified “appointing person” status has been granted under the relevant Regulations.
- 3.5 For **Options 1 and 2**, the Council must establish an **auditor panel**, to advise the Council on:
- selecting and appointing an auditor;
 - whether to adopt a policy on obtaining non-audit services from the auditor;
 - any proposal to enter into a liability limitation agreement;
 - maintaining an independent relationship with its auditor;
 - the outcome of any investigation of an auditor’s resignation from office, or any proposal to remove a local auditor from office.
- 3.6 Under Options 1 and 2, the function of appointing an auditor remains with the Council, but it must consult and take into account the advice of its audit panel. Members of the panel must be wholly or by majority independent members and an independent member of the panel must chair the panel.
- 3.7 For **Option 1**, the Council may:
- set up a Maldon District Council (MDC) only auditor panel, or
 - use an existing MDC Committee or Sub-Committee to act as the auditor panel.
- 3.7.1 Under this option, MDC would bear all the costs of setting up and running the audit panel, and of the procurement exercise.
- 3.8 For **Option 2**, MDC may:
- set up an auditor panel with one or more authorities;
 - ask another authority’s auditor panel to carry out the functions of the Council.
- 3.8.1 The Interim Director of Resources understands that no authority in Essex is considering this option and to go geographically wider to seek to share an audit panel with another authority is an unviable proposition on grounds of practicality.
- 3.9 In relation to **Option 3**, the Secretary of State for Communities and Local Government has specified PSAA as an appointing person. This allows PSAA to make auditor appointments from 2018 / 19 on behalf of relevant principal authorities that opt into its national scheme. Opted-in arrangements will be for a specified period of five financial years beginning 1 April 2018.

- 3.10 Under **Option 3**, MDC would not itself appoint the auditor. However, PSAA must consult an individual authority about any proposed auditor appointment for the Council. PSAA has identified the potential benefits to opting-in as including:
- assured appointment of a qualified, registered, independent auditor;
 - appointment, if possible and requested, of the same auditors to bodies involved in significant collaboration/joint working initiatives or combined authorities, to enhance efficiency and value for money;
 - on-going management of independence issues;
 - securing highly competitive prices from audit firms;
 - minimise scheme overhead costs;
 - savings from procurement of large contracts;
 - distribution of surpluses to participating bodies;
 - a fairer scale of fees which reflects size, complexity and audit risks;
 - a strong focus on audit quality to help develop and maintain the market for the sector;
 - enabling time and resources to be deployed on other pressing priorities;
 - setting the benchmark standard for audit arrangements for the whole of the sector.
- 3.11 The decision has to be that of full Council and therefore the Audit Committee's decision needs to be considered and ratified by Council. PSAA aims to commence consultation on auditor appointments for opted-in authorities from September 2017 with the appointment made by 31 December 2017.

4. CONCLUSION

- 4.1 **Option 1**, will result in additional costs to the Council of:
- recruiting independent appointees to the panel
 - servicing the panel, running a full procurement exercise
 - letting a contract
 - determining, setting and paying allowances to the independent members.
- 4.1.1 The Local Government Association (LGA) estimates initial costs to be about £15,000 with ongoing annual costs.
- 4.2 **Option 2** is not available to the council as discussed in 3.8 above.
- 4.3 **Option 3** (opt into the PSAA national scheme) provides the most appropriate and resilient arrangement for this Council. The council would benefit from the economies of large scale collective procurement arrangements in terms of fee scales from 1 April 2018 whilst at the same time not incurring the cost of establishing and administering a local audit panel. It is therefore, the view of the Interim Director of Resources that **Option 3** is recommended to the Council by the Audit Committee.

5. IMPACT ON CORPORATE GOALS

- 5.1 The external audit of the Council is a statutory requirement that places a judgement on the council's financial position and its arrangements for securing value for money. The external auditor is also required to certify certain grant claims.

6. IMPLICATIONS

(i) **Impact on Customers** – None arising directly from this report.

(ii) **Impact on Equalities** – None arising directly from this report

Impact on Risk – **Option 1** has a risk attached to it of resilience and cost of setting up and administering a whole new arrangement.

Option 3 removes the risks identified in **Option 1**.

(iii) **Impact on Resources (financial)** – External audit fee levels are likely to increase when the current contracts end in 2018 as the current contracts were procured and negotiated nationally by the Audit Commission, offering maximum economies of scale. However, PSAA will operate on a not for profit basis and so any surpluses made will be returned to participants in the scheme.

(iv) **Impact on Resources (human)** – None.

(v) **Impact on the Environment** – None

Background Papers: None

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