

Audit & Governance Committee – 4 April 2016

Sector Led Body For Appointment of External Auditors – Opt In



Report of the Strategic Manager – Financial Services (s151 Officer)

Ward(s) affected: All

1. Purpose of Report

- 1.1 To apprise Audit and Governance Committee on the proposal from the Local Government Association (LGA) that Public Sector Audit Appointments Ltd (PSAA) is appointed as the sector-led body to procure future External Audit contracts for local government.

2. Recommendations

Members are recommended to:

- 2.1 Authorise the Strategic Manager – Financial Services (s151 officer) to express an interest on behalf of the Council to opt-in to the sector-led body approach for appointment of external audit.

3. Background

- 3.1 In August 2010, the Secretary of State for Communities and Local Government announced plans for new arrangements to audit local public bodies in England. The Government consulted widely and worked with a range of partners to develop and refine its proposals. The Local Audit and Accountability Act 2014 which received Royal Assent in January 2014 led to the abolition of the existing regime which included the Audit Commission.
- 3.2 The closure of the Audit Commission on 31 March 2015 heralded the start of the process of devolving the responsibility for making external audit appointments to all local public bodies including all classes of local authorities, police (CC and OPCC), fire and rescue bodies (where separate), waste disposal, transport authorities and executives, together with relevant NHS bodies.
- 3.3 The Council was audited by the Audit Commission, who were responsible for undertaking the audits themselves or appointing audit firms to undertake the work on their behalf. Mazars LLP were appointed as the Council's auditors upon the closure of the Audit Commission.
- 3.4 Initially transitional arrangements were put in place until 31 March 2017.

Public Sector Audit Appointments Limited (PSAA) an independent company established by the LGA was set up to manage the existing appointments.

- 3.5 The transitional arrangements will expire when the 2016/17 audits are complete (i.e. by March 2018) unless the government decides to extend the current arrangements.
- 3.6 However on 5 October 2015 the Secretary of State notified his intention to extend the transitional arrangements, whereby auditors are appointed by PSAA Ltd under the contracts previously negotiated by the Audit Commission for certain bodies.
- 3.7 Whilst NHS and smaller local government bodies will move to the new appointment regime on 1 April 2017, larger local government bodies will remain on current appointments contracts until the completion of the 2017/18 audits. This means new appointments will need to be made by 31 December 2017. The extension of the arrangements for local government is estimated to save the sector around £24 million
- 3.8 In 2017, the council will need to make choices about the arrangements for appointing its external auditors. Briefly these options comprise:
- i) Setting up an independent Auditor Panel.
 - ii) Joining with other councils to set up a joint independent Auditor Panel.
 - iii) Opting-in to a sector led body that will negotiate contracts and make the appointment on behalf of councils, removing the need to set up an independent Auditor Panel.
- 3.9 In May to June 2015, the LGA conducted a short online survey to ascertain the level of interest across the sector for extending external audit contracts for up to three years, and also the level of support for setting-up of a sector-led body (SLB) to procure external audit on behalf of councils and other bodies by the LGA in the future.
- 3.10 The survey was sent to Directors of Finance (or equivalent) in all 353 English local authorities, 47 Fire and Rescue Authorities (FRAs), 38 Police and Crime Commissioners (PCCs) and 39 Police Forces. A total of 477 organisations were contacted. There was a 38 per cent response rate overall, and a 42 per cent response rate from councils.
- 3.11 The survey indicated:
- i) 83 per cent of respondents said 'yes' their organisation would support extending the current contracts for external audit.
 - ii) 58 per cent of respondents said their organisation would prefer 'an opt-in sector-wide body for collective procurement set up by the LGA'.
 - iii) Approximately half of those who commented identified the need for timely information, advice, clarity and coordination in preparing for the changes to public sector audit.
- 3.12 In response to the results from the survey the LGA is investigating the feasibility of continuing to use PSAA as a national sector led body to deliver economic and efficient external arrangements across all authorities.

- 3.13 Authorities have been asked to express an interest in opting-in to a sector led body by the end of April 2016. This would not be binding upon the Council at this stage.
- 3.14 The view of the statutory officers (S151 Officer, Head of Paid Service & Monitoring Officer), is that at this stage the Council should express an interest for opting-in to a sector led body for the following reasons.
- i) The Audit and Accountability Act 2014 sets out the criteria for the Independent Auditor Panel. The criteria are;
 - (a)The panel must be made up from a majority or wholly independent members.
 - (b)The Chair must be an independent member. (This means that the panel must consist of at least 3 if not 5 members).
 - (c)Members of the Panel must not have been a member or officer of the Council within 5 years.
 - (d)Members of the Panel cannot be an officer or member of an entity associated with the Council within 5 years.
 - (e)Members of the Panel cannot be a close relative or friend of a member or officer of the Council.
 - ii) Setting up an independent audit panel just for Craven District Council will possibly not be practicable due to the criteria that need to be met for panel members.
 - iii) Joining with other councils to set up a joint independent Auditor Panel. The criteria again may make this not practicable depending on which Council's joined together. Unless there were reciprocal arrangements between different groups.
- 3.15 A further report will be brought to members in due course.

4. Implications

4.1 Financial and Value for Money Implications

There are no financial implications associated with this report.

4.2 Legal implications

None arising directly from this report.

4.3 Contribution to Council Priorities

External Audit is part of the Governance framework of the Council which assists with the assurances required that the Council is financially resilient.

4.4 Risk Management

The Council is required to have appropriate External Auditors. A sector-led body to negotiate contracts would undertake the due diligence and other associated requirements for contract tendering and negate the need for an independent auditor appointment panel.

4.5 Equality Impact Assessment

The Council's Equality Impact Assessment Procedure **has been** followed. An

Equality Impact Assessment **has not** been completed on the proposals as completion of **Stage 1- Initial Screening** of the Procedure identified that the proposed policy, strategy, procedure or function **does not have** the potential to cause negative impact or discriminate against different groups in the community based on •age • disability •gender • race/ethnicity • religion or religious belief (faith) •sexual orientation, or • isolation.

5. **Consultation with Others**

None

6. **Access to Information : Background Documents**

LGA & DCLG Websites

7. **Author of the Report**

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