

Update regarding changes to arrangements for appointment of an External Auditor

Audit Committee

Date: 27th June 2017

Author: Head of Internal Audit
Wards: None
Parishes Affected: None

1. Purpose and Reasons

- 1.1 This report provides an update to Members regarding 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.

2. Recommendations

The Committee is recommended to:

- 2.1 Note the updated position regarding the appointment of External Auditors including the timescale for challenging any appointment.

3. Detail

Background to the issue

- 3.1 The Local Audit and Accountability Act 2014 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.
- 3.2 On 5 October 2015 the Secretary of State 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.
- 3.3 The Council's current external auditor is Grant Thornton, this appointment having been made under a contract let by the Audit Commission. Following closure of the Audit Commission the contract is currently managed by Public Sector Audit Appointments Limited, the transitional body set up by the Local Government Association with delegated authority from the Secretary of State Communities and Local Government.
- 3.4 When the current transitional arrangements come to an end on 31 March 2018 the Council will be able to move to a local appointment of the auditor.
- 3.5 The scope of the audit will still be specified nationally, the National Audit Office is responsible for writing the Code of Audit Practice which all firms appointed to carry out the Council's audit must follow. Not all accounting firms will be eligible to compete for the work, 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.
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Further information on the subject of this report can be obtained from Nick Hobbs, Direct Dial Telephone Number: 01793 463940, nhobbs@swindon.gov.uk.

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- 3.6 The intention is for the External Auditor to be appointed for a period of five financial years beginning 1st April 2018.
- 3.7 A report was presented to the November 2016 meeting of the Audit Committee setting out the various options for procuring an External Auditor. Audit Committee recommended that the Council opt for the Sector led body (Public Sector Audit Appointments) to make the procurement arrangements. This was subsequently endorsed by Full Council.

Update: Public Sector Audit Appointments (PSAA) - Procurement progress

Selection stage

- 3.8 The selection stage ran from 16 February to 21 March 2017. Nine potential suppliers were invited to tender. Feedback was also received from firms and authorities on the draft contract during this period.

Invitation to tender

- 3.9 The tender period was from 6 April to 10 May 2017. Eight responses were received and then evaluated by PSAA. This was completed on 25th May 2017.
- 3.10 A strategy and approach for the auditor appointment, allocation and consultation has been agreed by the PSAA Board. The key principles for allocation of firms to authorities will include:
- Auditor independence
 - Meeting contractual commitment
 - Accommodating joint/shared working arrangements as far as possible
 - Ensuring a blend of authority types for each firm
 - Taking account of a firm's principal location
 - Continuity of audit firm, if possible

Consultation

- 3.11 The audit firms need to confirm their position on independence issues for each opted-in body before PSAA can consult audited bodies on proposed appointments.
- 3.12 Audited bodies will have five weeks (14 August to 22 September 2017) to consider the auditor proposed by PSAA. Where a body is content with the appointment no further action is needed.
- 3.13 However, in some instances there could be valid reasons why the proposed firm may not be appointed. The Council will have two opportunities to make representations on the proposed appointment, if required, i.e.
- 16-27 October 2017 (following the main consultation period)

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- 10-24 November 2017 (final opportunity before PSAA Board approves all appointments)

Representations

3.14 Possible reasons for making a representation include:

- There is an independence issue, of which PSAA had not been informed;
- There are formal and relevant joint working arrangements, of which PSAA had not been informed; or
- There is another valid reason, for example a body can demonstrate a history of receiving inadequate service from a particular firm

3.15 If the Council wishes to make a representation regarding the appointment of its External Auditor it will need to do so in writing. The PSAA will consider all representations and will consult with the Council regarding a revised appointment. However, the PSAA Board will make the final decision.

Auditor appointment timetable:

Activity	Target date
Prepare schedule of proposed appointments	12 th July 2017
PSAA Board approve proposed appointments	19 th July 2017
Consult firms on proposed schedule of appointments	20 th July – 14 th August 2017
Consult audited bodies on proposed appointment	14 th August – 22 nd September 2017
Review any representations and consult and consult on proposed alternative appointment (iteration 1)	23 rd September – 27 th October 2017
Review any representations and consult and consult on proposed alternative appointment (iteration 2)	28 th October – 27 th November 2017
PSAA Board approves appointments	14 th December 2017
PSAA issues appointment confirmation letters	18 th December 2017
Consultation on proposed scale fees (see below)	October 2017 – January 2018
Scale fee approved by PSAA Board and confirmed	By 31 st March 2018
Start date for auditor appointments for 2018/19	1 st April 2018

Fee Setting Process

3.16 The 2018/19 fees will be determined by the prices achieved in the auditor procurement process. The PSAA will pool the scheme costs and charge fees to audited bodies in accordance with a scale of fees which has regard to size,

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complexity and audit risk, most likely as currently evidenced by audit fees for 2016/17.

- 3.17 Firms must seek the PSAA approval to charge more or less than the scale fee. Variations are only expected to occur where the audits risks are significantly different from those identified and reflected in the previous years' fees.
- 3.18 An update regarding the appointment of an External Auditor will be brought to September's Audit Committee.

4. Alternative Options

- 4.1 Not Applicable

5. Implications, Diversity Impact Assessment and Risk Management

Financial and Procurement Implications

- 5.1 The Council opted for the national Sector Led Body to make the appointment of its External Auditor. It is hoped that that this will limit the extent of any Audit fee increase by entering in to a large scale collective procurement arrangement and would remove the costs of establishing an auditor panel. Actual costs will not be known until relevant audit firms have submitted their quotes to the Sector Led Body.

Legal and Human Rights Implications

- 5.2 The Council has to appoint an External Auditor to comply with the requirements of Section 7 of the Local Audit and Accountability Act 2014 (the Act).
- 5.3 Section 12 makes provision for the failure to appoint a local auditor: the authority must immediately inform the Secretary of State, who may direct the authority to appoint the auditor named in the direction or appoint a local auditor on behalf of the authority.
- 5.4 Section 17 gives the Secretary of State the power to make regulations in relation to an 'appointing person' specified by the Secretary of State. This power has been exercised in the Local Audit (Appointing Person) Regulations 2015 (SI 192) and this gives the Secretary of State the ability to enable a Sector Led Body to become the appointing person.

All Other Implications (including Staff, Sustainability, Health, Rural, Crime and Disorder)

- 5.5 None

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Links to One Swindon, Strategic Objectives, Plans and Policies

- 5.6 Effective systems of governance, risk management and internal control within the Council will help to ensure that the objectives set out in One Swindon and the Council's Corporate Strategy is achieved.

Diversity Impact Assessment

- 5.7 None

Risk Management

- 5.8 There is no immediate risk to the Council.

6. Consultees

- 6.1 The Chief Executive
- 6.2 The Director of Finance (Section 151 Officer) and Director of Law and Democratic Services (Monitoring Officer) are consulted in respect of all reports.

7. Background Papers

- 7.1 None

8. Appendices

None