

TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

05 April 2016

Report of the Director of Finance and Transformation

Part 1- Public

Delegated

1 APPOINTMENT OF EXTERNAL AUDITORS

This report provides an update on the options available for the appointment of external auditors at the end of the current transitional arrangements.

1.1 Introduction

- 1.1.1 The Local Audit and Accountability Act 2014 (the Act) introduced a new decentralised audit regime where councils could appoint their own external auditors and manage their own audit arrangements.
- 1.1.2 The Act brought to a close the Audit Commission and established transitional arrangements whereby Public Sector Audit Appointments Limited (an independent company established by the Local Government Association) is responsible for the appointment of external auditors and the setting of audit fees.
- 1.1.3 On 5 October 2015 the Secretary of State for Communities and Local Government notified his intention to extend by one year the transitional arrangements to include the audit of the accounts for 2017/18.
- 1.1.4 When the transitional arrangements come to an end on 31 March 2018 there are three broad options open to the Council.

1.2 Options for Local Appointment of External Auditors

Option 1 – To make a stand-alone appointment

- 1.2.1 In order to make a stand-alone appointment the Council must set up, consult and take into account the advice of an independent auditor panel on the selection and appointment of an auditor. The appointment to be made by full Council not later than the 31 December in the preceding financial year. Therefore, the Council would need to have appointed an external auditor for the 2018/19 financial year by 31 December 2017 and the panel to be in place by April 2017 in order to be involved in the procurement process. The panel is to consist of a majority of independent members (or wholly of independent members) and must be chaired by an independent member.

- 1.2.2 Setting up an auditor panel allows the Council to have local input to the decision. However, this would be a costly exercise in terms of recruitment and maintaining the auditor panel. In addition, the Council will not be able to take advantage of reduced fees that may be available through joint or national procurement contracts; and it is not known whether there would be a sufficient availability of independent members.

Option 2 – Set up a Joint Independent Auditor Panel

- 1.2.3 The Act enables the Council to join with other councils to establish a joint auditor panel. Again this will need to be constituted of wholly or a majority of independent members. Further legal advice will be required on the exact constitution of such a panel and the Council would need to liaise with other local councils to assess the appetite for such an arrangement.
- 1.2.4 This has the advantage of spreading the cost across a number of councils and possible savings through economies of scale in a larger joint procurement process. On the other hand, the decision making body will be further removed from local input and the choice of auditor could be complicated where individual councils have independence issues.

Option 3 – Opt-in to a Sector Led Body

- 1.2.5 In response to the consultation on the new arrangement the LGA successfully lobbied for councils to be able to opt-in to a Sector Led Body (SLB) appointed by the Secretary of State. The SLB to negotiate contracts and make the appointments on behalf of councils, removing the need to set up an independent auditor panel. The LGA are considering setting up such a body utilising the knowledge and experience gained from the transitional arrangements.
- 1.2.6 Under this option the Council as now has no input to the appointment of the auditor. However, a SLB would have the ability to negotiate contracts with the firms nationally, maximising the opportunities for the most economic and efficient approach to procurement of external audit on behalf of the whole sector.

1.3 Next Steps

- 1.3.1 The Council will need to take action to implement new arrangements for the appointment of external auditors. In order to inform what happens next Members are asked to give consideration to the preferred approach.

The Council has been asked by the LGA for an indication of the preferred approach in order that it can invest resources in providing appropriate support to councils.

1.4 Legal Implications

- 1.4.1 Section 7 of the Act requires a relevant authority to appoint a local auditor to audit its accounts for a financial year not later than 31 December in the preceding year. Section 8 governs the procedure for appointment including that the authority must consult and take account of the advice of its auditor panel on the selection and appointment of a local auditor. Section 8 provides that where a relevant authority is a local authority operating executive arrangements, the function of appointing a local auditor to audit its accounts is not the responsibility of an executive of the authority under those arrangements.
- 1.4.2 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.
- 1.4.3 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.

1.5 Financial and Value for Money Considerations

- 1.5.1 Current external fees levels are likely to increase when the current contracts end in 2018. Opting-in to a national Sector Led Body provides maximum opportunity to limit the extent of any increases by entering into a large scale collective procurement arrangement and would remove the costs of establishing and maintaining an auditor panel.

1.6 Risk Assessment

- 1.6.1 There is no immediate risk to the Council, however, early consideration by the Council of its preferred approach will enable detailed planning to take place so as to achieve successful transition to the new arrangement in a timely and efficient manner.
- 1.6.2 Providing the LGA with a realistic assessment of our likely way forward will enable the LGA to invest in developing appropriate arrangements to support the Council.

1.7 Equality Impact Assessment

The decisions recommended through this paper have a remote or low relevance to the substance of the Equality Act. There is no perceived impact on end users.

1.8 Recommendations

- 1.8.1 Members are requested to **consider** their preferred approach and **recommend** accordingly.

Background papers:

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Nil

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