

Safest People, Safest Places

County Durham and Darlington
Fire and Rescue Authority



COMBINED FIRE AUTHORITY

24 NOVEMBER 2016

DECISION TO OPT IN TO THE NATIONAL SCHEME FOR AUDITOR APPOINTMENTS

REPORT OF TREASURER

Purpose of Report

1. This report sets out the proposals for appointing the external auditor to the Authority for the 2018/19 accounts and beyond, as the current arrangements only cover up to and including 2017/18 audits. The current auditors are working under a contract originally let by the Audit Commission and the contract was novated to Public Sector Audit Appointments (PSAA) following the closure of the Audit Commission.
2. A sector-wide procurement conducted by PSAA will produce better outcomes and will be less burdensome for the Authority than any procurement undertaken locally. If the Authority is to take advantage of the national scheme for appointing auditors to be operated by PSAA for the subsequent years, it needs to take the decision at this meeting to enable it accept the invitation by early March 2017.

Background

3. The Local Audit and Accountability Act 2014 (the Act) 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.
4. On 5 October 2015 the Secretary of State Communities and Local Government (CLG) 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. The Act also set out the arrangements for the appointment of auditors for subsequent years, with the opportunity for authorities to make their own decisions about how and by whom their auditors are appointed.
5. Regulations made under the Act allow authorities to 'opt in' for their auditor to be appointed by an 'appointing person'. In July 2016 PSAA were specified by the Secretary of State as an appointing person under regulation 3 of the Local Audit (Appointing Person) Regulations 2015. The appointing person is sometimes referred to as the sector led body and PSAA has wide support across local government. PSAA was originally established to operate the transitional arrangements following the closure of the Audit Commission under powers delegated by the Secretary of State.

Sector Wide Procurement

6. PSAA is an independent, not-for-profit company limited by guarantee and established by the Local Government Association (LGA). PSAA is inviting the Authority to opt in, along with all other authorities, so that PSAA can enter into a number of contracts with appropriately qualified audit firms and appoint a suitable firm to be the Authority's auditor. The principal benefits from such an approach are as follows:
 - PSAA will ensure the appointment of a suitably qualified and registered auditor and expects to be able to manage the appointments to allow for appropriate groupings and clusters of audits where bodies work together;
 - PSAA will monitor contract delivery and ensure compliance with contractual, audit quality and independence requirements;
 - Any auditor conflicts at individual authorities would be managed by PSAA who would have a number of contracted firms to call upon;
 - It is expected that the large-scale contracts procured through PSAA will bring economies of scale and attract keener prices from the market than a smaller scale competition;
 - The overall procurement costs would be lower than an individual smaller scale local procurement;
 - The overhead costs for managing the contracts will be minimised though a smaller number of large contracts across the sector;
 - There will be no need for the Authority to establish alternative appointment processes locally, including the need to set up and manage an 'auditor panel';
 - The new regime provides both the perception and reality of independent auditor appointment through a collective approach; and
 - A sustainable market for audit provision in the sector will be easier to ensure for the future.
7. The Authority's current external auditor is Mazars, this appointment having been made under a contract let by the Audit Commission. Following closure of the Audit Commission the contract was novated to PSAA, and since this date PSAA has demonstrated its capability in terms of auditor appointment, contract management, and monitoring audit quality. Over recent years authorities have benefited from a reduction in fees in the order of 55% compared with fees in 2012. This has been the result of a combination of factors including new contracts negotiated nationally with the audit firms and savings from closure of the Audit Commission. The Authority's current external audit fees are £28,877 per annum.
8. The proposed fees for subsequent years cannot be known until the procurement process has been completed, as the costs will depend on proposals from the audit firms. The scope of the audit will still be specified nationally, the National Audit Office (NAO) is responsible for writing the Code of Audit Practice which all firms appointed to carry out the Authority's audit must follow. Not all audit 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.
9. Currently, there are only nine providers that are eligible to audit local authorities and other relevant bodies; all of these being firms with a national presence. This means that a local procurement exercise, would seek tenders from these same firms, subject to the need to manage any local independence issues. Local firms could not be invited to bid.

Other Options

10. If the Authority did not opt in there would be a need to establish an independent auditor panel. The members of the panel must be wholly or a majority of independent members as defined by the Act. Independent members for this purpose are independent appointees, this excludes current and former elected members (or officers) and their close families and friends. This means that elected members will not have a majority input to assessing bids and choosing which audit firm to award a contract for the Authority's external audit.
11. Alternatively the Act enables the Authority to join with other authorities to establish a joint auditor panel. Again this will need to be constituted of wholly or a majority of independent appointees (members). Further legal advice would be required on the exact constitution of such a panel having regard to the obligations of each Authority under the Act and the Authority would need to liaise with other local authorities to assess the appetite for such an arrangement.
12. Both of these options would be more resource-intensive to implement and without the bulk buying power of the sector led procurement, would be likely to result in a more costly service. It would also be more difficult to manage quality and independence requirements through a local appointment process.

The Invitation

13. PSAA has now formally invited the Authority to opt in to the sector wide procurement arrangement. In summary the national opt-in scheme provides the following:
 - The appointment of a suitably qualified audit firm for each of the five financial years commencing 1 April 2018;
 - Appointing the same auditor to other opted in bodies that are involved in formal collaboration or joint working initiatives to the extent this is possible with other constraints;
 - Managing the procurement process to ensure both quality and price criteria are satisfied. PSAA will seek views from the sector to help inform its detailed procurement strategy;
 - Ensuring suitable independence of the auditors from the bodies they audit and managing any potential conflicts as they arise;
 - Minimising the scheme management costs and returning any surpluses to scheme members;
 - Consulting with authorities on auditor appointments, giving the Council/Authority the opportunity to influence which auditor is appointed;
 - Consulting with authorities on the scale of audit fees and ensuring these reflect scale, complexity and audit risk; and
 - Ongoing contract and performance management of the contracts once these have been let.

The way forward

14. Regulation 19 of the Local Audit (Appointing Person) Regulations 2015 requires that a decision to opt in must be made by a full meeting of the Authority. The Authority then needs to formally respond to PSAA's invitation in the form specified by PSAA by early March 2017. PSAA expects to award contracts in summer 2017 and consult with

authorities on the appointment of auditors so that it can make an appointment by the statutory deadline of December 2017.

Financial implications

15. There is a risk that current external audit fee levels could increase when the current contracts end in 2018. Opting-in to a national scheme provides maximum opportunity to ensure fees are as low as possible, whilst ensuring the quality of audit is maintained by entering in to a large scale collective procurement arrangement. If the national scheme is not used some additional resource may be needed to establish an auditor panel and conduct a local procurement. Until a procurement exercise is completed it is not possible to state what, if any, additional resource may be required for audit fees for 2018/19.

Recommendation

16. Members are **recommended** to accept Public Sector Audit Appointments' (PSAA) invitation to 'opt in' to the sector led option for the appointment of external auditors for five financial years commencing 1 April 2018.