

NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL

AUDIT AND GOVERNANCE COMMITTEE – 7 DECEMBER 2016

Title of Report	FUTURE EXTERNAL AUDIT ARRANGEMENTS
Contacts	<p>Councillor Nick Rushton 01530 412059 nicholas.rushton@nwleicestershire.gov.uk</p> <p>Interim Director of Resources 01530 454833 andrew.hunkin@nwleicestershire.gov.uk</p> <p>Head of Transformation 01530 454510 anita.onwuchekwa@nwleicestershire.gov.uk</p> <p>Financial Planning Manager/Deputy S151 Officer 01530 454 707 pritesh.padaniya@nwleicestershire.gov.uk</p>
Purpose of Report	To inform Members of potential changes to external audit arrangements.
Reason for Decision	To opt in the PSAA offering to appoint new External Auditors.
Council Priorities	Value for Money
Implications:	
Financial/Staff	As detailed in the report.
Link to relevant CAT	Could impact upon all Corporate Action Teams.
Risk Management	As detailed in the report
Equalities Impact Screening	Not Applicable
Human Rights	Not Applicable
Transformational Government	Not Applicable
Consultees	None
Background Papers	None

Recommendations	<p>THAT MEMBERS:</p> <p>A) CONSIDER THE CONTENTS OF THE REPORT.</p> <p>B) NOTE THAT IN ACCORDANCE WITH REGULATION 19 OF THE LOCAL AUDIT (APPOINTING PERSON) REGULATIONS 2015, A DECISION TO OPT IN MUST BE MADE AT A FULL COUNCIL MEETING. THEREFORE A REPORT MIRRORING THE CONTENTS OF THIS ONE (SUBJECT TO ANY INTERVENING AMENDMENTS) WILL BE SUBMITTED TO THE NEXT COUNCIL MEETING ON 23 FEBRUARY 2017.</p>
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1.0 BACKGROUND

- 1.1 The Audit Commission, which used to appoint auditors to a range of public bodies ceased to exist in April 2015 via the Local Audit and Accountability Act 2014. Its functions were disseminated amongst a number of organisations including the Public Sector Audit Appointments Ltd (PSAA). Under the transitional arrangements the PSAA was responsible for appointing external auditors to public bodies including local authorities, NHS bodies and police forces. In July 2016, the PSAA was specified as an Appointing Person by the DCLG under regulation 3 of the Local Audit (Appointing Person) Regulations 2015. This gave the PSAA the authority to appoint auditors to audit the accounts of authorities that chose to opt in to such arrangements.
- 1.2 The PSAA is a not for profit company owned by Local Government Improvement and Development, which in turn is owned by the Local Government Agency (LGA).
- 1.3 All local authorities have a statutory obligation to appoint independent auditors to audit their accounts and any authority that does not opt in to a sector-led appointing body would have to make their own arrangements including establishing a politically balanced and sufficiently skilled auditor panel.

2.0 PSAA OFFERING

- 2.1 The PSAA were appointed by the DCLG and is running a national scheme. It is free to opt in and North West Leicestershire District Council (NWLDC) was invited to do so by the PSAA on 27 October 2016. Councils and other public bodies (NHS bodies, Fire Services, Police Services etc.) who choose to opt in must do so by 9 March 2017. This allows it to appoint the auditors by 31 December 2017 so that the auditors can ensure they are in a position to undertake their obligations by 1 April 2018. In accordance with legislation, all local authorities that wish to opt in must make the decision at a full council meeting. For NWLDC this meeting is scheduled to take place on 23 February 2017.
- 2.2 The PSAA propose to undertake the procurement process on behalf of the opted in authorities, which includes inviting tenders from audit firms by April 2017, evaluating the bids and awarding the contracts by June 2017 allowing 6 months for consultation with authorities and subsequent confirmation of appointments. The contract duration between the PSAA and the audit firms will be 5 years.

2.3 PSAA Provided Reassurances:

- a) The PSAA will only contract with firms that have a proven track record of successfully undertaking public audit work.

- b) It will closely monitor the rigour and effectiveness of appointed firms' internal quality assurance arrangements and will liaise with the National Audit Office to ensure all guidance to auditors is updated when necessary.
- c) It aims to ensure that each successful firm has a sufficient quantum of work to encourage sector specific training and a better understanding of the local political, economic and social environment.
- d) It intends to ensure auditor appointments take account of existing joint working and shared services arrangements.
- e) The PSAA will manage the contract, proactively seeking feedback on its auditors from authorities, and will continue to have a clear complaints process in place.
- f) It will consult authorities on individual auditor appointments albeit within the bounds of ensuring such appointments are wholly independent.

3.0 KEY IMPLICATIONS

a) Advantages:

- i. A sector-led body can achieve economies of scale and standards of quality in the procurement process and throughout the duration of the contract that would be much more difficult to consistently achieve as a single authority.
- ii. It will bring a level of expertise to the procurement and management of the contract that would be impossible to replicate within an individual authority.
- iii. We can be assured of speedily receiving the very latest updates on industry developments.
- iv. Any conflicts with an appointed auditor can be independently mediated and if necessary a replacement can be appointed quickly.
- v. Quality assurance will be actively monitored and managed by the PSAA.

b) Disadvantages:

- i. There might be concerns in some quarters that there would be less opportunity to have a fully bespoke contract. However, in reality, given the legislative requirements governing auditor appointments, the scope for a truly bespoke contract is fairly narrow.

4.0 FINANCIAL IMPLICATIONS

- 4.1 It is free to opt in. The costs of procurement will be covered in the price of the contracts, which will not be known at this stage. As stated earlier, due to economies of scale the price is expected to be considerably lower than going to the market as a single authority (or even as a joint exercise with another authority).
- 4.2 There will be a scale of charges and the price for each public body will, inter alia, be dependent on size. NWLDC's current auditor is KPMG and the cost of the contract is £50.5k. There are other fees payable in relation to certification of grants claims and assurance work; this amounted to £17k last year.