

Future External Audit Appointment Process

Executive Summary

This report updates Audit Committee on the future options for appointing the Council's external auditors following changes in legislation, and seeks the Committees input and thoughts on the options. There are three options:

1. undertake an individual auditor procurement and appointment exercise;
2. undertake a joint audit procurement and appointing exercise with other bodies, those in the same locality for example; or
3. join a 'sector led body' arrangement where specified appointing person status has been achieved under the relevant Regulations

Proposal

Audit Committee are invited to consider and comment on the future process to appoint the Council's external auditors.

Reason for the Proposal

Changes to legislation following the dissolution of the Audit Commission require the Council to take a decision by December 2017. All of the options will require time to prepare for and as such views of the Audit Committee are being sought on the next steps / direction.

Michael Hudson

Associate Director, Finance (Section 151 Officer)

Future External Audit Appointment Process

1. Purpose of this report

- 1.1 Due to pending changes in the legislative requirements to appoint public body auditors following the Local Accountability and Audit Act 2014 that dissolved the Audit Commission, the Council has to determine an appropriate route to appoint its external auditors for the 2018/19 audit and beyond.

2. Background

- 2.1 Following an announcement to dissolve the Audit Commission, the Secretary of State for Communities and Local Government delegated statutory functions (from the Audit Commission Act 1998) to Public Sector Audit Appointments Limited (PSAA) on a transitional basis by way of a letter of delegation issued under powers contained in the Local Audit and Accountability Act 2014. PSAA is an independent company limited by guarantee incorporated by the Local Government Association in August 2014.
- 2.2 Under these transitional arrangements, the PSAA therefore is currently responsible for appointing auditors to local government, police and local NHS bodies, for setting audit fees and for making arrangements for the certification of housing benefit subsidy claims. In July 2016 the Secretary of State for Communities and Local Government extended the transitional period until after the 2017/18 audit.
- 2.3 Going forward after that audit public sector bodies have three options under legislation and regulations to appoint external auditors:
1. undertake an individual auditor procurement and appointment exercise;
 2. undertake a joint audit procurement and appointing exercise with other bodies, those in the same locality for example; or
 3. join a 'sector led body' arrangement where specified appointing person status has been achieved under the relevant Regulations

2.4 This effectively means Wiltshire Council (and it is assumed Wiltshire Pension Fund, although silent in legislation and guidance despite request for clarity) must have selected one of these options by December 2017 in readiness for the 2018/19 audit. Given the various times to enact these options clarity on which option is preferred by the Council is sought now. As part of that process and given some of the direct impact on this Committee its views are sought to inform the appointment process decision. This paper considers each option.

3. Main Considerations

- Option 1: individual auditor procurement and appointment

- 3.1 One of the former Secretary of States reasons for abolishing the Audit Commission was to give public bodies' greater freedom over the appointment of external auditors akin to the private sector.
- 3.2 Regulations now give the Council the ability to appoint an external auditor independent of any regulatory body. The process to do so requires that it convenes an auditor panel that must consist of a majority of independent members (or wholly of independent members), and must be chaired by an independent member. That includes ensuring that the panel member has not been a member or officer of the authority, (included a connected or a close friend relationship, which again includes any individual with a contractual relationship with the council) within the period of 5 years ending with that time. So similar to the Independent Members Remuneration Panel.
- 3.3 The Authority will need to undertake an independent procurement exercise, setting out a specification and tender that meets the National Audit Office Code of Practice and relevant legislation. There is a [local auditor register](#) maintained by the ICAEW which lists the audit firms that have been registered as local auditors and the key audit partners who have met the eligibility criteria.
- 3.4 The Independent Audit Panel would be engaged in this process taking advice from officers, and ultimately recommending an appointment to Full Council. Full Council could determine not to accept the Panel's recommendation, but would need to publish a reason with 28 days.

- 3.5 Further guidance on auditor panels has been issued by the HFMA for NHS bodies and by CIPFA for local government bodies: [HFMA guidance / CIPFA guidance](#). In addition the Audit Commission produced a report and slide pack summarising the lessons learnt from its 2012 and 2014 procurements of audit services as a list of factors that contributed to the delivery of successful outcomes for both procurements. The lessons learnt may be helpful in generally informing procurements of audit services undertaken by individual local public bodies or collective procurement bodies under the new arrangements. However, it should be noted that the procurements undertaken by the Commission were unique to the Commission's regime and the approaches taken may not be relevant in their entirety to other procurements. Also available is a blank template contract between the Commission and audit firms for principal body audit services .
- [Learning the lessons from the 2012 and 2014 Audit Commission procurements of audit services \(PDF document\)](#)
 - [Learning the lessons from Audit Commission procurements \(PowerPoint document\)](#)
 - [Principal Bodies Standard Contract Terms \(PDF document\)](#)
- 3.6 The procurement process will thus be at the council's cost / capacity. It is also unsure if one council in a geographical position, such as Wiltshire away from a city, would draw sufficient competition to secure an economic bid.
- **Option 2: joint audit procurement and appointing exercise with other bodies**
- 3.7 A variation of option 1 is that more than one public sector body can combine and carry out a joint audit procurement exercise. It is assumed that a tender could be complicated if it were across sector or with partners who did not administer a Pension Fund.
- 3.8 The process is also complicated by the requirement for each to be appointing body still and joint Audit Panel. This could result in scenarios whereby even after tender submissions prices vary as not all councils or bodies sign up. This risk could negate any economies of scale.
- 3.9 Initial soft market consultation has shown little interest in this option across the South West.

- **Option 3: join a 'sector led body' arrangement**

- 3.10 In July 2016, the Secretary of State for Communities and Local Government specified PSAA as an appointing person under regulation 3 of the Local Audit (Appointing Person) Regulations 2015. This means that that the PSAA can make auditor appointments for audits of the accounts from 2018/19 of principal authorities that choose to opt into its arrangements. Further information on PSAA's new role can be found [here](#).
- 3.11 The aim is to award contracts to audit firms by June 2017, giving six months to consult with authorities on appointments before the 31 December 2017 deadline. As such it is anticipated that invitations to opt in will be issued before December 2016 at the latest. Thus Wiltshire would need to express an interest by January 2017.
- 3.12 In accordance with Regulation 19 of the Local Audit (Appointing Person) Regulations 2015, a principal authority will need to make the decision to opt in at full council. As such this would need to go to January Full Council.
- 3.13 There are still a number of uncertainties with this option. Including how many other bodies would elect for this route to drive economies of scale and what the period of appointment via this process would be. Although initial discussions with neighbouring bodies across the south west region has identified that at this stage there is a strong indication that the preferred route that will be selected is option three. This is seemingly from networks also the favoured choice across England of Directors of Finance for similar bodies. However, that is not a guarantee it will be the final selected option when put to councils.

4. Risk Assessment

4.1 The risks and opportunities for each option has been assessed as follows:

Risk / Opportunity	Option 1 – sole procurement	Option 2 – joint procurement	Option 3: Sector led
Cost	This option potentially carries the highest cost as involves greater cost to procure, including independent member costs potentially. It also runs a risk of reduced competition leading to higher fees.	A reduced risk from option one due to ability to share costs, however requires geographical agreement it would suggest to achieve this and even then likely to reduce competition give Wiltshire’s geographical positioning between cities where firms are based.	Carries lowest risk of increased costs due to high likelihood of buy in from the sector to this process giving greatest competition and opportunity for economies of scale. Also minimal / no cost for procurement.
Impact of the Audit Committee	Will require Independent Panel, including Independent Chair to consider and recommend procurement. However, gives more choice to the local authority, although this assumes competition is found for tenders.	This would require a joint committee type approach. As yet it is not clear how this would be structured. It would still need individual body appointment. Failure to follow Independent Panel advice would need to be explained and advertised at Full Council.	This only requires one change to the Council’s decision making process, that of Full Council acceptance to pursue this route. However, it potentially gives a perception of less freedom to appoint auditors.

Risk / Opportunity	Option 1 – sole procurement	Option 2 – joint procurement	Option 3: Sector led
Range of choice	There is a risk that even given the scale of Wiltshire its location could limit competition in the procurement process.	Depending on potential partners this could give a wider range of choice. However, current soft market conversations suggest this could be limited as neighbouring bodies seem to be favouring option 3.	Due to the national / regional level of contract award this option is likely to give the wider range of choice
Quality of auditors	This will remain regulated and assessed independently against the National Audit Office (NAO) Code of Practice. Whilst there could be a perception of better or worsening quality through the process this is a perception only and is being managed by NAO and PSAA.	This will remain regulated and assessed independently against the National Audit Office (NAO) Code of Practice. Whilst there could be a perception of better or worsening quality through the process this is a perception only and is being managed by NAO and PSAA.	This will remain regulated and assessed independently against the National Audit Office (NAO) Code of Practice. Whilst there could be a perception of better or worsening quality through the process this is a perception only and is being managed by NAO and PSAA.

Risk / Opportunity	Option 1 – sole procurement	Option 2 – joint procurement	Option 3: Sector led
Timing and capacity.	This option requires the longest lead in time, due to the need to appoint independent members, set out a procurement process and specification assess and appoint. This option will inevitably take up the greatest capacity of officers and councillors time of all the options.	This option potentially requires as long a lead in process as option 1 due to the need for all bodies to reach agreement on the process, specification and appointment. Although it would be hoped time could be reduced due to increased shared capacity.	This option is similar to the current process and thus involves the shortest timeframe and least impact on officer capacity.

5. Equality and Diversity Impacts of the Proposal

5.1 None have been identified as directly arising from this report.

6. Financial Implications

6.1 Each options carries different risks regarding both the cost of future external audits. It is assumed that option three – to join a sector led approach, will provide the lowest risk regarding fee increases and procurement costs.

6.2 It is assumed the quality of auditor's appointed and fiduciary risk is equally managed for all three options.

7. **Legal Implications**

7.1 There is a statutory requirement for the Council to have external auditors. Changes to legislation now set out the requirements and options for public bodies to appoint those auditors. This paper considers the various options available to meet the statutory requirements under the The new arrangements for the audit and accountability of local public bodies are set out in the [Local Audit and Accountability Act 2014](#), and the following Regulations issued under the Act: [The Accounts and Audit Regulations 2015](#) and [The Local Audit \(Appointing Person\) Regulations 2015](#).

7.2 The appointment process finally chosen will have to follow this legislation. Legal will advise on that process in due course.

8. **Public Health Implications**

8.1 None have been identified as arising directly from this report.

9. **Environmental Implications**

9.1 None have been identified as arising directly from this report.

10. **Safeguarding Implications**

10.1 None have been identified as arising directly from this report.

11. **Options Considered**

11.1 This paper sets out the three options open to the Council under current legislation.

12. **Reasons for Proposals**

12.1 Changes to legislation following the dissolution of the Audit Commission require the Council to take a decision by December 2017. All of the options will require time to prepare for and as such views of the Audit Committee are being sought on the next steps / direction.

13. **Proposal**

- 13.1 Audit Committee are invited to consider and comment on the future process to appoint the Council's external auditors.

Michael Hudson
Associate Director, Finance

Report Author: **Michael Hudson** - Associate Director, Finance