

COUNCIL

11 January 2017

National Scheme for Auditor Appointments

Strategic Director Finance, Governance and Support - James Bromiley

PURPOSE OF THE REPORT

1. To seek full Council support to opt into the national procurement scheme for external auditor appointments.

BACKGROUND

2. Following the abolition of the Audit Commission in the Local Audit and Accountability Act 2014, the administration of current audit contracts has been carried out by Public Sector Audit Appointments Ltd (PSAA). Current contracts with external auditors will come to an end following the 2017/2018 audit of accounts. External auditors for the audit of accounts for 2018/2019 have to be appointed before the end of 2017. This will also include the appointment of the external auditor for the Teesside Pension Fund as Middlesbrough is the administering authority for the fund.
3. The role of the external auditor is to audit the Council's financial statement of accounts and report on whether they represent a true and fair view of the Council's finances and also report on whether the Council provided value for money in the way it operates.
4. There are two options open to the Council. Firstly the Council can chose to go through its own procurement process to appoint its own external auditor, or it can join a national procurement process administered by the PSAA. Any decision to opt into the national scheme must be made by the full Council before the 9th March 2017 which is the final date for the Council to notify of its acceptance to opt in.
5. Under the Local Audit (Appointing Person) Regulations 2015, the Government has given the PSAA the role of appointing local auditors under a national scheme and the PSAA has the support of the Local Government Association who have worked to secure a dedicated sector-led national procurement body.
6. The national scheme would see those Councils who have opted in have their auditor appointed for a period of 5 years.

7. On the 8 December 2016, the Corporate Affairs and Audit Committee considered and supported the recommendation for the Council to agree the option to join the national procurement scheme for the appointment of external auditors.

OPTION APPRAISAL

8. **Option 1 – Council led procurement of its auditors.**
9. If the Council chooses to appoint its own auditors, it would need to go through its own procurement exercise. It would be doing this at the same time as the national scheme was procuring for auditors. Clearly the audit firms bidding will be focusing on bidding and winning the national contracts and will be offering the best prices to do so. Individual Council's will find it difficult to attract tenders from the big audit firms during this process and will almost certainly not be offered prices comparable to those offered for the national scheme due to economies of scale.
10. If the Council chose to appoint its own auditors the rules under the Act mean that it would have to:
 - Establish an audit panel with independent members
 - Manage its own auditor appointment and cover its costs
 - Monitor the Independence of the appointed auditor for the duration of the appointment
 - Deal with the replacement of the auditor if required; and
 - Manage the contract of the auditor.
11. All of the above would be an additional cost to the Council. However, this option would give the Council more flexibility to make its own choice of auditor.
12. **Option 2 – Opt in to a PSAA led procurement process for appointment. (preferred option)**
13. If the Council chose to opt into the national scheme it would remove the requirement for the Council to deal itself with the issues in paragraph 11 as these would be covered by the PSAA.
14. There are 493 local government bodies eligible to join the national scheme and it is understood that over 270 have signalled a positive interest. Ultimately it is expected that the vast majority of eligible authorities will join the national scheme. It is also understood that our local authority neighbours are also likely to recommend joining the national scheme.
15. The advantages and disadvantages associated with each option are summarised in the table below.

Advantages	Disadvantages
Local Appointment	
Will be able to choose own auditor	Will have to establish a fund a new Audit Panel
	Carry out and fund a procurement process.
	Unlikely to secure or attract the higher quality audit firms
	Unlikely to secure the prices offered through the economies of scale achieved through the national scheme.
National Appointment	
	Auditor Appointed for the Council
No procurement Process	
No setting up of an Audit Panel	
Attract highest quality experienced and vetted audit firms	
Secure value for money through economies of a national scheme	

EQUALITY IMPACT ASSESSMENT

16. There is no equality impact assessment required with the implication of this report.

LEGAL CONSIDERATIONS

17. There are no specific legal issues.

FINANCIAL CONSIDERATIONS

18. The current cost of the annual audit of the accounts is £115,000 for the Council and £29,000 for the Teesside Pension Fund. In addition there is a further charge for the mandatory audit of Government grants which is £11,000.
19. Under the proposed new arrangements PSAA will pool scheme costs and charge fees to audited bodies in accordance with a fair scale of fees which has regard to size, complexity and audit risk, most likely as evidenced by audit fees for 2016/17. Pooling means that everyone in the scheme will benefit from the most competitive prices. Fees will reflect the number of scheme participants – the greater the level of participation, the better the value represented by our scale fees. However given the unknown factors the actual costs is not yet known.

20. It is known that the PSAA is intending to fund an element of the costs of establishing the scheme, including the costs of procuring audit contracts, from resources it already has available to it.

RECOMMENDATIONS

21. Note the content of the report
22. Council agree to opt in to the national procurement scheme for appointment of external auditors led by Public Sector Audit Appointments (PSAA).

REASONS

23. The Council has to make a decision to opt into the national auditor appointment scheme by the 9 March 2017 if it chooses to join the national scheme.

BACKGROUND PAPERS

24. None.

AUTHOR

John Shiel – Head of Financial Governance & Revenues Tel No – 729548