



Committee report

Committee	AUDIT COMMITTEE
Date	26 SEPTEMBER 2016
Title	EXTERNAL AUDIT ARRANGEMENTS AFTER 2017-18
Report of	DIRECTOR OF FINANCE AND SECTION 151 OFFICER

EXECUTIVE SUMMARY

1. This report explains the latest position in relation to the requirement in the Local Audit and Accountability Act 2014 for the council to appoint its own external auditor by 31 December 2017.
2. The committee is asked to support in principle the proposal that the council asks Public Sector Audit Appointments Limited (PSAA) to assist with the appointment of an external auditor for the 2018-19 and subsequent accounts.

BACKGROUND

3. Under the Local Audit and Accountability Act 2014, the council is required to have an independent external audit of its financial statements, including those of the pension fund, that also provides some assurance that the council takes reasonable actions to secure economy, efficiency and effectiveness in its use of resources. Historically the external auditor has been appointed by the Audit Commission.
4. Following the passing of the Local Audit and Accountability Act 2014, the Audit Commission was finally abolished on 31 March 2015. Its key functions were transferred to other bodies, and in relation to auditor appointments, PSAA, an independent company limited by guarantee incorporated by the Local Government Association took on the role.
5. Ernst & Young LLP (EY) are our existing external auditors under a national contract previously let by the Audit Commission and now managed by PSAA under transitional arrangements. This means that EY will continue to be the council's auditor until the completion of the 2017-18 audit, and a new appointment will be need to be made by the council for 2018-19 and beyond.
6. By law an authority must make an appointment by the end of December prior to the year for which the audit is required, so the council will need to have found an auditor by 31December 2017.

7. The council, as a principal authority, needs to decide how its auditors will be appointed under the new requirements. The council may make its auditor appointment itself, or in conjunction with other bodies, it can take advantage of the national collective scheme currently being developed by PSAA.
8. If making the appointment itself, or in conjunction with other bodies, the council must consult and take into account the advice of its auditor panel on the selection and appointment of a local auditor. The constitution of the auditor panel is set out in Schedule 4 of the Local Audit and Accountability Act 2014, which states that it must consist of a majority of independent members (or wholly of independent members), and it must be chaired by an independent member.
9. The schedule also sets out the very strict definitions of “independent”, which includes that the panel member cannot have been a member or officer of the council, or any other authority or entity with which the council is connected, for the previous five years.
10. In July 2016, the Secretary of State for Communities and Local Government confirmed that Public Sector Audit Appointments Limited (PSAA) has been specified as an appointing person under the provisions of the Local Audit and Accountability Act 2014 and the Local Audit (Appointing Person) Regulations 2015. This means that PSAA will make auditor appointments to relevant principal local government bodies that choose to opt into the national appointment arrangements we are developing, for audits of the accounts from 2018/19.
11. Although the date by which principal local government bodies will need to opt into the appointing person arrangement is not yet finalised, it is anticipated that invitations to opt in will be issued before December 2016.

STRATEGIC CONTEXT

12. The external audit of the council, including the pension fund, represents a significant element of the council's overall corporate governance. It provides assurance that the council has implemented appropriate financial control systems and that the council's accounting records are kept up to date. It also provides assurance that:
 - the statement of accounts has been prepared in accordance with relevant legislation;
 - that proper practices have been observed in the preparation of the statement of accounts, and that the statement presents a true and fair view; and
 - that the council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

FINANCIAL / BUDGET IMPLICATIONS

13. The fees for the 2015-16 external audit of the council's accounts (including those of the pension fund) is as follows:

	2015-16
	£
Isle of Wight Council	125,543
Harbours	2,511
Certification of claims and returns	14,711
	<u>142,765</u>
Isle of Wight Council Pension Fund	<u>21,085</u>

14. The fee for the pension fund audit is met by the pension fund, and does not have any impact on the council's general fund.

LEGAL IMPLICATIONS

15. The section 151 officer is required by the Local Government Act 1972 and by the Accounts and Audit Regulations 2015 to ensure that the council's budgeting, financial management, and accounting practices meet the relevant statutory and professional requirements. Members must have regard to and be aware of the wider duties placed on the council by various statutes governing the conduct of its financial affairs.
16. The Local Audit and Accountability Act 2014 requires that the council must appoint a local auditor to audit its accounts for a financial year not later than 31 December in the preceding financial year

EQUALITY AND DIVERSITY

17. The council has a legal duty under the Equality Act 2010 to seek to eliminate discrimination, victimisation and harassment in relation to age, disability, gender re-assignment, pregnancy and maternity, race, religion, sex, sexual orientation and marriage and civil partnership.
18. Initial screening has indicated that there are no direct equality implications arising from implementing this decision.

OPTIONS

19. Option 1: that the council establishes its own independent auditor panel. The panel must be made up of a majority or of wholly independent members and must be chaired by an independent member.
20. Option 2: that the council undertakes a joint procurement exercise with a group of other local authorities.
21. Option 3: that the council opts-in to an approved collective procurement arrangement through Public Sector Audit Appointments Ltd (PSAA), a sector led body acting for the sector as a whole.
22. Option 4: do not appoint an auditor.

23. For options 2 or 3, ministerial approval is required for bodies (sector wide or for smaller groups) to be given the power to appoint auditors.

EVALUATION

24. Under option 1, if the council was to establish its own independent auditor panel and undertake its own local auditor appointment, there is more likelihood that the auditor would reflect local requirements. Appointing the auditor locally would also give the council more control over the process and give it influence over the audit fee.
25. However, it is felt that these advantages are outweighed by the need to establish an auditor panel (as described in paragraphs 8 and 9 above), a time consuming and relatively costly procurement exercise, no economies of scale and limited purchasing power. At this time the costs of establishing an independent auditor panel and the costs of the procurement exercise are unknown.
26. Under option 2, undertaking a joint procurement exercise with a group of other local authorities, possibly neighbouring authorities, again there is more likelihood that the auditor would reflect local requirements. Procurement costs would be shared, although at this stage it is not possible to establish the magnitude of these costs. The council would have some control over the process and an opportunity to influence the level of fees.
27. Again it is felt that these advantages are outweighed by the need for an auditor panel (as described in paragraphs 8 and 9 above) to be established by the council or jointly with another body in the joint arrangement, and additional time for planning and collaboration with other audited bodies would be required. There would also be additional time required for obtaining ministerial approval for the authorities within the joint arrangement to be given the power to appoint auditors.
28. Under option 3, opting into an arrangement for PSAA to appoint the council's auditor has the following advantages:
- Purchasing power to negotiate audit fees with accountancy firms.
 - Savings on the cost of an invitation to tender exercise and on the costs of bid appraisal, contract specification and negotiation.
 - Economies of scale to be achieved from collective procurement, enabling the firms to plan and resource audits more efficiently and effectively.
 - Quality monitoring and other information sharing across contracts (subject to protections over confidentiality).
 - Oversight of wider services e.g. data collection and certification schemes.
 - Resolution of sector wide issues such as the possible need to indemnify auditors for legal costs of defending claims in respect of the exercise of statutory powers.
 - Sensible distribution of audit appointments taking in to consideration joint working between individual councils and other public bodies such as NHS trusts, managing rotations where conflicts of interest arise.
29. As noted in paragraph 10 above, the Secretary of State for Communities and Local Government has already confirmed that Public Sector Audit Appointments Limited (PSAA) has been specified as such an appointing person for option 3.

30. Option 4, effectively doing nothing at this time, is not a true option. Should the council fail to appoint a local auditor in accordance with the Local Audit and Accountability Act 2014, it must notify the Secretary of State, who may then either direct the council to appoint a specific auditor or may appoint an auditor on behalf of the council. Should this happen, then there is a good likelihood that the auditor would not reflect local requirements, and the council would have very little influence over the level of fees charged.

RECOMMENDATION

31. That the council opts-in to an approved collective procurement arrangement through Public Sector Audit Appointments Ltd (PSAA), a sector led body acting for the sector as a whole.

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