



Report of: Corporate Director of Finance

| Meeting of | Date | Agenda Item | Ward(s) |
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| Audit Committee | 24 January 2017 | | ALL |

OPT IN TO THE NATIONAL SCHEME FOR AUDITOR APPOINTMENTS WITH PSAA AS THE 'APPOINTING PERSON'

1. SYNOPSIS

- 1.1 Islington is determined to achieve its vision of a "Fairer Islington". Significant amongst these is the achievement of sound financial management and confidence in this Council's financial future. This report sets out the proposals for appointing the external auditor to the Council for the 2018/19 accounts and beyond, as the current arrangements only cover up to and including 2017/18 audits.

2. RECOMMENDATIONS

- 2.1 To note the preferred option of the Council's acceptance of Public Sector Audit Appointments' (PSAA) invitation to 'opt in' to the sector led option for the appointment of external auditors for financial years commencing 1 April 2018

3. BACKGROUND

- 3.1 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. 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.
- 3.2 The auditors are currently 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. KMPG LLP was appointed as the

Council's external auditors. This current appointment will end with the completion of the 2017/18 audit.

- 3.3 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. Regulations made under the Act allow authorities to 'opt in' for their auditor to be appointed by an 'appointing person'.
- 3.4 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. PSAA is an independent, not-for-profit company limited by guarantee and established by the LGA.
- 3.5 PSAA is inviting the Council 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 Council's auditor.
- 3.6 The deadline for a response to the PSAA is 9 March 2017 and the decision is a matter reserved to Full Council.

4. OPTIONS AVAILABLE TO THE COUNCIL

- 4.1 As a result the Council has three options:
 - 1) To undertake a complete procurement process itself and appoint its own auditor, or
 - 2) Undertake a joint procurement with other bodies
 - 3) To opt into a national collective scheme that PSAA is developing.
- 4.2 The option to undertake an individual procurement provides the Council with the independence to select a supplier itself. However this will require the time and effort of having to undertake a procurement and appointment process. It will also involve specifying the service required, inviting tenders, evaluating tenders. In addition a single procurement will lack the buying power to significantly influence quality and price. There would also be a need to establish an independent auditor panel. In order to make a stand-alone appointment the auditor panel would need to be set up by the Council itself. 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 Council's external audit.
- 4.3 The option of a joint procurement with a small number of Councils is superseded by a national collective arrangement as a larger arrangement will attract better economies of scale and all the benefits of a joint or smaller procurement but on a greater scale. In addition many of our local neighbouring boroughs have also indicated their likely opt in to the PSAA collective arrangement and would thus not be inclined to join a smaller local joint procurement.

4.4 The option to take advantage of the national collective scheme is beneficial to the Council for a number of reasons. Although the Council loses some influence on the final outcome and will gain from:

- 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 requirements, 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 expected to be lower than an individual smaller scale local procurement;
- The overhead costs for managing the contracts will be minimised through a smaller number of large contracts across the sector;
- There will be no need for the Council to establish alternative appointment processes locally, including the need to set up and manage an 'auditor panel', see below; and
- A sustainable market for audit provision in the sector will be easier to ensure for the future.

5. IMPLICATIONS

Financial Implications

- 5.1 The proposed fees cannot be known until the procurement process has been completed, as the costs will depend on proposals from the audit firms. There is a risk that current external fees levels could increase when the current contracts end in 2018.
- 5.2 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.
- 5.3 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.

5.4 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 Council'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

Legal Implications

5.5 Section 7 of the Local Audit and Accountability Act 2014 requires a relevant Council to appoint a local auditor to audit its accounts for a financial year not later than 31 December in the preceding year. Section 8 governs the procedure for appointment including that the Council must consult and take account of the advice of its auditor panel on the selection and appointment of a local auditor. Section 8 provides that where a relevant Council is a local Council operating executive arrangements, the function of appointing a local auditor to audit its accounts is not the responsibility of an executive of the Council under those arrangements;

5.6 Section 12 makes provision for the failure to appoint a local auditor: the Council must immediately inform the Secretary of State, who may direct the Council to appoint the auditor named in the direction or appoint a local auditor on behalf of the Council.

5.7 Section 17 gives the Secretary of State the power to make regulations in relation to an 'appointing person' specified by the Secretary of State. This power has been exercised in the Local Audit (Appointing Person) Regulations 2015 (SI 192) and this gives the Secretary of State the ability to enable a Sector Led Body to become the appointing person. In July 2016 the Secretary of State specified PSAA as the appointing

Resident Impact Assessment

5.8 There are no direct equality implications.

7. CONCLUSION

7.1 The significant effort of all concerned in producing the statement of accounts and supporting the audit has been rewarded with a clean audit sign-off and an encouraging Annual Governance Report. The Audit Committee can be confident that the Council is well positioned to continue to report its financial activities and address the recommendations made by the auditors.

Background papers:

None



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| Signed by | | |
| | Corporate Director of Finance | Date |
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| Received by | | |
| | Head of Democratic Services | Date |

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