

## TRAFFORD COUNCIL

**Report to:** Accounts and Audit Committee  
**Date:** 7 February 2017  
**Report for:** Approval  
**Report of:** Chief Finance Officer

### Report Title

#### **Options for Appointment of External Auditor – Recommended Action**

### Summary

The Local Audit and Accountability Act 2014 at Section 7 states that a “relevant authority must appoint a local auditor to audit its accounts for a financial year not later than 31 December in the preceding financial year.” Current auditor contracts have been extended for 12 months, therefore, for Trafford Council, the appointment of an auditor must be completed by 31 December 2017 for the audit year 2018/19.

The Accounts and Audit Committee was provided with a report on options available in terms of the process for the future appointment of the external auditor at its meeting on 23 November 2016. This report provides the updated position on this issue and makes a recommendation as to the proposed approach.

### Recommendation

That the Accounts and Audit Committee recommends to Council that the future process for appointing the external auditor, to be completed by December 2017, is undertaken via the use of the Sector Led Body, Public Sector Audit Appointments Limited (PSAA).

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### **Background Papers:**

None

## **Options for Appointment of External Auditor – Recommended Action**

### **1. Introduction**

- 1.1 This report provides the Accounts and Audit Committee with a further update in respect of the review of options being considered for the future appointment of the Council's external auditors (to commence for an agreed period from the financial year 2018/19). Based on a review of each option, the report includes the proposed approach for the Accounts and Audit Committee to recommend to Full Council.

### **2. Background**

- 2.1 The Local Audit and Accountability Act 2014 brought the Audit Commission to a close, 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 for Communities and Local Government 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.
- 2.2 The current external auditor for Trafford Council is Grant Thornton, this appointment having been made under a contract which was originally let by the Audit Commission.
- 2.3 Following closure of the Audit Commission, the contract is currently managed by Public Sector Audit Appointments Limited (PSAA), the transitional body set up by the Local Government Association (LGA) with delegated authority from the Secretary of State for Communities and Local Government. When the current transitional arrangements come to an end on 31 March 2018 the Council will be able to move to a local appointment of its auditor. There are a number of routes by which this can be achieved, each with varying risks and opportunities.
- 2.4 Current audit fees are based on discounted rates offered by the firms in return for a substantial market share. When the contracts were last negotiated nationally by the Audit Commission they covered NHS and local government bodies and offered maximum economies of scale.
- 2.5 The scope of the audit will still be specified nationally by the National Audit Office (NAO) which is responsible for writing the Code of Audit Practice. All firms appointed to carry out the Council audit must follow these requirements.
- 2.6 Not all accounting 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. The registration process is in progress and so the number of eligible and interested firms is not known at this stage but it is reasonable to expect that the list may include the top 10 or 12 firms in the country, including the Council's current external auditor. It is unlikely that small local independent firms will meet the required eligibility criteria.

2.7 The procurement option chosen must be ratified by Full Council.

### **3. Options for Local Appointment of External Auditors**

3.1 As previously advised to the Accounts and Audit Committee, there are three broad options open to the Council under the Act and new appointments for auditors need to be made by December 2017 regardless of which option is chosen. The options are set out below, together where applicable with comments in respect of respective strengths and risks of respective approaches.

#### **Option 1: Make a stand-alone appointment**

3.2 To make a stand-alone appointment, the Council will need to establish an independent Auditor Panel (See section 4). The Panel must be made up of a majority of independent members as defined by the Act. Independent members for this purpose are independent appointees – for the Council this excludes all current and former elected members (or officers) and their close families and friends. This means that elected members will not have a majority input into the process for the assessment and appointment of the firm of accountants to provide the Council external audit. A newly established and independent Auditor Panel would be responsible for selecting the auditor.

3.3 This option allows the Council to have local input to the decision; however, recruitment and servicing of the Auditor Panel, running the bidding exercise and negotiating the contract is estimated by the LGA to cost in the order of £15,000 plus ongoing expenses and allowances throughout the life of the contract. In addition the Council would not benefit from reduced fees that may be available through joint or national procurement contracts.

#### **Option 2: Local joint procurement arrangements**

3.4 The Act enables the Council to join with other authorities to establish a joint independent Auditor Panel which would need to be constituted and made up of a majority, or of wholly independent members.

3.5 Greater Manchester Treasurers (representing the ten GM Councils, GMCA, TfGM, GMPCC, GMP, GMFRS and GM Waste) have worked together to consider the possibility of such an approach for GM authorities. It was initially thought this might be a suitable approach given the level of collaboration, joint working and similar core functions within the organisations. At present, eight of the ten GM councils are audited by Grant Thornton and two are audited by KPMG.

3.6 There would still be a requirement to set up an Auditor panel, run the bidding exercise and negotiate the contract plus maintain the arrangement over the life of the contract although costs would be lower as shared across a number of authorities. As referred to in section 4, there would still also be a requirement that the Auditor Panel consists of a majority of independent members i.e. independent of all the participating organisations.

3.7 A key risk for this option is that accountancy and audit firms may decline to bid for a package of GM external audit work due to independence issues. Any firm that was successful would be unable to undertake any advisory work within Greater Manchester, as to do so would be in contravention of professional standards, independence safeguards and terms of appointment established by the PSAA. There are therefore likely to be a limited number of bidders if this option was chosen and the price obtained is likely to be less competitive. The GM authorities have also been advised that any firm that has any connection to an Elected Member within GM (e.g. an elected Member who worked for that firm) would also be unable to bid for the work.

### **Option 3: Opt-in to a sector led body**

3.8 In response to the consultation on the new arrangement, the LGA successfully lobbied for councils to be able to 'opt-in' to a Sector Led Body (SLB) appointed by the Secretary of State under the Act. This body had been confirmed as Public Sector Audit Appointments Limited (PSAA). PSAA will have the ability to negotiate contracts with the firms nationally, maximising the opportunities for the most economic and efficient approach to procurement of external audit on behalf of the whole sector.

3.9 Under this approach, the costs of setting up the appointment arrangements and negotiating fees would be shared across all opt-in authorities and by offering large contract values the firms would be able to offer better rates and lower fees than are likely to result from local negotiation. Any conflicts at individual authorities would be managed by PSAA who would have a number of contracted firms to call upon.

3.10 The appointment process would not be ceded to locally appointed independent members but by a separate body set up to act in the collective interests of the 'opt-in' authorities.

3.11 This approach would result in better value than the other options without the need to convene a local auditor panel.

3.12 In considering this option, GM Treasurers sought assurance from the PSAA that Social Value factors would be taken into account as part of the procurement process. Following discussions, although the level of weighting was not as high as hoped by the GM Authorities, it was agreed by PSAA that Social Value would be included as a specific measure within the tender process (The weightings within the tender evaluation model are expected to be as follows: Audit Quality 45%, Social Value 5% and Price 50%).

3.13 In order to take up this option, Trafford Council would have to "opt in" by 9<sup>th</sup> March 2017.

## **4. Auditor Panel**

4.1 If selecting options 1 or 2, there will be a requirement to establish an independent Auditor Panel, either specifically for the Council or in collaboration with partners. The Auditor Panel role is different to that of the Audit Committee. Its functions are to advise the Authority on:

- Selection and appointment of the auditor
- Resignation or proposals to remove the auditor
- Adoption of a policy on non-audit services
- Maintenance of independent relationship with the auditor
- Any proposals to enter into limited liability agreements.

4.2 A key challenge for the Auditor Panel is to ensure appropriate appointments that meet the requirements of the Act. It is required that the Panel have at least three members but the majority, including the Chair, should be independent of the Council (and all participating authorities if a joint auditor panel was set up). It is permissible for Council elected members to be represented on the panel, but the majority of members and Chair are required to be independent. The definition of independence in the Act and supporting CIPFA guidance is explicit and allows little option other than through the advertisement and appointment of specific, external, independent members. Panel members will also be required to have the requisite skills and experience, which may not be readily identifiable or available given the specialist nature of the external audit contract and procurement processes.

4.3 The issues above would not apply if option 3 were selected.

## **5. Recommended Approach**

5.1 The Chief Finance Officer has liaised with her counterparts in the other nine GM Councils, GMCA, TfGM, GMPCC, GMP, GMFRS and GM Waste to review the various options. Given the factors taken into account above, it is concluded that Option 3 (Sector Led appointment) should be the recommendation to the Council to progress the appointment of the external auditors. This is also seen as the favoured approach across GM Authorities.

## **6. Next Steps**

6.1 The Council has until December 2017 to make an appointment. In practical terms this means one of the options outlined in this report will need to be in place by Spring 2017 in order that the contract negotiation process can be carried out during 2017.

6.2 The Council will then need to take action to implement new arrangements for the appointment of external auditors from April 2018.

## **Recommendation**

The Accounts and Audit Committee is asked to recommend to Full Council that Option 3 is selected i.e. the Council opts in to the national arrangement with PSAA for the appointment of the external auditors. In order to meet the 9<sup>th</sup> March 2017 deadline a decision to take option 3 needs to be taken at the February 2017 Council Meeting.