

Report to: **Audit Committee**  
Date: **24 March 2016**  
Title: **APPOINTMENT OF EXTERNAL AUDITORS**  
Portfolio Area: **Support Services**

Wards Affected: **All**

Relevant Scrutiny Committee: Overview and Scrutiny Panel

Urgent Decision: **N** Approval and clearance obtained: **Y**

Date next steps can be taken:  
(e.g. referral on of recommendation or implementation of substantive decision)

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**Recommendations:**

- 1. Audit Committee Members note the implications of the Local Audit & Accountability Act 2014 and the requirement for the Council to appoint a local auditor by 31 December 2017.**
- 2. A decision will be required as to whether South Hams either opts in to a sector-led body or decides to appoint its own local auditor (and if so, which further option is then selected).**

**1 Executive summary**

- 1.1 The purpose of this report is to advise the Audit Committee of the requirement for the Council to appoint its external auditor from 2018/19, the necessary steps which need to be taken to meet this deadline, and the various options available.
- 1.2 South Hams District Council needs to appoint an external auditor from 2018/19. The Local Audit and Accountability Act 2014 sets out the specific process which



needs to be followed and, in order to be compliant, the Audit Committee need to commence the decision making process.

- 1.3 A decision will be required as to whether South Hams either opts in to a sector-led body or decides to appoint it's own a local auditor (and if so, which further option is then selected).

## **2. Background**

- 2.1 The Local Audit & Accountability Act 2014 (the Act) abolished the Audit Commission, paving the way for local authorities to appoint their own external (local) auditors.
- 2.2 The Secretary of State for Communities and Local Government (CLG) has decided to implement a phased introduction of the new local audit framework, with all health bodies and smaller local government bodies moving to the new framework as planned on 1 April 2017 and larger local government bodies (e.g. South Hams District) a year later, on 1 April 2018.
- 2.3 The Council's current external auditor is KPMG, this appointment having been made under a contract let by the Audit Commission. 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 CLG. Over recent years we have benefited from reduction in fees compared with historic levels. This has been the result of a combination of factors including new contracts negotiated nationally with the firms of accountants and savings from closure of the Audit Commission.
- 2.4. When the current transitional arrangements come to an end on 31 March 2018 the Council will be able to move to locally appointing an auditor. There are a number of routes by which this can be achieved, each with varying risks and opportunities.
- 2.5. 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 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 has not yet commenced and so the number of firms is not known but it is reasonable to expect that the list of eligible firms may include the top 10 or 12 firms in the country, including our current auditor. It is unlikely that small local independent firms will meet the eligibility criteria.
- 2.6 South Hams must have appointed a local auditor by 31 December 2017. The phased implementation has been designed to enable audit firms to plan their workloads and retain suitably qualified staff, provide auditor stability for principal authorities for the 2017/18 audit period, and enable the sector to make timely arrangements for procurement under the new framework.



- 2.7 The Secretary of State has established regulations to determine “an appointing person” to conduct a sector-led exercise and the Local Government Association (LGA) are working on developing a Sector Led Body (SLB). In a recent survey, 58% of respondents expressed an interest in this option, and it is expected that economies of scale will come from a number of councils acting collectively and opting-in to a SLB.
- 2.8 If the Council wishes to make its own appointment then the process requires an **Audit Panel** to be set up and advise the Council on the selection of the local auditor. The final deadline for appointment is 31<sup>st</sup> December 2017; to comply with procurement processes, and the need to appoint independent members to the Panel required beforehand, South Hams will probably have to start making arrangements for an audit panel in summer/autumn 2016.
- 2.9 The Council will need to decide whether to opt into a sector led procurement exercise or undertake its own procurement exercise through an auditor panel. Until details of the sector-led exercise are published then a full assessment of the merits of each approach will not be possible. However, in broad terms, the advantage to the Council of opting in will be a saving in the cost of conducting its own procurement exercise. The disadvantage will be loss of control over the process, including the final decision on appointment.

### **3. Outcomes / outputs**

- 3.1 The Audit Committee will need to decide whether to :-
- opt in to a sector led body that may be established as an appointing body for local auditors, and would not therefore need to establish its own auditor panel; or
  - to begin to consider the setting up of an auditor panel as soon as possible to allow the Council to have the necessary arrangements in place to undertake this process.
- 3.2 In relation to the auditor panel, there are four main options available to authorities:
- individually;
  - jointly with another authority or authorities;
  - using another authority’s own auditor panel; or
  - using an existing committee or sub-committee to carry out the role.
- 3.3 These options, and the possible advantages / disadvantages are set out in Appendix A attached.

### **4. Options available and consideration of risk**

- 4.1 Appendix A sets out a summary note of the advantages and disadvantages of the various options.
- 4.2 Appendix B is the guidance issued by CIPFA’s in relation to Auditor Panels.



## 5. Proposed Way Forward

- 5.1 Audit Members are requested to agree to consider the implications of the various options and schedule Committee time between April and September 2017 to discuss and recommend the most appropriate way forward for South Hams District Council.

## 6. Implications

Implications	Relevant to proposals Y/N	Details and proposed measures to address
Legal/Governance		<p>Section 7 of the Local Audit and Accountability Act 2014 (the Act) requires a relevant authority 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 authority 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 authority is a local authority operating executive arrangements, the function of appointing a local auditor to audit its accounts is not the responsibility of an executive of the authority under those arrangements;</p> <p>Section 12 makes provision for the failure to appoint a local auditor: the authority must immediately inform the Secretary of State, who may direct the authority to appoint the auditor named in the direction or appoint a local auditor on behalf of the authority.</p> <p>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.</p>
Financial		<p>It is expected that costs associated with the changes referred to in this paper will be broadly in line with this annual cost, although there is a risk that fee levels could increase when the current contracts end in 2018</p>
Risk		<p>The external auditor provides members with assurance on the Financial Statements.</p> <p>Getting the right auditor to meet our needs is essential in promoting good governance and</p>



		control.
Comprehensive Impact Assessment Implications		
Equality and Diversity		None
Safeguarding		None
Community Safety, Crime and Disorder		None
Health, Safety and Wellbeing		None
Other implications		None.

**Supporting Information**

**Appendices:**

None

**Background Papers:**

None



### **Briefing Note - Auditor Panel Issues and Requirements.**

The local auditor (external auditor) will need to be appointed by December 2017, to undertake the audit of accounts for 2018/19 financial year.

An authority could decide to opt into a sector-led body that may be established as an appointing body for local auditors and, if so, would not need to establish an auditor panel. The possible benefits of this option is that the cost of procuring new auditors would be shared across those authorities who decide to opt in and with larger contract values, firms may offer lower fees.

However, if the organisation decides that it wishes to appoint a local auditor, then an Auditor Panel will need to be established.

If this decision is taken, the Council needs to determine whether:-

- a. to set up its own panel
- b. set up a panel with one or more authorities
- c. use an existing committee or sub-committee to act as auditor panel
- d. ask another authority's auditor panel to carry out this function

Dependent on the option, the Audit Committee will need to decide:-

1. The composition of the Panel.

The minimum number will be three members, of which at least two must be considered independent. Panels need not be large. The focus is on quality of member panel. The challenge will be to achieve the required depth of knowledge and experience. The Chair of the Auditor Panel must be independent of the Authority.

In the case of joint Panels, any number can join but it may be that constituent authorities will want to appoint their own independent Members and this will increase the size of the Panel.

Arrangements will be necessary to address incidental vacancies in panel membership. Meetings will need to be quorate and where the chair cannot attend meetings, another independent member will have to take on that role.

2. Appointment of Independent Chair and Members

The skills and knowledge for the Panel's post will require a job description and relevant recruitment process for appointment via normal advertising arrangements.

3. Terms of Office

The tenure of Chair and Members will have to be determined, balancing continuity and development of knowledge base against developing new ideas and fresh approaches.

Once the above are determined, there will be a need to ensure :-

1. Independence

Appointees to the Auditor Panel will have to ensure independence by having none of the following :-

- a. previous involvement within the last five years as a member or officer with the authority or another, connected authority or an officer or employee of a connected entity



- b. a relationship (familial or friendship) with a member or officer of the authority or a connected authority or with an officer or employee of a connected entity
- c. a contractual (commercial) relationship with the authority – either as an individual or via a body in which the panel member has a ‘beneficial interest’, and
- d. a possible conflict of interest through being a prospective or current auditor of the authority or, within the previous five years, is or has been: an employee of such a person
- e. partner in a firm, or
- f. director of a body corporate

which is a prospective or current auditor of the authority at the given time.

2. Panel Training

Will be required to maintain up-to-date knowledge. Panel members will need to commit to training and development on appointment.

3. Governance

The Panel will require officer support, in line with Committee arrangements. In addition, procedures for member resignation or removal will need to be in place, plus the capacity to pay expenses (and allowances?) to members.

The functions of the Auditor Panel will be to advise the Council on :-

- i. the selection and appointment of the auditor
- ii. whether the authority should adopt a policy on obtaining non-audit services from the auditor, including the contents of such a policy
- iii. any proposal by the authority to enter into a liability limitation agreement
- iv. maintaining an independent relationship with its auditor
- v. the outcome of any investigation of an auditor’s resignation from office, if this occurs, or on any proposal to remove a local auditor from office.

The Panel will be able to call any Council Member or Officer to a meeting. It will monitor the Auditor contract and have a close working relationship with the Audit Committee. There will be areas of overlap between the Audit Committee and Auditor Panel’s duties, including :-

- a. The quality and effectiveness monitoring role undertaken by the audit committee which will feed into the panel’s contract monitoring.
- b. The audit committee should be able to express an opinion on the selection and rotation of the auditor.
- c. The audit committee reviews the authority’s policy on non-audit work carried out by external audit whereas the auditor panel has to advise the authority on the contents of any non-audit work policy and whether the authority should adopt such a policy.

If the Council decides not to take the advice of the Auditor Panel, it will be required to publish the basis of its decision in a format available to the majority of residents.

The Panel will have extensive involvement in the procurement process for the appointment of the local auditor and might be involved in their removal, although clearly this would only be in exceptional cases.

The Panel has a statutory duty to give advice to the Council, if we propose to enter into a limited liability agreement with the local auditor. Such agreements seek to limit the liability owed to the Council, as a result of negligence, default, breach of duty or trust, during the course of the audit. Panels may need relevant training in this area. Additionally, Panels should be seen to receive any public interest reports produced by the local auditor and should take these into account when advising the Council on its relationship with the auditor.



### Advantages and Disadvantages of Audit Panel Options

Option	Possible Advantages	Possible Disadvantages
Set up own panel	<ul style="list-style-type: none"> <li>• Full ownership of the process</li> <li>• Fully bespoke contract with the auditor</li> <li>• Tendering process more based on local circumstances (within EU procurement rules)</li> </ul>	<ul style="list-style-type: none"> <li>• May experience difficulties in appointing majority independent panel members and independent panel chair as per the regulations</li> <li>• Will need to ensure that panel members are suitably qualified to understand and participate in the panel's functions</li> <li>• Will have to cover panel expenses completely</li> <li>• May not be able to procure at a lower cost, for example, depending on authority location, where there will be a risk of limited provider choice and a single authority contract may be less attractive to some providers</li> <li>• Will not achieve economies of scale</li> </ul>
Set up a panel with one or more authorities	<ul style="list-style-type: none"> <li>• Less administration than a sole auditor panel</li> <li>• Will be able to share the administration expenses</li> <li>• May be easier to attract suitable panel members</li> </ul> <p>If procuring a joint audit contract:</p> <ul style="list-style-type: none"> <li>• May still be a relatively locally tailored process</li> <li>• May be able to achieve some economies of scale</li> </ul> <p>If procuring separate audit contracts:</p> <ul style="list-style-type: none"> <li>• An opportunity for fully bespoke contracts with the auditor if the group of authorities can agree</li> </ul>	<p>If procuring a joint audit contract:</p> <ul style="list-style-type: none"> <li>• May need to compromise on the arrangements or auditor contract</li> <li>• May not end up with first choice of auditor, compared to an individual auditor panel. If a large group of authorities work together and decide to appoint one joint audit contract across all the authorities, a joint panel may be more likely to advise appointment of an auditor it considers suitable for all authorities taken together</li> <li>• Need to agree appointment of members across multiple authorities and set up an appropriate joint decision-making process</li> </ul>





<p>Use an existing committee or sub-committee</p>	<ul style="list-style-type: none"> <li>• Existing administrative structure in place</li> <li>• Existing (sub)committee should already have a better basic understanding of the authority's objectives and requirements</li> </ul>	<ul style="list-style-type: none"> <li>• Possible need to appoint new (sub) committee members to comply with independence regulations</li> </ul>
<p>Use another authority's panel</p>	<ul style="list-style-type: none"> <li>• Will not have to set up an auditor panel</li> <li>• Arguably most independent option for the authority using the host authority's panel</li> </ul>	<ul style="list-style-type: none"> <li>• The panel may not understand the specific needs of the authority</li> <li>• May need to enter into a formal arrangement with the other authority</li> <li>• May be difficult to find an authority willing to enter into such an arrangement</li> <li>• May be more difficult to ensure adequate liaison with authority's own audit committee (if one exists)</li> </ul>



**CIPFA – Auditor Panels Guidance**



CIPFA Auditor Panel  
guidance.pdf

