

By: Robert Patterson – Head of Internal Audit

To: Governance and Audit Committee – 27<sup>th</sup> January 2016

Subject: **Future Appointment of External Auditors**

Classification: Unrestricted

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**Summary:** This report details the changes to the arrangements for appointing External Auditors at the conclusion of the 2017/18 audits, following the closure of the Audit Commission and the end of the transitional arrangements.

## **FOR INFORMATION**

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### **1. Introduction and background**

- 1.1. Prior to its closure on 31<sup>st</sup> March 2015, the Audit Commission was responsible for appointing external auditors for all local public bodies, including Local Authorities. Between 31<sup>st</sup> March 2015 and 31<sup>st</sup> March 2017 transitional arrangements were put in place and Public Sector Audit Appointments Limited (an independent company established by the Local Government Association) is responsible for setting fees and appointing auditors under existing contracts. This has been extended by a further year, meaning the current arrangements come to an end on 31<sup>st</sup> March 2018.
- 1.2. The Council needs to have appointed an external auditor for the 2018/19 financial year by 31<sup>st</sup> December 2017.
- 1.3. In line with legislation local authorities must set up, consult and take into account the advice of an independent auditor panel on the selection and appointment, before an external auditor is appointed. Therefore the auditor panel will need to be in place by April 2017 to ensure they are involved in negotiations during 2017.
- 1.4. The current cost to the Council for its External Audit service is £155,925 for 2015/16. This service is provided by Grant Thornton within the same tranche as the ten Kent District Councils, the Kent Pension Fund and Kent Fire.
- 1.5. Outcomes from external audit are highly regulated and prescribed.
- 1.6. It should be noted that the External Auditor would have to be one with no issues of independence, i.e. one who has not offered any consultancy or advisory work to any of the authorities involved and this might lead to reduced options during the procurement process.

### **2. Options available**

- 2.1. There are three options available to the Council, as detailed in the Local Audit and Accountability Act 2014 Schedule 4. This is shown diagrammatically in Appendix 1.

### **Option 1 KCC could establish its own independent auditor panel**

2.2. The Council could set up its own Auditor Panel. This would need to consist of a majority or even entirely of independent members. The definition of independent members of the Audit Panel as defined by the Local Audit and Accountability Act 2014 is someone who had 'not been a member or officer of the Council within the period of five years ending with that time'.

2.2. This could be done in three ways:

- Use an Auditor Panel which is already in place.
- Use a committee within KCC that is not designated as an 'audit panel' but which agrees to act as one and complies with the requirements of the Local Audit and Accountability Act.

2.3. This would enable KCC to have local input to the decision of an appointment. However, this would be a costly exercise in terms of recruitment and maintaining the Auditor Panel, and it is not evident whether there would be a sufficient availability of independent members. It would also mean no option for KCC to take advantage of possible savings through economies of scale in a larger joint procurement process.

### **Option 2 KCC could join with other local authorities to set up a joint independent auditor panel**

2.4. The Act enables KCC to join with other authorities to establish a joint auditor panel, which would also need to be compiled of wholly or a majority of independent members and the options available are:

- Establish/procure a joint auditor panel collaborating with other Local Authorities.
- Ask another local authority's auditor panel to also act as KCC auditor's panel. The panel must agree and must comply with all the requirements of the Local Audit and Accountability Act.

2.5. This has the advantage of spreading the cost across a number of local authorities and may also result in a more substantive contract with a greater ability to negotiate a lower cost with audit providers. Clearly this does reduce the input for KCC in the auditor panel as it would have to share appointments/nominations.

2.6. A Kent-wide procurement process has clear advantages in relation to the geography of the contract and awareness of current local issues and circumstances. A larger procurement arrangement also reduces the risk of a lack of competition in the procurement process.

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

2.7. The third option would be to opt-in to a sector led body that will negotiate contracts and make the appointments on behalf of councils, removing the need to set up an independent Auditor Panel. The LGA is currently investigating the feasibility of establishing a national sector led body.

2.8. This has the advantage of reducing the cost to the Council as it would not be necessary to set up or be involved in an independent Auditor Panel and depending on the participants the cost savings could be significant. A larger

procurement arrangement also reduces the risk of a lack of competition in the procurement process and takes advantage of central expertise. However it means that the Council has limited input in the appointment of the auditor and the geographical mix of contracts is uncertain depending on buy-in.

- 2.9. Despite the potential benefits of this option, it remains a concept rather than a firm proposal at this time.

### **3. Going forward**

- 3.1. The opportunity to link in other public sector bodies in Kent will be investigated further, including District Councils, Kent Pension Fund, Kent Fire, Kent Police and Medway Council. This 'partnership' could be used to follow options 2 or 3.
- 3.2. The results of this consultation will be fed back at a later meeting of the Governance and Audit Committee for a final procurement decision.

### **4. Recommendations**

Members are asked to note:

- The future implications for external audit procurement arrangements.

Members are invited to comment:

- On the options proposed and the potential benefits of joint procurement on a Kent-wide basis and/or in a sector-led body.

## **Appendices**

### ***Appendix 1 Decision Process Chart***

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## Appendix 1 Decision Process Chart

