

By: Robert Patterson – Head of Internal Audit

To: Governance and Audit Committee – 21st July 2016

Subject: **Future Appointment of External Auditors**

Classification: Unrestricted

Summary: This report provides an update on the proposed procurement arrangements for appointing External Auditors at the conclusion of the 2017/18 audits.

FOR INFORMATION

1. Introduction and background

- 1.1. Prior to its closure on 31st March 2015, the Audit Commission was responsible for appointing external auditors for all local public bodies, including Local Authorities. Transitional arrangements, whereby Public Sector Audit Appointments Ltd (a Local Government Association owned company) set fees and made appointments, will come to an end on 31st March 2018, by which time public bodies must have appointed their own external auditor.
- 1.2. Members will recall from the report to this Committee on 27th January 2016 that 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. The options are summarised below for ease.

Option 1 KCC could establish its own independent auditor panel

- 1.3. The Council could set up its own Auditor Panel. This would need to consist of a majority or even entirely of independent members who have not been a member or officer of the Council within the period of five years.
- 1.4. 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

- 1.5. 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 either by establishing a joint auditor panel or by asking another local authority's auditor panel to also act as KCC auditor panel.
- 1.6. 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 option is dependent upon the co-operation and partnership of a substantial number of Kent local authorities.

Option 3 Opt-in to a sector led body

- 1.7 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 Local Government Association (LGA) is proposing the Public Sector Audit Appointments Ltd (PSAA), the LGA owned company that has been making audit appointments during the transitional arrangements, could take on the role of the sector led body.
- 1.8 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.
- 1.9 Following discussion it was agreed at the meeting of this Committee on 27th January 2016 that either a joint panel or a sector led body was the preferred procurement option and that an update would be provided at the July meeting.

2 Update on the sector led body option

- 2.1 Discussions have taken place with other public sector bodies in Kent, including District Councils, Kent Pension Fund, Kent Fire, Kent Police and Medway Council. The general consensus appears to be in favour of opting into the sector led body proposed by the LGA.
- 2.2 Since April the LGA has invited authorities to informally express an interest in joining a sector led body in order to gauge the level of interest and feasibility of proceeding with this proposal.
- 2.3 To date, the LGA has received informal expressions of interest from over 200 authorities who are in favour of opting into the LGA sector led body. This includes all of the local authorities in Kent.
- 2.4 PSAA consequently submitted an application to the Department of Communities and Local Government (DCLG) on 2nd June 2016 to officially express an interest in being specified as a sector led body. The number of other applicants will determine the next stage of the process and the timescales for further action.
- 2.5 It is currently anticipated that a formal invitation to opt-in will be made to public sector bodies in September or October 2016. Kent County Council will therefore need to be in a position to respond to this formal invitation by that time.

3. Going Forward

- 3.1 Clearly the momentum across Kent is for opting into the PSAA sector led body. As such this makes all other options for procuring external auditors unviable or expensive.

3.2 Until the PSAA receive formal approval from the DCLG, details as to how this procurement will operate in practice remain vague. Clearly discussions will need to take place over;

- a) The procurement route and selection
- b) Lots and geographical spread
- c) Fees
- d) Detailed timetable

3.3 It is anticipated that these issues will be resolved by the autumn.

3.4 In relation to external audit procurement, the Local Audit (Appointing Person) Regulations 2015 provide that an authority can opt in to a sector led body by the “members of the authority meeting as a whole”. Therefore, despite the terms of reference of this Committee, the decision to opt into the PSAA sector led body will need to be ratified by the full Council.

Recommendations

Members are asked to resolve:

- That the preferred external audit procurement route is via the proposed PSAA sector led body.
- That should DCLG approve the application of PSAA to be specified as a sector led body and the issues in paragraph 3.2 being satisfactorily resolved, that this decision be ratified by the full Council in September 2016.

Appendices

Appendix 1 Decision Process Chart

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