

## For General Release

<b>REPORT TO:</b>	<b>GENERAL PURPOSES &amp; AUDIT COMMITTEE</b> <b>14 September 2016</b>
<b>AGENDA ITEM:</b>	<b>7</b>
<b>SUBJECT:</b>	<b>Appointment of External Auditors</b>
<b>LEAD OFFICER:</b>	<b>Simon Maddocks, Head of Governance</b>
<b>CABINET MEMBER:</b>	<b>Councillor Simon Hall</b> <b>Cabinet Member for Finance and Treasury</b>
<b>WARDS:</b>	<b>ALL</b>
<b>CORPORATE PRIORITY/POLICY CONTEXT:</b> High quality independent audit is one of the cornerstones of public accountability. It gives assurance that taxpayers' money has been well managed and properly expended. It helps to inspire trust and confidence in the organisations and people responsible for managing public money.	
<b>FINANCIAL IMPACT</b> <b>The External Audit plan of work in relation to the 2015/16 year is currently estimated to cost £233,000 and appropriate provision has been made within the budget for 2016/17.</b>	

### 1. RECOMMENDATIONS

- 1.1 The Committee is asked to recommend to Full Council that the external auditor for the Council and for the pension fund should be appointed by Public Sector Audit Appointments Ltd (PSAA), which is a subsidiary of the Improvement and Development Agency (IDeA) which is wholly owned by the Local Government Association.

### 2. EXECUTIVE SUMMARY

- 2.1 Under the Local Audit and Accountability Act 2014, the Audit Commission, which had previously managed the appointment of external auditors for local government bodies and health trusts, was abolished and new responsibilities to manage their own appointment of local auditors given to those bodies. The Act also provides for the appointment by the secretary of state of a 'sector led body' to be an appointing person. This body would provide the option of a managed appointment process for those who wished to select it. Public Sector Audit Appointments (PSAA) has now been approved by the DCLG to be a sector led body for principal authorities – councils, police and fire bodies.

2.2 The decision for the Council to appoint its own external auditors itself or to join the sector led approach must be made by Full Council and cannot be delegated.

### **3. DETAIL**

3.1 Prior to its final abolition in March 2015, external auditors for local authorities and NHS trusts were appointed by the Audit Commission. The auditor appointed for Croydon Council and for its pension fund was Grant Thornton and they remain as the external auditors. The current audit contracts were novated from the Audit Commission to PSAA on 1 April 2015. The contracts were due to expire following conclusion of the audits of 2016/17 accounts, but could be extended by PSAA, subject to DCLG amendment of the transitional provisions to extend the period in which the statutory functions are delegated to PSAA.

3.2 In October 2015, the Secretary of State confirmed that the transitional provisions would be amended to allow an extension of the contracts for a period of one year for audits of principal local government bodies to include the audit of 2017/18 accounts.

3.3 The appointment of the next external auditor for the Council and for the pension fund must be completed by 31<sup>st</sup> December 2017 and will be for up to 5 years. This can be achieved in two different ways. The choice of which route to take must be made by Full Council and cannot be delegated. The options, which are set out in more detail in sections 4 and 5 below, are:

- To establish an auditor panel to advise on appointment, with the final decision again being made by Full Council. Authorities can work collaboratively, sharing a panel if they choose.
- To follow a sector led approach by which an 'appointing person' operates a nationwide, EU compliant procurement and appoints on the Council's behalf. PSAA was specified as an appointing person by the Secretary of State in July 2016 for this purpose.

### **4. APPOINTMENT BY AN AUDITOR PANEL**

4.1 An Auditor Panel must have a majority of independent, non-elected members and must be chaired by an independent non-elected member. The rules about independence are very specific and must comply with The Local Audit (Auditor Panel Independence) Regulations 2014. The panel can be an existing committee or sub-committee of an existing committee provided that the membership criteria are met.

4.2 In view of the likely value of a contract for external audit provision a full EU procurement would be required which the panel would oversee. Following this, the committee would make a recommendation to Full Council which is the body that would make the final decision.

- 4.3 Once the external auditor is appointed the panel continues to have roles in monitoring the auditor's performance, ensuring the auditor's independence and in the event of any relationship problems with members or officers.
- 4.4 This route would give the Council more control over the appointment of its external auditor, but would require the setting up of an auditor panel and a resource for a major procurement exercise. In the event of a breakdown of the relationship or poor auditor performance, the Council would be faced with a re-procurement exercise.

## **5. APPOINTMENT BY THE SECTOR LED ROUTE**

- 5.1 In July 2016, PSAA was specified as a designated person for the purposes of making external audit appointments. They are the only body to be designated as such. As part of the transitional arrangements moving from the Audit Commission, PSAA has been managing the existing novated external audit contracts.
- 5.2 If Full Council decided to opt for this route, the Council would sign-up with PSAA to take part in the scheme. PSAA would then carry out the EU procurement on behalf of all councils and NHS trusts that have signed up with them and would then allocate external auditors, probably on a geographic basis as has happened in the past.
- 5.3 PSAA would then be the body that would support the external auditor's independence and would be involved if there were relationship problems. Monitoring the work of the external auditor would be undertaken by the General Purposes & Audit Committee as it currently is.
- 5.4 PSAA would be the contracting authority, so there would be no procurement by the Council. The fees paid for the audit service would include PSAA's costs. It is however a non-profit making organisation and if any surpluses were achieved these would be returned to the scheme members.
- 5.5 This route would be the most straightforward and least resource intensive. It would enable the achievement of more competitive prices because of the volume being procured. In the event of a breakdown of the relationship or poor auditor performance, PSAA would be able to replace the auditor with another that it has contracted with without the cost implications or interruption of service which might be experienced if the Council contracted with a single supplier via the route described in Section 4 above.

## **6. CONCLUSION**

- 6.1 For the reasons set out above, officers recommend that the sector led approach is the most appropriate option for the Council to follow and that the recommendation should be made to Full Council to approve a sector led approach and opt in to appointing person arrangements.

## **7. FINANCIAL CONSIDERATIONS**

- 7.1 The External Audit plan of work in relation to the 2015/16 year is currently estimated to cost £233,000 and appropriate provision has been made within the budget for 2016/17.

(Approved by Lisa Taylor, Assistant Director of Finance and Deputy S151 Officer)

## **8. COMMENTS OF THE COUNCIL SOLICITOR AND MONITORING OFFICER**

- 8.1 The Solicitor to the Council comments that the Local Audit and Accountability Act 2014 (“the Act”) places an obligation on the Council to have an external auditor in place. Section 7 read with Schedule 3 of the Local Audit and Accountability Act 2014 provide that where, as in Croydon, the authority is 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 and as such this is a function reserved to Full Council.
- 8.2 In addition, the Schedule to the Local Audit (Appointing Person) Regulations 2015, SI 2015/192 specifies that an authority that has opted in to appointing person arrangements, as is recommended in this report, does not require an auditor panel.

(Approved for and on behalf of Jacqueline Harris-Baker, Acting Council Solicitor and Acting Monitoring Officer)

## **9. HUMAN RESOURCES IMPACT**

- 9.1 There are no immediate human resources issues arising from this report for LBC staff

(Approved by: Jason Singh, Interim HR Business Partner on behalf of Heather Daley, Director of Human Resources)

## **10. EQUALITIES, ENVIRONMENTAL AND CRIME AND DISORDER REDUCTION IMPACTS**

- 10.1 There are no impacts on the issues above identified as arising from this report.

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**CONTACT OFFICER:** Simon Maddocks, Head of Governance

**BACKGROUND DOCUMENTS:** None