

REPORT TO: Audit and Corporate Governance Committee 30 September 2016
AUTHOR/S: Executive Director (Corporate Services) / Policy and Performance Manager

Appointing Person Arrangements for the Appointment of the External Auditor

Purpose

1. This report sets out the options available to the council regarding the adoption of an appointing person arrangement for the appointment of an external auditor for 2018/19 and later years.
2. This is not a key decision because does not have significant budgetary impact or impact communities within the Council area. However, by statute it requires a council decision.

Recommendations

3. To recommend to council the adoption of Public Sector Audit Appointments Ltd (PSAA) as the appointing person for the council, subject to receiving a satisfactory invitation to opt into the PSAA's appointing person arrangements.
4. To delegate acceptance of the invitation to the Executive Direct of Corporate Services, as the council's Section 151 Officer.

Reasons for recommendations

5. The adoption of the PSAA as the appointing person for the council meets statutory requirements, should ensure the quality and cost effectiveness of the external audit appointment and avoids the need to establish an auditor panel, with its attendant costs and administrative requirements.

Background

6. The Audit Commission closed in March 2015. The council's current auditor appointment was made under audit contracts previously let by the Audit Commission and now managed by PSAA under transitional arrangements. These audit contracts will end with the completion of the 2017/18 audit.
7. A new appointing person arrangement is required, so that the appointment of an external auditor for the accounts of 2018/19 and later years can be made.

Options for the appointing person arrangement

8. New appointments for the 2018/19 accounts must be made under the provisions of the Local Audit and Accountability Act 2014 and confirmed by 31 December 2017. There are three options available to the council for appointing an auditor. These are:
 - Option 1 - To undertake an individual auditor procurement and appointment exercise;
 - Option 2 - To undertake a joint audit procurement and appointing exercise with other bodies, those in the same locality for example; or

- Option 3 - To join a 'sector led body' arrangement where specified appointing person status has been achieved under the relevant Regulations.
9. For the first two options, the legislation requires an auditor panel to be established. Requirements include:
 - At least three members, two of which must be independent
 - A majority of independent members
 - An independent chairperson
 10. The council could set up its own auditor panel; set up a panel with one or more other authorities; use an existing committee or sub-committee, provided that the requirements above are met; or ask another authority's panel carry out the functions of an auditor panel on its behalf.
 11. Guidance on auditor panels has been issued by CIPFA for local government bodies. The guidance includes a table of advantages and disadvantages of the different ways an auditor panel could be set up. The table is reproduced at Appendix A for information.
 12. Option 3 requires the Secretary of State for Communities and Local Government to specify a person to appoint a local auditor to opted-in authorities (also known as a sector-led body).
 13. PSAA is an independent company limited by guarantee incorporated by the Local Government Association in August 2014. In July 2016, the Secretary of State for Communities and Local Government specified PSAA as an appointing person under regulation 3 of the Local Audit (Appointing Person) Regulations 2015. This means that PSAA can make auditor appointments for audits of the accounts from 2018/19 of principal authorities that choose to opt into its arrangements.
 14. More than 200 authorities have indicated their interest in the PSAA's scheme, which is currently being designed to reflect authorities' needs and views. The scheme will be an authorised national scheme which will take full responsibility for local auditor appointments and aim to ensure a high quality professional service and value for money.
 15. The PSAA intends that the scheme will save time and resources for councils and avoid the necessity to establish an auditor panel and manage their own auditor procurement. Assuming a high level of participation, the scheme should be able to attract the best audit suppliers and command competitive prices.
 16. Moreover, the scheme will aim to appoint the same auditors to bodies which are involved in formal collaborations and joint working initiatives. The council's shared service partners, South Cambridgeshire District Council and Huntingdonshire District Council have expressed interest in the scheme and are taking reports through their autumn committee cycles to enable them to accept the PSAA's opting-in invitation when received.
 17. Based on the information presented, option 3 is recommended.
 18. We expect that invitations to opt in will be issued before December 2016, with at least eight weeks being given in which to respond. The PSAA aim to award contracts to audit firms by June 2017, giving six months to consult on appointments with authorities before the 31 December 2017 deadline.
 19. The Local Audit (Appointing Person) Regulations 2015 require that the council may only make the decision to opt into the appointing person arrangement by the members of the

council meeting as a whole. This report therefore asks the Civic Affairs Committee to recommend to full Council that the PSAA's invitation is accepted.

Implications

20. In the writing of this report, taking into account financial, legal, staffing, risk management, equality and diversity, climate change, community safety and any other key issues, the following implications have been considered: -

Financial

21. These are addressed in the report. Additionally, acceptance the PSAA opt-in invitation will avoid the need to undertake a procurement exercise, while ensuring that the council's obligations are met.

Effect on Strategic Aims

Aim 1 – An innovative and dynamic organisation

22. Approval will enable the Council to put in place processes ensure that external auditors are appointed to take over from the current auditors once their contract ends. External auditors not only provide assurance over the Council's accounts, but also offer comment and advice on processes and value for money.

Background Papers

Where [the Local Authorities \(Executive Arrangements\) \(Meetings and Access to Information\) \(England\) Regulations 2012](#) require documents to be open to inspection by members of the public, they must be available for inspection: -

- (a) at all reasonable hours at the offices of South Cambridgeshire District Council;
- (b) on the Council's website; and
- (c) in the case of documents to be available for inspection pursuant to regulation 15, on payment of a reasonable fee required by the Council by the person seeking to inspect the documents at the offices of South Cambridgeshire District Council.

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APPENDIX A – ADVANTAGES AND DISADVANTAGES OF THE DIFFERENT WAYS AN AUDITOR PANEL COULD BE SET UP

Option	Possible advantages	Possible disadvantages
Set up own separate and individual panel to oversee separate and individual procurement	<ul style="list-style-type: none"> • Full ownership of the process • Fully bespoke contract with the auditor • Tendering process more based on local circumstances (within EU procurement rules) 	<ul style="list-style-type: none"> • May experience difficulties in appointing majority independent panel members and independent panel chair • Will need to ensure that panel members are suitably qualified to understand and participate in the panel's functions • Will have to cover panel expenses completely • May not be able to procure at a lower cost, eg depending on authority location, risk of limited provider choice and a single authority contract may be less attractive to some providers • Will not achieve economies of scale
Set up a panel jointly with other authority / authorities as part of a procurement exercise for joint contract covering more than one authority or multiple separate contracts	<ul style="list-style-type: none"> • Less administration than a sole auditor panel • Will be able to share administration expenses • May be easier to attract suitable panel members <p>If procuring a joint audit contract:</p> <ul style="list-style-type: none"> • May still be a relatively tailored process • May be able to achieve some economies of scale <p>If procuring separate audit contracts:</p> <ul style="list-style-type: none"> • An opportunity for fully bespoke contracts with the auditor if the group of authorities can agree 	<p>If procuring a joint audit contract:</p> <ul style="list-style-type: none"> • May need to compromise on arrangements or auditor contract • 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 authorities, a joint panel may be more likely to advise appointment of an auditor it considers suitable for all authorities taken together • Need to agree appointment of members across multiple authorities and set up a joint decision-making process
Use existing committee or sub-committee	<ul style="list-style-type: none"> • Existing administrative structure in place • Existing (sub) committee should already have a better basic understanding of the authority's objectives and requirements 	<ul style="list-style-type: none"> • Possible need to appoint new (sub) committee members to comply with independence regulations
Use another authority's panel	<ul style="list-style-type: none"> • Will not have to set up an auditor panel • Arguably most independent options for the authority using the host authority's panel 	<ul style="list-style-type: none"> • The panel may not understand the specific needs of the authority • May need a formal arrangement with the other authority • May be difficult to find an authority willing to enter into such an arrangement • May be more difficult to ensure adequate liaison with authority's own audit committee