

**READING BOROUGH COUNCIL
REPORT BY HEAD OF FINANCE**

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| TO: | AUDIT & GOVERNANCE COMMITTEE | | |
| DATE: | 19 APRIL 2016 | AGENDA ITEM: | 7 |
| TITLE: | EXTERNAL AUDIT ARRANGEMENTS AFTER 2017/18 | | |
| RESPONSIBLE COUNCILLOR: | COUNCILLOR STEVENS | PORTFOLIO: | CHAIR OF AUDIT & GOVERNANCE |
| SERVICE: | ALL | WARDS: | BOROUGHWIDE |
| LEAD OFFICER: | ALAN CROSS | TEL: | 0118 9372058 |
| JOB TITLE: | HEAD OF FINANCE | E-MAIL: | Alan.Cross@reading.gov.uk |

1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1 This report explains the latest position in relationship to the requirement in the Local Audit & Accountability Act 2014 for the Council to eventually appoint its own auditor.
- 1.2 The report makes an initial non binding recommendation that we should pursue a method of doing this that minimises the work involved locally and is likely to ensure the Council gets the best price for its independent external audit.

2. RECOMMENDED ACTION

- 2.1 That the committee supports in principle the proposal that we ask Public Sector Appointments Ltd to assist with the appointment of an external auditor for the 2018/19 and subsequent accounts.

3. POLICY CONTEXT

The Council is required to have an independent external audit of its finances, that also provides some assurance that the Council takes reasonable actions to achieve value for public money. As historically the external auditor has been appointed by the Audit Commission the Council has not developed any local policy position in relation to the audit appointment.

4. THE PROPOSAL

- 4.1 Following the passing of the Local Audit & Accountability Act the Audit Commission was finally abolished on 31 March 2015. Its key functions were transferred to other bodies, and in relation to auditor appointments, Public Sector Audit Appointments Limited (PSAA), an independent company limited by guarantee incorporated by the Local Government Association took on the role.
- 4.2 The Department for Communities and Local Government recently exercised their contract rights (established when the Audit Commission let the last batches of audit tenders) to extend by one year the two year initial contract that had been agree. This means that EY will continue to be the Council's

auditor until the completion of the 2017/18 audit, and a new appointment will be needed for 2018/19.

- 4.3 By law an authority must make an appointment by the end of December prior to the year for which the audit is required, so we will need to have found our auditor by 31/12 2017 (about 20 months' from now).
- 4.4 PSAA has recently published its corporate plan, and the plan includes a section (the relevant parts of which are) reproduced here, explaining that once the current transition arrangements end, the new arrangements set out in the Act are in place, there are three options available to an audited body for appointing an auditor.

The options are to:

A undertake an individual auditor procurement and appointment exercise;

B undertake a joint audit procurement and appointing exercise with other audited bodies, those in the same locality for example; or

C join a 'sector led body' (SLB) arrangement where specified appointing person status has been achieved.

4.5 PSAA's plan goes on to sets out the key advantages and risks associated with each option.

| Option | Advantages | Risks |
|---|---|--|
| Individual procurement (principal bodies) | <p>Locally-appointed auditor will reflect local requirements.</p> <p>Body has control over the process and outcome.</p> <p>Body has influence over the level of the audit fee.</p> | <p>Auditor Panel needs to be established by audited body.</p> <p>Time consuming and relatively costly procurement exercise.</p> <p>No economies of scale.</p> <p>Where an OJEU procurement exercise is required this needs a lead in time of around six months.</p> <p>Smaller principal bodies, or those in a geographically remote location, may find auditor procurement choices are more limited than for other larger principal bodies.</p> |
| Joint procurement (principal bodies) | <p>Locally-appointed auditor more likely to reflect local requirements.</p> <p>Procurement costs are shared.</p> <p>Body has some control over the process and outcome and an opportunity to influence the level of audit fees.</p> | <p>Auditor panel needs to be established by audited body or jointly with another body in the joint arrangement.</p> <p>Where an OJEU procurement exercise is required this needs a lead in time of around six months. Additional time for planning / collaboration with other audited bodies required.</p> |
| SLB approach (principal bodies) | <p>Some degree of independent auditor appointment, subject to scheme details.</p> <p>No need to establish an auditor panel.</p> <p>Large-scale procurement leading to potentially lower audit fees through economies of scale.</p> | <p>Canvassing of interest and 'sign up' of bodies needs to commence before the SLB is created and a procurement can start.</p> <p>'Opt in' decisions may be deferred until audit fees are known.</p> |

4.6 In the circumstances, the advantages of the SLB approach outweigh the risks and those of the other options, and the professional advice of the Head of Finance is this option should be fully investigated with a view to pursuing this option. The key advantages are

- (i) Many authorities are thought likely to explore this option, so the potential tender size could be quite large.
- (ii) The option seems to utilise the existing expertise in PSAA's staff (who largely transferred from the Audit Commission) in letting public sector audit contracts.
- (iii) Other option would require an Audit Panel to be set up with an independent chair (and the Council has not in generally found it easy to find appropriate people to be independent members of committees when this has hitherto been required).
- (iv) As PSAA does not have any other responsibilities, it also anticipated that they will be able to offer an improved service for local authorities in the rare circumstances that an authority needs to complain about the conduct of its auditor.

5. CONTRIBUTION TO STRATEGIC AIMS

Independent audit of the Council's accounts ensures that there is public assurance that there is proper management of the Council's finances in place, supporting overall service delivery.

6. COMMUNITY ENGAGEMENT AND INFORMATION

The Council does not anticipate needing to directly consult with the community on this particular issue.

7. EQUALITY IMPACT ASSESSMENT

An EIA is not relevant.

8. LEGAL IMPLICATIONS

None, at this stage, though as indicated above the Local Audit & Accountability Act places some burdens on the Council if we pursue some of the options.

9. FINANCIAL IMPLICATIONS

None at this stage

10. BACKGROUND PAPERS

This report draws on the PSAA Corporate Plan found on their website.