

Ward: ALL

Portfolio: Finance

FROM: Corporate Financial Advisor
(S151)

Date: 13 February 2017

SUBJECT: Appointment of External Auditor

	Seen by:	Name	Date
Report Sign off	Legal	Lesley Dolan	13 January 2017
	Finance	Duncan Moss	13 January 2017
	Chief Executive Officer	Stuart Brown	13 January 2017
	Group Manager	Paul Deal	13 January 2017
Summary:	The purpose of this report is to recommend to Full Council the future process for external auditor appointments.		
Recommendation:	That the Full Council approves: That Mendip District Council opts in to the appointing person arrangements made by Public Sector Audit Appointments (PSAA) for the appointment of external auditors.		
Direct and/or indirect impact on service delivery to our customers and communities:	There is no direct impact on service delivery as a result of this report.		
Financial Implications:	<p>There are no direct costs as a result of this report.</p> <p>It is likely that a sector wide procurement conducted by PSAA will produce better outcomes for the Council than any procurement we undertook by ourselves. Use of the PSAA will also be less resource intensive than establishing an auditor panel and conducting our own procurement.</p> <p>Until either procurement exercise is completed it is not possible to state what additional resource may be required for audit fees for 2018/19, although it is anticipated that any increase will be minimised through using PSAA.</p>		
Legal Implications:	The process as set out above and the recommendation should ensure compliance with the Local Audit and Accountability Act 2014.		
Crime and Disorder Implications:	There are no direct implications as a result of this report.		
Equalities Implications:	There are no direct implications as a result of this report.		

Risk Assessment and Adverse impact on Corporate Actions:	As set out in the report, use of PSAA minimises the risks inherent in undertaking our own procurement.
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INTRODUCTION

Following the demise of the Audit Commission new arrangements are needed for the appointment of external auditors. The Local Audit and Accountability Act 2014 requires authorities to either opt in to the appointing person regime or to establish an auditor panel and conduct their own procurement exercise.

Regulation 19 of the Local Audit (Appointing Person) Regulations 2015 requires that a decision to opt in must be made by Full Council (authority meeting as a whole).

BACKGROUND

As part of closing the Audit Commission the Government novated external audit contracts to PSAA on 1 April 2015. The audits were due to expire following conclusion of the audits of the 2016/17 accounts, but could be extended for a period of up to three years by PSAA, subject to approval from the Department for Communities and Local Government.

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. This meant that for the audit of the 2018/19 accounts it is necessary for authorities to either undertake their own procurements or to opt in to the appointed person regime.

There was a degree of uncertainty around the appointed person regime until July 2016 when PSAA were specified by the Secretary of State as an appointing person under regulation 3 of the Local Audit (Appointing Person) Regulations 2015. The appointing person is sometimes referred to as the sector led body and PSAA has wide support across most of local government. PSAA was originally established to operate the transitional arrangements following the closure of the Audit Commission and is a company owned by the Local Government Association's Improvement and Development Agency (IDeA).

OPTIONS CONSIDERED

There are effectively two main options:

1. Opt in and allow PSAA to procure the new auditor
2. Opt out and undertake the procurement process individually or as a collective of authorities.

Grouping of authorities

Under either option, there is the choice to group together with the other authorities within Somerset (5 Districts and a County) or group together with the 5 Councils within the new 5 Councils Partnership. However, PSAA cannot guarantee they will appoint the same auditor across groupings, although will do so as far as possible.

All possible steps are being taken with PSAA to ensure that they are able to appoint a single auditor.

In terms of which grouping to join, there are much greater efficiencies to be achieved through aligning with the 5 Councils Partnership as we will have a single accountancy package, harmonised policies and regulations and the same support staff network across all authorities meaning that duplication can be avoided. Across the Somerset authorities, we remain completely independent organisations in terms of financial reporting and control and accountancy software.

Opt In or Out

Opting out requires an auditor panel to be established and conduct our own procurement. This is not recommended as it will be a far more resource intensive process and, without the bulk buying power of the sector led procurement, would be likely to result in a more costly service.

Therefore opting in to a sector wide procurement conducted by PSAA is likely to produce better outcomes for the Council than any procurement Mendip undertook by ourselves or with a limited number of partners.

Advantages / Disadvantages

The main advantages of using PSAA are set out in its prospectus (attached) and are summarised below; these can also be viewed as the disadvantages if the Council was to decide to undertake its own procurement:

- Assure timely auditor appointments
- Manage independence of auditors
- Secure highly competitive prices
- Save on procurement costs
- Save time and effort needed on auditor panels
- Focus on audit quality
- Operate on a not for profit basis and distribute any surplus funds to scheme members.

TIME FRAME

Authorities will need to opt in to the appointing person arrangements by 9 March 2017. It is hoped that the PSAA will be able to appoint the same auditors to all authorities signed up to the 5 Councils arrangements. This would ensure further efficiencies by reducing duplication of audits of financial and other systems.

Contact Officer: Paul Deal – Corporate Financial Advisor (S151)
Ext No: 01749 341405
e-mail: Paul.Deal@mendip.gov.uk

Background Papers:

- PSAA Prospectus
- PSAA – Appointing Person – Frequently Asked Questions