

LANCASHIRE COMBINED FIRE AUTHORITY

AUDIT COMMITTEE

Meeting to be held on 31 March 2016

CHANGES TO ARRANGEMENTS FOR APPOINTMENT OF EXTERNAL AUDITORS

Contact for further information:

Keith Mattinson – Director of Corporate Services – telephone 01772 866804.

Executive Summary

This report summarises the changes to the arrangements for appointing External Auditors following the closure of the Audit Commission and the end of the transitional arrangements at the conclusion of the 2017/18 audits.

The Authority will need to consider the options available and put in place new arrangements in time to make a first appointment by 31 December 2017.

Decision Required

The Committee is asked to consider their preferred approach of either:

- Supporting the Local Government Association (LGA) in setting up a national Sector Led Body by indicating an intention to “opt-in”
- Establishing a stand-alone Auditor Panel to make the appointment on behalf of the Authority.
- Commencing work on exploring the establishment of local joint procurement arrangements with neighbouring authorities, either other Lancashire Authority’s or other Fire Authorities.

Information

The Local Audit and Accountability Act 2014 brought to a close the Audit Commission and established transitional arrangements for the appointment of external auditors and the setting of audit fees for all local government and NHS bodies in England. On 5 October 2015 the Secretary of State Communities and Local Government (CLG) determined that the transitional arrangements for local government bodies would be extended by one year to also include the audit of the accounts for 2017/18.

The Authority’s current external auditor is Grant Thornton, this appointment having been made under at a contract let by the Audit Commission. Following closure of the Audit Commission the contract is currently managed by Public Sector Audit Appointments Limited (PSAA), the transitional body set up by the LGA with delegated authority from the Secretary of State CLG. Over recent years we have

benefited from reduction in fees in the order of 50% compared with historic levels. This has been the result of a combination of factors including new contracts negotiated nationally with the firms of accountants and savings from closure of the Audit Commission. The Authority's current external audit fees are £31k per annum.

When the current transitional arrangements come to an end on 31 March 2018 the Authority will be able to move to local appointment of the auditor. There are a number of routes by which this can be achieved, each with varying risks and opportunities. Current fees are based on discounted rates offered by the firms in return for substantial market share. When the contracts were last negotiated nationally by the Audit Commission they covered NHS and local government bodies and offered maximum economies of scale.

The scope of the audit will still be specified nationally, the National Audit Office (NAO) is responsible for writing the Code of Audit Practice which all firms appointed to carry out the Authority's audit must follow. Not all accounting firms will be eligible to compete for the work, they will need to demonstrate that they have the required skills and experience and be registered with a Registered Supervising Body approved by the Financial Reporting Council. The registration process has not yet commenced and so the number of firms is not known but it is reasonable to expect that the list of eligible firms may include the top 10 or 12 firms in the country, including our current auditor. It is unlikely that small local independent firms will meet the eligibility criteria.

Options for local appointment of External Auditors

There are three broad options open to the Authority under the Local Audit and Accountability Act 2014 (the Act):

- Option 1 To make a stand-alone appointment;
- Option 2 Set up a Joint Auditor Panel/local joint procurement arrangements;
- Option 3 Opt-in to a sector led body.

Option 1 To make a stand-alone appointment

In order to make a stand-alone appointment the Authority will need to set up an Auditor Panel. The members of the panel must be wholly or a majority independent members as defined by the Act. Independent members for this purpose are independent appointees, this excludes current and former elected members (or officers) and their close families and friends. This means that elected members will not have a majority input to assessing bids and choosing which firm of accountants to award a contract for the Authority's external audit. A new independent auditor panel established by the Authority will be responsible for selecting the auditor (assuming there is no existing independent committee such as the Audit Committee that might already be suitably constituted).

Advantages/benefit

- Setting up an auditor panel allows the Authority to take maximum advantage of the new local appointment regime and have local input to the decision.

Disadvantages/risks

- Recruitment and servicing of the Auditor Panel, running the bidding exercise and negotiating the contract is estimated by the LGA to cost in the order of £15,000 plus ongoing expenses and allowances;
- The Authority will not be able to take advantage of reduced fees that may be available through joint or national procurement contracts;
- The assessment of bids and decision on awarding contracts will be taken by independent appointees and not solely by elected members.

The disadvantages appear to outweigh the advantages on this option and as such I believe this option should not be pursued

Option 2 Set up a Joint Auditor Panel/local joint procurement arrangements

The Act enables the Authority to join with other authorities to establish a joint auditor panel. Again this will need to be constituted of wholly or a majority of independent appointees (members). Further legal advice will be required on the exact constitution of such a panel having regard to the obligations of each Authority under the Act and the Authority need to liaise with other local authorities to assess the appetite for such an arrangement.

Advantages/benefits

- The costs of setting up the panel, running the bidding exercise and negotiating the contract will be shared across a number of authorities.
- There is greater opportunity for negotiating some economies of scale by being able to offer a larger combined contract value to the firms.

Disadvantages/risks

- The decision making body will be further removed from local input, with potentially no input from elected members where a wholly independent auditor panel is used or possibly only one elected member representing each Authority, depending on the constitution agreed with the other bodies involved.
- The choice of auditor could be complicated where individual Authorities have independence issues. An independence issue occurs where the auditor has recently or is currently carrying out work such as consultancy or advisory work for the Authority. Where this occurs some auditors may be prevented from being appointed by the terms of their professional standards. There is a risk that if the joint auditor panel choose a firm that is conflicted for this Authority then the Authority may still need to make a separate appointment with all the attendant costs and loss of economies possible through joint procurement.

This option has some merit but it is felt that the potential advantages of pursuing a Sector Led Body approach are more significant. Informal discussions with other Treasures indicated a similar position.

Option 3 Opt-in to a sector led body

In response to the consultation on the new arrangement, the LGA successfully lobbied for Authorities to be able to 'opt-in' to a Sector Led Body appointed by the

Secretary of State under the Act. A Sector Led Body would have the ability to negotiate contracts with the firms nationally, maximising the opportunities for the most economic and efficient approach to procurement of external audit on behalf of the whole sector.

Advantages/benefits

- The costs of setting up the appointment arrangements and negotiating fees would be shared across all opt-in authorities;
- By offering large contract values the firms would be able to offer better rates and lower fees than are likely to result from local negotiation;
- Any conflicts at individual authorities would be managed by the Sector Led Body who would have a number of contracted firms to call upon;
- The appointment process would not be ceded to locally appointed independent members. Instead, a separate body set up to act in the collective interests of the 'opt-in' authorities. The LGA are considering setting up such a body utilising the knowledge and experience acquired through the setting up of the transitional arrangements.

Disadvantages/risks

- Individual elected members will have less opportunity for direct involvement in the appointment process other than through the LGA and/or stakeholder representative groups.
- In order for the Sector Led Body to be viable and to be placed in the strongest possible negotiating position the Sector Led Body will need Authority's to indicate their intention to opt-in before final contract prices are known.

This is seen as the best option to pursue at the present time, minimising procurement costs and resource, maximising buying power, and hence likely to result in the lowest fees.

The way forward

The Authority has until December 2017 to make an appointment. In practical terms this means one of the options outlined in this report will need to be in place by spring 2017 in order that the contract negotiation process can be carried out during 2017.

The LGA are working on developing a Sector Led Body. In a recent survey, 58% of respondents expressed an interest in this option. Greatest economies of scale will come from the maximum number of Authorities acting collectively and opting-in to a Sector Led Body. In order to strengthen the LGA's negotiating position and enable it to more accurately evaluate the offering the Authority is asked to consider whether it is interested in the option of opting in to a Sector Led Body.

A formal decision to opt-in will be required at a later stage.

Financial Implications

Current external fees levels are likely to increase when the current contracts end in 2018.

The cost of establishing a local or joint Auditor Panel outlined in options 1 and 2 above will need to be included in future budget, including the cost of recruiting independent appointees (members), servicing the Panel, running a bidding and tender evaluation process, letting a contract and paying members fees and allowances.

Opting-in to a national Sector Led Body provides maximum opportunity to limit the extent of any increases by entering in to a large scale collective procurement arrangement and would remove the costs of establishing an auditor panel.

Human Resource Implications

None

Equality and Diversity Implications

None

Business Risk Implications

There is no immediate risk to the Authority, however the Local Audit and Accountability Act 2014 (the Act) requires a relevant authority to appoint a local auditor to audit its accounts for a financial year not later than 31 December in the preceding year.

Environmental Impact

None

Local Government (Access to Information) Act 1985

List of Background Papers

Paper	Date	Contact
None		
Reason for inclusion in Part II, if appropriate:		