

## **AUDIT COMMITTEE - 24 February 2017**

<b>Title of paper:</b>		<b>Changes to Arrangements for the Appointment of External Auditors</b>	
<b>Director(s)/ Corporate Director(s):</b>		Geoff Walker Director of Strategic Finance	<b>Wards affected:</b> All
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<b>Other colleagues who have provided input:</b>			
<b>Recommendation(s):</b>			
<b>1</b>	To consider the options available for appointing external auditors following the conclusion of the 2017/18 audit as set out in the report and provide a recommendation to Council.		

### **1 REASONS FOR RECOMMENDATIONS**

- 1.1 To summarise the changes to the arrangements for appointing external auditors following the closure of the Audit Commission and the end of transitional arrangements at the conclusion of the 2017/18 audit.
- 1.2 To update Audit Committee on the options available for appointing external auditors and the national arrangements being developed by Public Sector Audit Appointments Limited.

### **2 BACKGROUND**

- 2.1 The Local Audit and Accountability Act 2014 abolished the Audit Commission and set up transitional arrangements for the appointment of auditors and setting of audit fees to cover the period up until the conclusion of the 2017/18 audit.
- 2.2 The Council's current external auditor is KPMG under a contract managed by Public Sector Audit Appointments Ltd (PSAA Ltd). This was a transitional not for profit body set up by the Local Government Authority (LGA) with delegated authority from the Secretary of State at CLG.
- 2.3 When the current transitional arrangements come to an end on 31 March 2018 the Council will have a number of options available for the future appointment of external auditors. A report was brought to Audit Committee on 10 September 2014 to update them on this matter. The Local Audit (Appointing Person) Regulations 2015 require that if a decision is made to opt in to the appointing person arrangement (Option 3 of this report) then this decision must be made by full Council and formally notified to the PSAA by 9 March 2017.

### **3 SUMMARY OF OPTIONS**

- 3.1 The scope of external audits will still be set by the National Audit Office who produces the Code of Audit Practice. To be eligible to compete for the audit work, accounting

firms will need to demonstrate that they have the required skills and experience and be suitably registered with a body approved by the Financial Reporting Council.

- 3.2 There are three main options available for the future appointment of external auditors which summarised are:

**Option 1** – the Council sets up its own separate and individual Auditor Panel to appoint an auditor. The Local Audit and Accountability Act 2014 stipulate that the panel must contain a majority of independent members and have an independent chair. Members and Officers of an Authority within the past five years are not deemed to be independent for this purpose. The LGA estimate the cost of recruiting and servicing the Auditor Panel, running the bidding exercise and negotiating the contract to be approximately £15,000 plus on going expenses and allowances.

**Option 2** – Set up an Auditor Panel jointly with another authority/ have joint procurement arrangements. This involves setting up a joint Auditor panel which will also need to be made up of wholly or a majority of independent appointees. It will have the advantage of shared costs and possible economies of scale but the Panel will be further removed from the Council with potentially no input from elected members.

**Option 3** – Opt in to the national scheme for Auditor appointments led by PSAA Ltd. The advantages of this option are that the Council would not have to set up an Auditor Panel, the administration and procurement exercise would be carried out by PSAA Ltd who are experienced in appointing auditors, managing audit contracts and setting audit fees. PSAA are advising that as at January 2017, approx. 250 authorities have or are intending to opt in to the scheme. This should result in economies of scale and should attract the best suppliers. The LGA support this approach as it believes that it offers the best value to Councils by reducing costs and having the ability to negotiate the lowest fees.

#### **4 FINANCIAL IMPLICATIONS**

- 4.1 Audit fees have reduced significantly over recent years; the cost for 2015/16 was £172,118. It is not yet known what the audit fees will be under the new contract but the PSAA scheme is likely to be able to secure a more competitive price than could be achieved by Nottingham City Council alone.
- 4.2 The PSAA has committed to minimising its own costs and audit fees, setting a fair scale of charges across the participating bodies and returning any surplus funds.

#### **5 BACKGROUND PAPERS OTHER THAN PUBLISHED WORKS OR THOSE DISCLOSING EXEMPT OR CONFIDENTIAL INFORMATION**

- 5.1 None

#### **6 PUBLISHED DOCUMENTS REFERRED TO IN COMPILING THIS REPORT**

- 6.1 Annual Accounts 2015/16  
Local Audit and Accountability Act 2014  
CIPFA's Auditor Panels