

Agenda Item 77.

TITLE	Auditor Appointment 2018/19
FOR CONSIDERATION BY	Council on 23 February 2017
WARD	None specific
DIRECTOR	Graham Ebers, Director of Corporate Services

OUTCOME/BENEFITS TO THE COMMUNITY

To ensure sound finances and value for money through ensuring the authority's annual accounts are audited and proper governance arrangements are in place.

RECOMMENDATION

Council is asked to:

- 1) note that this report was presented to the Audit committee on 5 December 2016;
- 2) approve Option A, as recommended by the Audit Committee and as set out in the report, i.e. opting into the Public Sector Audit Appointment process.

SUMMARY OF REPORT

Members are presented with the pros and cons of the two options for appointing the Council's auditors for the five years commencing for the audit of the authority's 2018/19 annual accounts.

Background

High quality independent audit is key to public accountability, assuring taxpayers that their money has been well managed, and inspiring trust and confidence in the organisations responsible for managing public money.

The Council is currently audited by Ernst & Young under a contract let by the Audit Commission. Following the abolition of the Audit Commission, the Local Audit and Accountability Act 2014 implemented transitional arrangements which cover the period up to and including the audit of the accounts for 2017/18. These are managed by Public Sector Audit Appointments Ltd (PSAA), an independent not for profit company established by the Local Government Association (LGA).

Under the above act local government bodies need to appoint an auditor for the 2018/19 audits by 31 December 2017.

Summary of options

Option A

The Council would opt into Public Sector Audit Appointments process. The PSAA would then manage the procurement process, as well as maintaining quality standards and managing potential conflicts of interests. They would award contracts by 30 June 2017 and inform the Council of our appointed auditor.

Option B

If the Council does not opt into the PSAA process an independent auditor panel would need to be established either independently or in conjunction with other authorities (as specified in the local audit and accountability act 2014, section 4). The members of the panel must be wholly or a majority of independent members, a category which excludes current and former elected members (or officers) and their close families and friends. The makeup of the panel would mean that elected members would not have a majority input to the process of assessing bids and choosing which audit firm to award a contract for the Council's external audit. In addition to setting up the auditor panel the Council would also have to setup and manage the related tender process.

Analysis of Issues

The purpose of PSAAs is to procure high quality audit services at the most competitive rate achievable, and let contracts based on price, while maintaining a competitive audit environment. By appointing auditors at a larger scale, auditors will have to enter into fewer procurement processes which are costly and time-consuming for both parties. The use of PSAA should therefore allow audit firms to spend more time auditing and so enable them to reduce their contract cost. That said, there is no guarantee that PSAA will provide the authority with a cheaper price than contracting directly.

The number of firms eligible to undertake local public audit is regulated through the Financial Reporting Council and the Recognised Supervisory Bodies. Only appropriately accredited firms will be able to bid for appointments whether that is through PSAA or an auditor panel. Current indications are that ten firms are eligible to register to bid, all of which have a national presence. This means that a local audit panel would seek tenders from the same firms as PSAA, and local firms could not be invited to bid.

The scope of the audit will be specified nationally, as the National Audit Office (NAO) is responsible for writing the Code of Audit Practice (see background papers) which all firms appointed to carry out the Council’s audit must follow. The ability of a local audit panel to tailor the audit is therefore significantly reduced. PSAA’s audit contracts from 2018/19 will not cover certification work. The Department for Work and Pensions is developing its arrangements for housing benefit subsidy claim certification from 2018/19 on this basis. An independent panel could include such work within in its audit scope, however as the arrangements for this work are still unknown they may not be achieving value for money by doing so, if local firms would be able to completed these. The Council currently procure local firms to carry out other certification work at a lower price than larger audit firms quoted at. The services that an auditor can provide to a client are the same, whatever the appointment method.

Although independent a local audit panel could still contain elected members. Use of the PSAA would be wholly independent of the council, running the tendering exercise, evaluating bids and appointing auditors. Independence is an important feature of audit appointments, and underpins strong corporate governance in the public sector.

If Wokingham decides to set up its own panel, it could do this either independently or with selected other local authorities. Although there have been previous discussions about a Berkshire wide panel, Slough has already opted into the PSAA and discussions with other authorities are not well developed. Setting up an auditor panel would likely be more complicated than opting into national arrangements, which could be done by via a report to full Council. Setting up the panel would also require a report to full Council, as well as sourcing and appointing people to the panel, and managing the administration.

In order to ensure good perceptions of the local authority it is important to be confident and clear of any variation from the trend of other organisations. In a recent LGA survey, more than 200 bodies expressed an interest in joining the PSAA scheme. In the two weeks since the invitation was first issued 28 authorities opted in, three of which are unitary authorities, including Slough Borough Council. Research into the work of other local authorities in this area suggests that most of these are planning to opt in to PSAA.

FINANCIAL IMPLICATIONS OF THE RECOMMENDATION

The Council faces severe financial challenges over the coming years as a result of the austerity measures implemented by the Government and subsequent reductions to public sector funding. It is estimated that Wokingham Borough Council will be required to make budget reductions in excess of £20m over the next three years and all Executive decisions should be made in this context.

	How much will it Cost/ (Save)	Is there sufficient funding – if not quantify the Shortfall	Revenue or Capital?
Current Financial Year (Year 1)	Nil	Yes	Revenue
Next Financial Year (Year 2)	Nil	Yes	Revenue
Following Financial Year (Year 3)	Nil	Yes	Revenue

Other financial information relevant to the Recommendation/Decision

It is anticipated that fees in the future will be manageable within existing revenue budgets, although this is kept under review.

Cross-Council Implications

A good financial standing positively supports all services as they negotiate with suppliers

List of Background Papers

Links to relevant papers:

Local Audit and Accountability Act 2014

<http://www.legislation.gov.uk/ukpga/2014/2/contents/enacted>

National Audit Office Code of Audit Practice

<https://www.nao.org.uk/code-audit-practice/>

Contact Graham Ebers	Service Finance and Resources
Telephone No 0118 974 6557	Email Graham.Ebers@wokingham.gov.uk
Date 19 December 2016	Version No. 1