
7. **ARRANGEMENTS FOR APPOINTMENT OF EXTERNAL AUDITOR (A1361/6 /PN)**

1. **Purpose of the report**

To inform Members of the three options open to the Authority for the future appointment of external auditors and for Members to approve the preferred option.

Key issues

The report considers the three options open to the Authority for appointment of an external auditor from the 2018/19 accounts onwards, and recommends Option 3 as the most cost effective Option. This decision can only be made by an Authority meeting, as required by statute.

Recommendations

2. 1. **That Members approve the Peak District National Park Authority opting into the national audit appointment arrangements of Public Sector Audit Appointment (PSAA Ltd) for appointment of the Authority’s external auditors for the 2018/19 accounts onwards.**

How does this contribute to our policies and legal obligations?

3. The appointment of the Authority’s external auditor for the 2018/19 accounts onwards must be made under the provisions of the Local Audit and Accountability Act 2014 (“the 2014 Act”) and is required to be confirmed by 31 December 2017. The Local Audit (Appointing Person) Regulations 2015 (the 2015 Regulations) require that a principal authority may only make the decision to opt into the appointing person arrangement by the members of the Authority meeting as a whole.

Background

4. The 2014 Act 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 will be extended by one year to also include the audit of the accounts for 2017-18.

The Authority’s current external auditor is KPMG, this appointment having been made under a contract let by the Audit Commission; and because of its size the Authority is regarded as a principal Local Authority body. 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 Local Government Association (LGA) with delegated authority from the Secretary of State of CLG. Over recent years local authorities have benefited from reductions in fees up to 40% compared with previous 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 external audit fees for 2015-16 are £14,275 (£23,885 in 2010/11).

5. When the current transitional arrangements come to an end on 31 March 2018 the Authority will be able to move to local appointment of its external auditor. There are in effect three options by which this can be achieved, with one option considered to offer the clearest advantage to this Authority. Current fees are based on discounted rates offered by the firms in return for substantial market share, so it is in the interests of the Authority to seek to be party to any joint procurement arrangements - when the contracts were last negotiated nationally by the Audit Commission collectively 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 now 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 begun 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 the Authority's current auditor. It is unlikely that small local independent firms will meet the eligibility criteria.

Proposals

6. **Options for local appointment of External Auditors**

There are three broad options open to the Authority under the 2014 Act, with an auditor appointment required to be made by December 2017:-

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.

Conclusion on Option 1

Although setting up an auditor panel allows the Authority to take advantage of the new local appointment regime and make its own local selection, operating an auditor panel and running a tendering exercise will incur operating costs, will need officer support and guidance, and with the Authority being so small, any advantage in reduced fees which may be available through joint or national procurement contracts will be lost: so this option is not recommended. It is also considered that there is no particular advantage in a locally selected auditor, as the standards to which the audit must be done are centrally determined.

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, constituted on a similar basis to Option 1.

Conclusion on Option 2

The costs of setting up a panel are shared, and there is a greater opportunity for negotiating some economies of scale by being able to offer a larger combined contract value to the firms, although the panel arrangements would become more complex as there is a need for the panel to be aware of potential conflicts when some auditor firms might be barred from external audit work if they have performed consultancy work for some councils/authorities. This is considered to be a better option than Option 1, if one agrees with the opinion that there is no particular advantage to the Authority in a purely local appointment.

Option 3 Opt-in to a sector led body

In response to the consultation on the new arrangement the Local Government Association (LGA) successfully lobbied for Local Authorities to be able to 'opt-in' to a Sector Led Body (SLB) appointed by the Secretary of State under the Act. An SLB will 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. The Secretary of State for CLG has confirmed that a company set up by the LGA - Public Sector Audit Appointments Limited (PSAA) - has been specified as an appointing person under the provisions of the 2014 Act and the Regulations 2015. This means that PSAA will make auditor appointments to relevant principal local government bodies that choose to opt into the national appointment arrangements for audits of the accounts from 2018/19.

Conclusion on Option 3

The costs of setting up the appointment arrangements and negotiating fees will be shared across all opt-in authorities. By offering large contract values the firms will be able to offer better rates and lower fees than are likely to result from local negotiation. Any conflicts at individual authorities will be managed by PSAA who would have a number of contracted firms to call upon. There has been discussion at officer level, amongst the larger public bodies affected, to determine whether there is appetite for running a joint procurement that will include the eight Derbyshire districts/boroughs, Derbyshire County Council, Derby City Council, Peak District National Park Authority, the Office of the Police and Crime Commissioner and the Derbyshire Fire and Rescue Service (i.e. Option 2). However, whilst this was seen as a viable alternative, all felt that there were significant benefits from joining a larger scale procurement exercise.

In a recent survey of Local Authorities, 58% of respondents expressed an interest in an Option 3 collective approach. Greatest economies of scale will come from the maximum number of Local Authorities acting collectively and opting-in to a SLB.

Of the English National Park Authorities consulted which are affected by this proposal, so far all of those responding have confirmed their intention to adopt this approach as well.

Option 3 is therefore recommended to Members for adoption and Members are asked to approve this Authority "opting in" to the auditor appointment arrangements being led by PSAA Ltd.

The date by which principal local government bodies will need to opt in is not yet finalised. The aim is to award contracts to audit firms by June 2017, giving six months to consult on appointments with authorities before the 31 December 2017 deadline.

The stated top priority of PSAA Ltd is to make independent auditor appointments at the best possible prices. A more detailed timetable is being prepared, and invitations to opt in are expected to be issued before December 2016, which is why a report is being brought to the Authority now.

Are there any corporate implications members should be concerned about?

7. **Financial:** Option 3 is considered to be the best financial option for this Authority.
8. **Risk Management:** Option 3 is considered to represent the lowest risk to the Authority.
9. **Background papers** None

Appendices None

Report Author, Job Title and Publication Date

Philip Naylor, Chief Finance Officer, 29 September 2016