

North York Moors National Park Authority Special Authority Meeting

16 February 2017

Changes to the Arrangements for the Appointment of External Auditors

1. Purpose of the Report

- 1.1 To approve the appointment of an External Auditor for the audits post the 2017/18 financial year using the National Procurement to be undertaken by the Public Sector Audit Appointments Ltd as the Sector Led Body (SLB) established by the Local Government Association for this purpose.

2. Purpose and Background

- 2.1 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.
- 2.2 The Authority's current external auditor is KPMG LLP, this appointment having been made under 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. 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 £12k p.a.
- 2.3 The Authority has had notification that KPMG LLP will continue to be responsible for the external audit in the financial year 2017/18.
- 2.4 Therefore, the Authority will be able to move to local appointment of the auditor with effect from the 31 March 2018. 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.
- 2.5 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 Authority. 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.

3. Preferred Option for Local Appointment of External Auditors

3.1 There are three broad options open to the Authority under the Local Audit and Accountability Act 2014 (the Act). The Finance, Risk Audit and Standards Committee considered these alternatives at the meeting on the 21 November 2016.

3.2 These options were as follows:

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.

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.

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 (SLB) appointed by the Secretary of State under the Act and Public Sector Audit Appointments (PSAA) has now been specified as the 'appointing person'. PSAA will 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.

3.3 Following consideration of the advantages and disadvantages of each, Members of FRASC considered the most effective option to be to 'opt in' to a sector led body which would procure on behalf of all signed up organisations (subject to clarification of a number of points).

4. Developments since FRASC

4.1 Members at FRASC requested that Officers sought clarification from the PSAA Ltd that value for money could be achieved through this process. A representative of the PSAA Ltd has confirmed that the procurement will take into consideration the proportionality of charges to the size and nature of organisation through the use of fee scales, the tender will be evaluated on a 50:50 price to quality ratio, and where it is appropriate to do so the same audit firm will be appointed to audit similar organisations. Members also requested clarification that there would be an appropriate mechanism for the removal of auditors if performance was unsatisfactory this has also been confirmed.

4.2 In order to undertake the procurement PSAA Ltd are requesting that Authorities confirm the decision to 'opt-in' to the arrangements by the 9 March. **The purpose of this report is to obtain Authority approval to confirm participation in the appointment arrangements by the deadline.**

5. Legal implications

- 5.1 Section 7 of 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. Section 8 governs the procedure for appointment including that the authority must consult and take account of the advice of its auditor panel on the selection and appointment of a local auditor.
- 5.2 Section 8 provides that where a relevant authority is a local authority operating executive arrangements, the function of appointing a local auditor to audit its accounts is not the responsibility of an executive of the authority under those arrangements.
- 5.3 Section 12 makes provision for the failure to appoint a local auditor: the authority must immediately inform the Secretary of State, who may direct the authority to appoint the auditor named in the direction or appoint a local auditor on behalf of the authority.
- 5.4 Section 17 gives the Secretary of State the power to make regulations in relation to an 'appointing person' specified by the Secretary of State. This power has been exercised in the Local Audit (Appointing Person) Regulations 2015 (SI 192) and this gives the Secretary of State the ability to enable a Sector Led Body to become the appointing person.

6. Financial Implications

- 6.1 At this stage future audit fees cannot be confirmed but opting-in to a national SLB 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.

7. Recommendation

- 7.1 That Members approve that North York Moors National Park Authority opt-in to 'a sector-led body' for the appointment of external auditors when the current transitional arrangements expire.

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Background documents to this report

Changes to the Arrangements for the Appointment of External Auditors 21 November 2016 report to FRASC

File Ref