

Cheltenham Borough Council
Audit Committee – 11 January 2017
Future Provision of External Audit

Accountable member	Councillor Roger Whyborn, Cabinet Member for Corporate Services
Accountable officer	Paul Jones, Section 151 Officer
Ward(s) affected	None directly
Significant Decision	No
Executive summary	Following the demise of the Audit Commission new arrangements were needed for the appointment of external auditors. The Local Audit and Accountability Act 2014 require authorities to either opt in to the appointing person regime or to establish an auditor panel and conduct their own procurement exercise.
Recommendations	To recommend to Full Council that this Council opts in to the appointing person arrangements made by Public Sector Audit Appointments (PSAA) for the appointment of external auditors.

Financial implications	If PSAA is not used some additional resource may be needed to establish an auditor panel and conduct our own procurement. Until either procurement exercise is completed it is not possible to state what additional resource may be required for audit fees for 2018/19, although it is anticipated that any increase will be minimised through using PSAA. Contact officer: Paul Jones, paul.jones@cheltenham.gov.uk 01242 775154
Legal implications	The process as set out in the report and the recommendation will ensure compliance with the Local Audit and Accountability Act 2014. Contact officer: Peter Lewis, Peter.Lewis@tewkesbury.gov.uk, 01684 272012
HR implications (including learning and organisational development)	There are no direct HR implications for this Council. Contact officer: Julie McCarthy, julie.mccarthy@cheltenham.gov.uk, 01242 264355
Key risks	As set out in the report, use of PSAA minimises the risks inherent in undertaking our own procurement.
Corporate and community plan Implications	None.

Environmental and climate change implications	None.
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Background

- 1.1 The Local Audit and Accountability Act 2014 (the Act) established new arrangements for the audit and accountability of relevant authorities, including local authorities.
- 1.2 These new arrangements include the ability of such bodies to appoint their own local public auditors via an auditor panel. This may be carried out individually or jointly with one or more other authorities.
- 1.3 The Secretary of State for Communities and Local Government has decided to implement a phased introduction of the new local audit framework. Smaller local authorities must have appointed their local auditors by 31st December 2016 and larger principal authorities (such as this Council) by 31st December 2017:

2. Reasons for Recommendations

- 2.1 It is likely that a sector wide procurement conducted by PSAA will produce better outcomes for the Council than any procurement we undertook by ourselves or with a limited number of partners. Use of the PSAA will also be less resource intensive than establishing an auditor panel and conducting our own procurement.
- 2.2 Regulation 19 of the Local Audit (Appointing Person) Regulations 2015 requires that a decision to opt in must be made by Full Council (authority meeting as a whole). To comply with this regulation the Audit Committee is asked to make the recommendation above to Full Council.
- 2.3 A number of frequently asked questions are attached at Appendix 2 to aid Members in their decision-making.

3. Process and advantages

- 3.1 As part of closing the Audit Commission the Government novated external audit contracts to PSAA on 1st April 2015. The audits were due to expire following conclusion of the audits of the 2016/17 accounts, but could be extended for a period of up to three years by PSAA, subject to approval from the Department for Communities and Local Government.
- 3.2 In October 2015 the Secretary of State confirmed that the transitional provisions would be amended to allow an extension of the contracts for a period of one year. This meant that for the audit of the 2018/19 accounts it would be necessary for authorities to either undertake their own procurements or to opt in to the appointed person regime.
- 3.3 There was a degree of uncertainty around the appointed person regime until July 2016 when PSAA were specified by the Secretary of State as an appointing person under regulation 3 of the Local Audit (Appointing Person) Regulations 2015. The appointing person is sometimes referred to as the sector led body and PSAA has wide support across most of local government. PSAA was originally established to operate the transitional arrangements following the closure of the Audit Commission and is a company owned by the Local Government Association's Improvement and Development Agency (IDeA).
- 3.4 It is the view of the Society of District Council Treasurers (and of the other Treasurers' Societies) that the sector-led procurement by the PSAA is likely to be less resource intensive and likely to

produce better outcomes. The PSAA have already contacted authorities for expressions of interest and formal invitations were issued on 27th October 2016.

3.5 The date by which authorities will need to opt in to the appointing person arrangements is 9th March 2017. It is therefore important that this issue is considered by Full Council at its December meeting.

3.6 The main advantages of using PSAA are set out in its prospectus and are copied below; these can also be viewed as the disadvantages if the Council was to decide to undertake its own procurement.

- Assure timely auditor appointments
- Manage independence of auditors
- Secure highly competitive prices
- Save on procurement costs
- Save time and effort needed on auditor panels
- Focus on audit quality
- Operate on a not for profit basis and distribute any surplus funds to scheme members.

4. Alternative options

4.1 An alternative option would be to establish an auditor panel and conduct a procurement exercise either alone or with other authorities e.g. our GO partner council's. This is not recommended as it will be a far more resource intensive process and, without the bulk buying power of the sector led procurement, would be likely to result in a more costly service.

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Appendices	Appendix 1 – Risk Assessment Appendix 2 – PSAA – Appointing Person – Frequently Asked Questions Duties and responsibilities
Background information	<ul style="list-style-type: none"> • PSAA Corporate Plan 2015 - 2018 • PSAA Prospectus • PSAA invitation to opt in letter

Appendix 1

The risk				Original risk score (impact x likelihood)			Managing risk				
Risk ref.	Risk description	Risk Owner	Date raised	I	L	Score	Control	Action	Deadline	Responsible officer	Transferred to risk register
	If the Council decides not to opt in to the appointing person arrangements made by Public Sector Audit Appointments (PSAA) for the appointment of external auditors, then it would have to establish an auditor panel and conduct its own procurement exercise which could be more expensive, time consuming and lead to a lack of alignment with the other local authorities in respect of an approach to audit planning.	CBC Section 151 officer	December 2016	2	2	4	Accept	Opt in to the appointing person arrangements made by Public Sector Audit Appointments (PSAA) for the appointment of external auditors.	9/3/2017	CFO	