

Report For:	BUCKINGHAMSHIRE SHADOW AUTHORITY
Meeting Date:	3rd June 2019

SUMMARY

Title of Report:	RECOMMENDATION ON THE APPOINTMENT OF EXTERNAL AUDITORS FOR BOTH THE SHADOW AUTHORITY AND BUCKINGHAMSHIRE COUNCIL
Responsible Officer	Richard Ambrose, The (proposed) s151 Officer
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Recommendation:	That the Shadow Buckinghamshire Authority agrees to:- (i) Opt-in to Public Sector Audit Appointments Limited (PSAA) for the appointment of external auditors for Buckinghamshire Council; and (ii) Opt-in to the Smaller Authorities' Audit Appointments (SAAA) for the appointment of external auditors for the Shadow Authority.
Options:	Please see paragraph 14 - 16
Legal & Finance:	The legal implications are set out in the report at paragraph 6. The finance implications are set out in the report at paragraph 17 to 19.
Reasons: (Executive Only)	N/A

Purpose of Report

To agree the mechanism for putting in place future External Audit arrangements for both the Shadow Authority and for Buckinghamshire Council. This report sets out the proposals for appointing the external auditor

Content of Report

1. There is a statutory requirement for external auditors to be appointed for Buckinghamshire Council by no later than 31 December in the preceding year. There is also a requirement to appoint external auditors for the Shadow Authority despite there being no income and expenditure and no bank account.
2. For Buckinghamshire Council the Shadow Authority can set up their own independent auditor panel, do so jointly with neighbouring authorities or opt in to using Public Sector

Audit Appointments Limited (PSAA) as the appointing person for the appointment of external auditors.

3. Nationally, most councils have opted to use PSAA, who organised a national tendering exercise to appoint auditors upon the expiry of their current contacts after the audit of 2017/18. Grant Thornton has been appointed to Buckinghamshire County Council and Ernst & Young has been appointed to all of the District Councils from 2018/19.
4. For Shadow Authorities the PSAA cannot appoint external auditors. Therefore, such Authorities can either set up their own independent auditor panel or opt in to the Smaller Authorities' Audit Appointments Limited (SAAA) for the appointment of external auditors. The nature of Shadow Authorities is that they fall as smaller authorities to have a limited assurance review.
5. Therefore, PSAA can appoint the external auditors of Buckinghamshire Council from 2020/21 and SAAA can appoint the external auditors for the Shadow Authority in 2019/20, if the Shadow Authority agrees to opt-in. The audit of Buckinghamshire Council would be for three years up to and including 2022/23. For any council to opt-in to using an independent panel for the appointment of external auditors a resolution of the Full Council under Regulation 19 is required.

Background

6. The Local Audit and Accountability Act 2014 (the 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.
7. The Act also set out the arrangements for the appointment of auditors for subsequent years, with the opportunity for authorities to make their own decisions about how and by whom their auditors are appointed. Regulations made under the Act allow authorities to 'opt in' for their auditor to be appointed by an 'appointing person'.
8. In July 2016, PSAA were specified by the Secretary of State as an appointing person under regulation 3 of the Local Audit (Appointing Person) Regulations 2015. PSAA was originally established to operate the transitional arrangements following the closure of the Audit Commission under powers delegated by the Secretary of State. PSAA is an independent, not-for-profit company limited by guarantee and established by the LGA.
9. The Local Audit (Smaller Authorities) Regulations 2015 allows for the appointment of external auditors to Councils if their gross income and expenditure does not exceed £6.5m. As the Shadow Authority will not have its own bank account and all transactions will be hosted by the existing authorities the Shadow Authority qualifies as a 'relevant authority'. Smaller Authorities' Audit Appointments Ltd (SAAA) is an independent, not for profit limited company established to procure external audit services and appoint external auditors for smaller authorities. A smaller authority is an authority where the higher of gross annual income or expenditure does not exceed £6.5m.
10. The reason for requiring an external auditor to be appointed for the Shadow Authority is in case there are any complaints or suspicions of impropriety in relation to the establishment of the new authority. This allows any such concerns to be raised with the appointed auditor and a mechanism for dealing with these. A return will be completed for the Authority by the appointed auditor for the financial period. This is the approach that has been followed for those shadow authorities established in 2018/19.

Principles – Buckinghamshire Council

11. A sector-wide procurement exercise conducted by PSAA will produce better outcomes and will be less burdensome for Buckinghamshire Council than any procurement undertaken locally. More specifically:-
- The audit costs are likely to be lower than if the Council sought to appoint locally, as national large-scale contracts are able to drive keener prices from the audit firms as shown below:-

Table 1 – Details of External Auditors & Associated Fees

Council	Auditors	Current Fee	Pre PSAA Fee
Buckinghamshire County Council	Grant Thornton	£67,828	£88,088
Wycombe District Council	Ernst & Young	£47,691	£62,000
Aylesbury Vale District Council	Ernst & Young	£43,724	£56,785
South Bucks District Council	Ernst & Young	£32,647	£42,000
Chiltern District Council	Ernst & Young	£31,792	£41,000

- Without the national appointment, the Council would need to establish a separate independent auditor panel, which could be difficult, costly and time-consuming;
 - PSAA can ensure the appointed auditor meets and maintains the required quality standards, ensures appropriate independence of auditors from the bodies they audit and can manage any potential conflicts of interest as they arise;
 - Management of the procurement process to ensure both quality and price criteria are satisfied. The PSAA seeks views from the sector to help inform its detailed procurement strategy, looks to minimise scheme management costs and undertakes ongoing contract and performance management of the contracts once these have been let.
 - Supporting the sector-led body will help to ensure there is a vibrant public audit market for the benefit of the whole sector and this Council going forward into the medium and long term.
 - PSAA will consult with authorities and look at appointment of the same auditor to other opted in bodies that are involved in formal collaboration or joint working initiatives, to the extent this is possible with other constraints.
12. If Buckinghamshire Council is to take advantage of the national scheme for appointing auditors, as operated by the PSAA, it would need to take the decision at the first Shadow Authority meeting to ensure that the process is actioned by 31 December 2019.

Principles – Shadow Authority

13. As there will be no transactions or a bank account for the shadow Authority it is important to minimise costs and effort in appointing an external auditor. The appointed auditor body would be required to sign off that there were no transactions, at a nominal cost.

Other options

14. If Buckinghamshire Council did not opt into the PSAA / SAAA arrangements, the Regulations require that an independent auditor panel be established. The members of the panel must be wholly, or a majority of, independent members as defined by the Acts. 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 audit firm to award a contract for the Council's external audit.
15. Alternatively the Regulations enable the Council to join with other authorities to establish a joint auditor panel. Again this panel will need to be constituted of wholly, or a majority of, independent appointees (members). Due to the fact that the implementation of the Act took effect for the financial year 2018/19 onwards, all local authorities have already appointed Auditors; therefore, this is not an option that can currently be explored further.
16. Neither of these options are recommended. Both would be more resource-intensive processes to implement and without the economies of scale offered by the sector led procurement, would be likely to result in a more costly service. In addition it would also be more resource intensive to manage quality and independence requirements through a local appointment process.

Resourcing requirements

17. Opting-in to a national scheme provides the greatest opportunity to ensure fees are as low as possible, whilst ensuring the quality of audit is maintained by entering into a large scale collective procurement arrangement.
18. The total audit fee of the five predecessor councils in 2019/20 is £223,682 excluding grant claims and the pension fund. The fee for Buckinghamshire Council has yet to be set but it will be set on a scale and, as such, is expected to be lower than the current total fees. For indicative purposes, the 2018/19 fee for Wiltshire is £128,913, excluding grant claims and the pension fund. There would be a nominal charge for the audit of the Shadow Authority in 2019/20.
19. If the national scheme is not used, some additional resource would be needed to establish an auditor panel and conduct a local procurement. Until a procurement exercise is completed it is not possible to quantify this additional cost.

Legal implications

20. Section 7 of the Local Audit and Accountability Act 2014 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 Council/Authority must consult and take account of the advice of its auditor panel on the selection and appointment of a local auditor. Section 8 provides that where a relevant Council is a local Council/Authority operating executive arrangements, the function of appointing a local auditor to audit its accounts is not the responsibility of an Executive of the Council under those arrangements.
21. Section 12 makes provision for the failure to appoint a local auditor: the Council must immediately inform the Secretary of State, who may direct the Council to appoint a local auditor on behalf of the Council.

22. 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. In July 2016 the Secretary of State specified PSAA as the appointing person.
23. The Local Audit (Smaller Authorities) Regulations govern the appointment of smaller authorities provided their gross income and expenditure does not exceed £6.5m.