



GA.64 15/16

**Governance and Audit  
Committee**

**Date 14<sup>th</sup> April 2016**

**E**

**Subject: Update on the arrangements for appointing a new External Auditor**

Report by:

Director of Resources

Contact Officer:

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Purpose / Summary:

To inform members of the options available for appointing a new External Auditor and consider being part of a national approach.

**RECOMMENDATION(S):**

1 – Members consider this report and the implications of single or joint tender process and indicate if they wish for the authority to express an interest in joining with the LGA in a nationally led process for the appointment of External Auditors.

## IMPLICATIONS

**Legal:** The Authority is required to appoint an External Auditor and follow appropriate procurement process in doing so.

**Financial:** The existing contract was a significant reduction on the previous arrangements and a new tender process may give rise to an increase form the current rates.

**Staffing :** There are no staffing implications arising from this report.

**Equality and Diversity including Human Rights :**

*NB: Please explain how you have considered the policy's impact on different groups (for example: young people, elderly, ethnic minorities, LGBT community, rural residents, disabled, others).*

**Risk Assessment :**

As appointing an External Auditors is a legal requirement then there is a risk that should the national approach not deliver the desired outcome that the Authority maybe without an appropriate appointment within the timescale. This risk will be mitigated by ensuring the process is monitored closely and having secondary plans in place.

**Climate Related Risks and Opportunities :** Not applicable to this report.

**Title and Location of any Background Papers used in the preparation of this report:**

*Wherever possible please provide a hyperlink to the background paper/s  
If a document is confidential and not for public viewing it should not be listed.*

**Call in and Urgency:**

**Is the decision one which Rule 14.7 of the Scrutiny Procedure Rules apply?**

*i.e. is the report exempt from being called in due to urgency (in consultation with C&I chairman)*

**Yes**

☐

**No**

**X**

**Key Decision:**

*A matter which affects two or more wards, or has significant financial implications*

**Yes**

**X**

**No**

☐

## **1 Introduction**

- 1.1 At the demise of the Audit Commission in xxxx, the Government issued a national tender which packaged Local Government and other public bodies into a number of lots. Local Government were packaged on a geographical basis which meant that the larger Audit firms were able to bid in a tender process for the services they wished to provide within a geographical arrangement. At that time KPMG won the lot which contained West Lindsey District Council.
- 1.2 The contract issued was designed to run upto and including 2016/17 financial year with an option to extend for a further two years. In 2015/16 DCLG decided to extend the contract for one further year 2017/18. For information it is worth noting that the Department for Health did not extend the contract and therefore NHS bodies have needed to go to tender for External Auditors this year.
- 1.3 A company called Public Sector Audit Appointments Limited was established by the LGA in order to manage these contracts once the Audit Commission had been closed down.

## **2 Options**

- 2.1 We have discussed previously with Committee the potential options including a tender in our own right, a joint tender with County neighbours and options considering regional and national approaches.
- 2.2 We have now received an invitation from the LGA (Appendix 1) asking if we would be interested in being part of a national approach, to be organised and managed through the current contract management company PSAA Ltd.
- 2.3 To remind members of the process we would need to go through if we organised our own single tender process I have attached a summary form KPMG on the subject as appendix 2.

## **3 Conclusion and Recommendations**

- 3.1 The freedom to appoint our own External Audit is to be welcomed as that will give elected members a direct input into the process and the selection of External Auditors.
- 3.2 However, a single Authority tendering is unlikely to achieve as lower price as a collective approach be that national, regional or local due to the potential for offering a critical mass for economies of scale to any potential bidder.
- 3.3 Members are therefore asked to consider this report and the implications of single or joint tender process and indicate if they wish for the authority to express an interest in joining with the LGA in a nationally led process for the appointment of External Auditors.

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7 March 2016

## From the LGA's Chief Executive

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Dear colleague,

### **Sector-led body for the appointment of external auditors – opt-in sought**

You will recall that the LGA established an independent company, Public Sector Audit Appointments Ltd (PSAA), to take on the management of the external audit contracts for local public bodies following the closure of the Audit Commission. We also secured the extension of contracts by an additional year which maintains the reduction in fees of 55 per cent for every single council achieved in the last few years and by doing so saves a further £24 million.

The LGA has successfully lobbied for the legislation to include provision for the establishment of a sector-led body to procure future audit contracts. We intend to support the appointment of PSAA as the sector-led body for local government. Our analysis indicates that this would be far cheaper for councils than every council procuring their external auditor separately. It would avoid the need for hundreds of separate procurement exercises and also has the advantage for councils making use of this procurement vehicle that it saves the time and costs which would otherwise be required to establish an Independent Auditor Panel.

Our survey of directors of finance last year indicated a significant majority in favour of our proposal and we now need to move forwards towards the process of signing councils up. For this to be a success we need councils to opt-in to the sector-led body approach.

So that we can continue to progress our efforts on behalf of the sector to secure efficient, cost effective and good quality arrangements we would like your council to express an interest by 30 April 2016. This is not a binding commitment and we hope to be able to issue formal invitations later in the year.

The [LGA website](#) will feature regular updates on the development of PSAA's proposed sector-led body role. However, if you would like further information or have any feedback on how this approach would work best for councils please contact Fiona Daley on [fiona.daley@local.gov.uk](mailto:fiona.daley@local.gov.uk).

Best wishes,

**Mark Lloyd**  
Chief Executive,  
Local Government Association



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# Appointing your external auditor

Considerations for the local government sector

West Lindsey District Council

November 2015

Assurance  
Financial  
Audit  
Expert  
100%  
True  
Internal  
Statements  
View  
Enhance  
Opinion  
Reporting  
Framework  
Misstatement  
Confidence  
Express  
Accuracy  
Transparency  
Fair  
Confirmation  
Reconciliation  
Verification  
Determination  
Re-computation  
Suppliers  
Regulators  
Customers  
Employees  
Shareholders  
Tax authorities  
Banks  
Law  
Cost  
Risk  
Error  
False

# Appointing your external auditor

## Background

In August 2010 the then Secretary of State for Communities and Local Government, Eric Pickles, announced that he intended to close the Audit Commission, the body that appointed external auditors to Local Government and NHS organisations (excluding Foundation Trusts). As part of this announcement, he also stated that organisations whose appointments were previously controlled by the Audit Commission should have the freedom to appoint their own external auditors.

The Audit Commission closed on 31 March 2015. At that time contracts were already in place for local government and NHS external audit appointments that covered audits up to and including the financial year 2016/17. Within these contracts there is an option to extend for a maximum of three further years, i.e. up to and including the financial year 2019/20.

A consultation exercise with key stakeholder groups has recently been concluded on whether, and if so for how long, to extend these contracts. The Government decided that for local government bodies the contracts will be extended by one year, so incorporating the audit of the 2017/18 financial year. Contracts for NHS bodies will not be extended.

## What does this mean for West Lindsey District Council?

This decision means that you will assume the power to appoint your external auditor from the 2018/19 financial year onwards. This will be the first time you have made such an appointment. External auditors provide an important professional service and play a critical role in the stewardship of public spending, so it is vital that this new decision making power is exercised after careful consideration on how to proceed. Whilst you have different options open to you on how to approach this new power, you will need to comply with some specific requirements.

# Appointing your external auditor

## What should West Lindsey District Council be considering?

In deciding what to do there are a number of considerations.

<b>Do your current external auditors provide you with a good service?</b>	If yes, do you need to change? If no, now you have an opportunity to do something about it.
<b>How could we procure an external audit service to ensure we get best value?</b>	<p>You will have a number of options on how and when to procure your external audit service – these are summarised later in this document.</p> <p>Given the range of options it will be important to consider the best approach for your organisation.</p>
<b>What do we need to do before we start a procurement process?</b>	The new regulations require you to have an Audit Panel, which will be responsible for recommending who your external auditor should be. This Panel must include a majority of independent (i.e. not elected) members and an independent chair. It makes sense for the Panel to have links with your audit committee.
<b>When do we need to undertake a procurement exercise?</b>	<p>The regulations require you to have appointed your external auditor by 31 December in the year preceding the year of audit. As 2018/19 is the first year of these new arrangements, you will need to have appointed your auditor by 31 December 2017.</p> <p>You will need to undertake whatever procurement process you follow in good time – sometime between the Spring and Autumn of 2017. And before doing that you will need to have established your Audit Panel – by early 2017 would be sensible.</p>
<b>Who can we appoint to be our external auditor?</b>	You will only be able to appoint an audit firm that has been authorised by the ICAEW to undertake 'local audit work'. Local government auditing is highly specialised and you will need to ensure that your auditor has the necessary capability, experience and capacity to fulfil the statutory duties of a local government auditor.

# Appointing your external auditor

## Procurement options

Although local government bodies will all assume the same power to appoint their external auditor, it is likely that various options will be followed on how they go about doing this. The main options are set out below.

<b>Re-appoint incumbent auditor</b>	One option might be to continue with your current audit provider for a short period, say between one and three years. This would delay testing the market, although you could benchmark proposed fees for reasonableness against published data or by comparing to similar bodies. This would provide stability of service in the short term and also avoid the 'rush to market' as large numbers of local authorities undertake procurement exercises within a short period of time, allowing you to procure later in a more settled audit market.
<b>Stand-alone tendering</b>	As with any other service, you could run your own procurement process. This allows complete autonomy over how and when you want this to be done, although you will need to ensure you follow the Regulations and consider any guidance issued by DCLG or other relevant bodies. However, you should consider whether you will have sufficient purchasing power on your own to obtain best value.
<b>Combined procurement</b>	You could join together with one or more neighbouring authorities to undertake a collective procurement exercise. This would enhance your purchasing power, but would diminish your autonomy over the process and you would need to consider how to retain sufficient sovereignty over decision making and whether this might complicate auditor independence considerations.
<b>Existing frameworks</b>	You could use one of the many existing government or public sector frameworks. These list firms who have already been shortlisted and therefore might speed up the process. You will need to ensure that the firms on any framework have been authorised by the ICEAW for local audit work, however.
<b>Sector led procurement</b>	The new audit legislation allows for a sector-led body (referred to as a 'specified person' in the Regulations) to undertake a bulk procurement process. If such an organisation emerges then this option provides an administratively easy route and would most likely have the greatest element of specialist audit procurement expertise. It would also provide good purchasing power, although with less autonomy than some other options, and might afford easier management of potential auditor independence issues than other combined procurements approaches. It will be the most similar option to the current arrangements.



# Appointing your external auditor

## What other factors should you consider?

When you are deciding who to appoint as your external auditor you will need to consider a range of factors. Key areas to consider are as follows:

- **Quality:** This is a vital consideration and should be appropriately weighted in any scoring methodology for assessing tenders. Relevant considerations include audit methodologies, systems and processes, staff training and expertise, and quality monitoring arrangements.
- **Experience:** Local government auditing is a specialist business and your auditor must have the necessary skills and sector experience. This is not just about understanding local authority financial reporting, but extends into auditors' value for money audit responsibilities and 'challenge' work.
- **Independence:** You will need to consider possible relationships with audit firms via non-audit work such as consultancy and tax advice. Independence is also an important mind-set for auditors to adopt, where you should be satisfied that your future auditor will be sufficiently challenging (and your current auditor should not be constrained in exercising their duties by any tendering process).
- **Organisational fit:** As with any service it is important to consider how the people you see in the audit team fit with your own organisational culture – i.e. can you work with these people.
- **Price:** Like any other out-sourced service you need to obtain good value through a competitive audit fee. However, best value does not mean the cheapest quote. The fee must be sufficient to provide a good quality service taking account of the scale, nature and risk profile of your organisation, and also the requirement for your external auditor to comply with auditing standards and other statutory duties.
- **Other services:** Although ethical standards provide limitations, you should consider what other services you might want your auditor to perform, whether that is other assurance services (e.g. certifying grant claims) or more added-value services.

# Appointing your external auditor

## What next?

There is still plenty of time before you appoint your external auditor for the first time, but there will be a long lead up to that decision. It is therefore important to think about how your organisation should approach this in good time. We would suggest that you should be developing your procurement strategy and selecting your preferred approach during 2016.

It is likely that further guidance and support will be issued by DCLG, and potentially other organisations such as CIPFA, to help you with the decisions you need to make and how you proceed. We will continue to update you on key developments.

If you want to discuss this further please contact your audit Engagement Lead, John Cornett.





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