

# Audit & Governance Committee

**Dorset County Council**



Date of Meeting	20 January 2017
<u>Lead Officer</u> Richard Bates – Chief Financial Officer	
<b>Subject of Report</b>	<b>Appointing the external auditor</b>
Executive Summary	<p>The current external auditor's appointment runs out following the audit of the financial statements for the year ending 31 March 2018. The County Council must make its own arrangements for procuring external audit services in order to ensure an appointment is made by 31 December 2017. Four procurement options are available, each of which are discussed in this paper.</p> <p>At the time of writing this paper, there is uncertainty over the exact details of local government structures in Dorset. Whilst the report therefore recommends a procurement approach, it also recommends delegation of responsibility for detailed arrangements to the Chief Financial Officer to ensure Dorset Councils work together in the best way to secure effective and efficient audit arrangements in the transition to LGR as well as after its implementation.</p> <p>It is likely that the other Dorset Councils will be recommending the same approach as the County Council.</p>
Impact Assessment:	Equalities Impact Assessment: Appointment of an auditor is not a change of policy or strategy for audit services, only the potential approach to procurement.
	Use of Evidence:

	<p>Budget: Audit of the financial statements is a statutory requirement. The current audit fee is £74k per annum. This paper examines possible approaches to the procurement of the external auditor from 1 April 2018 in order to ensure audit services deliver excellent value for money for Dorset's taxpayers.</p>
	<p>Risk Assessment: Having considered the risks associated with this decision using the County Council's approved risk management methodology, the level of risk has been identified as:  Current Risk: LOW  Residual Risk LOW</p>
	<p>Other Implications: None evident.</p>
<p>Recommendation</p>	<p>The Committee is asked to:</p> <ul style="list-style-type: none"> <li>(i) note the content of this report and particularly the options available for the procurement of the external auditor;</li> <li>(ii) support the recommendation to the County Council to opt into the sector-led auditor procurement process being led by Public Sector Audit Appointments Ltd (PSAA);</li> <li>(iii) support the recommendation that the County Council delegates to the Chief Financial Officer, responsibility to ensure that the County Council is active in supporting delivery of best value for money arrangements across all Dorset Councils in light of LGR arrangements yet to be confirmed.</li> </ul>
<p>Reason for Recommendation</p>	<p>To enable Officers of the County Council to progress arrangements for the appointment of the Authority's external auditor.</p> <p>To ensure the Chief Financial Officer and his staff can work effectively with other Dorset Councils to ensure best value for money and to deliver effective and efficient audit arrangements in the transition to potential new governance structures across the county.</p>
<p>Appendices</p>	<p>None</p>
<p>Background Papers</p>	<p>A link to PSAA's website is provided for reference.</p> <p><a href="http://www.psa.co.uk">http://www.psa.co.uk</a></p>
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## **1. Background**

- 1.1 Historically, local authority external auditors were appointed by the Audit Commission. The Local Audit & Accountability Act 2014 (LAAA) provided for the closure of the Commission on 31 March 2015 but its contracts continue under transitional arrangements managed by Public Sector Audit Appointments Ltd (PSAA).
- 1.2 PSAA is a company limited by guarantee which was established in August 2014, under the LAAA, specifically for the purposes of managing former Audit Commission contracts. PSAA is a subsidiary of the Improvement and Development Agency – a body which is itself wholly owned by the LGA.

## **2. Timing**

- 2.1 Dorset County Council's external audit is provided by KPMG LLP under arrangements made through PSAA which expire on conclusion of the audit of the 2017/18 financial year. From that point on, the County Council will be audited by a firm that it will have procured itself.
- 2.2 LAAA requires that the external auditor be appointed by 31 December 2017. There are a number of matters to consider in selecting the auditor - and indeed in deciding on the specific procurement approach - some of which are discussed in this paper.

## **3 Procurement options**

- 3.1 There are four main options available to the County Council when considering the external auditor procurement approach:
- short term option to continue with current auditor
  - tendering the County Council's business as a stand-alone contract
  - collaborative procurement with one or more other authority
  - opting into a national collaborative procurement by a third party.

### Continuing with the current auditor

- 3.2 We could pursue the option to engage our current auditor directly for a short period of time. We would generally only look to do this if we were seeking an initial period of stability prior to a proper test of the market. This approach would have the advantage of allowing the market to develop after a potential, initial rush to appoint auditors and may allow a more informed choice. It might also, in our particular circumstances, enable a smooth audit transition to LGR.
- 3.3 Delaying the appointment of a new auditor would, however, miss any efficiency opportunities that are available through an early market test. It would also mean we would miss out on any potential collaboration opportunities – these might be particularly appealing to us in the transition to LGR.

### Stand-alone tender

- 3.4 This process would mean tendering the Authority's business using our own procurement process. The likely value would mean the arrangement would need to be OJEU compliant. In these circumstances LAAA requires us to establish an audit panel to decide who the auditor should be, following the tender process. There are further choices around the establishment of the panel itself and these come with a

requirement for officer time and resource and potentially collaboration with/involvement of others.

- 3.5 This approach allows most discretion and autonomy over the approach and the decision-making. However, running our own process involves officer time and cost and it is possible that we might end up with bids from firms with limited experience of local authority auditing. This method would, again, miss out on opportunities for collaboration and might also mean only a short-term relationship would be possible – prior to LGR which would take effect from the 2019/20 financial year.

#### Collaborative procurement

- 3.6 This approach would mean working with others to appoint an auditor for all those involved in the process. It is attractive in that in the transition to LGR, it would be possible for us to enter a joint arrangement with other pre-unitary partners and work together to select our auditor. It would also allow a higher level of autonomy over the process and decision-making than opting into a sector-led procurement.
- 3.7 However, this approach also needs officer time and support and involves a level of complexity/management on top of the stand-alone tender in that it would be necessary for collaborators to agree on the approach, resourcing and decision-making. It would also involve the establishment and support of an audit panel.

#### Sector-led procurement

- 3.8 Opting into a sector-led procurement process is the fourth option available to us; in this case, opting into the arrangements in place with PSAA. The Secretary of State has designated PSAA an *appointing person* which means the company can undertake the necessary procurement activity to contract with a number of firms on behalf of those for whom it acts. PSAA will then propose the appointment of an auditor to each participating authority, having regard to matters such as auditor independence.
- 3.9 This approach offers least autonomy over the choice of auditor and there is at present, only limited detail on how the procurement will operate. However, the arrangements are likely to be the most similar to those currently in place. Should we decide to opt-in, we must confirm by 9<sup>th</sup> March 2017 that we wish to do so.
- 3.10 A sector-led approach has the advantage of avoiding the support, time and cost of arranging independent or collaborative procurements and of establishing and servicing an audit panel. Clearly PSAA will incur costs in running the scheme and these will be included in the fee payable to the auditor – as is presently the case.
- 3.11 This method ensures that the arrangements will be managed by an organisation with significant experience of public sector audit appointments. If we work collaboratively with the other authorities in Dorset, we can also ensure arrangements are put in place to appoint auditors most efficiently across whichever LGR configuration is decided upon and that the auditor(s) establish a clear understanding of the existing councils' arrangements, governance and reporting as part of their transition to any new structures from 1 April 2019.
- 3.12 The County Council's fee for the audit of the financial statements (and value for money opinion) was set at £74k per annum, from 2015/16 until the contract expires at the end of 2017/18. It is not yet possible to say whether our fee would increase or

decrease under the opt-in arrangements from 1 April 2018 – but all the options carry uncertainty over fees.

- 3.13 To an extent, the fee levels with the PSAA scheme will depend on take-up. The current arrangements operated by PSAA mean that the overhead recovered by the company to pay for their costs is included in the £74k that the County Council pays to KPMG LLP. PSAA Ltd's accounts for the year ended 31/03/2016 showed administrative expenses of £2.01m against a turnover of £73.8m – so a very crude, pro rata approach to fee recovery might indicate that £2k of our £74k fee was overhead paid to PSAA.

#### **4 Further/summary considerations**

- 4.1 As well as the advantages and disadvantages summarised above, there are some additional matters to be considered in making the decision about the procurement approach.
- If we pursue an independent or collaborative approach to the procurement, we must establish an audit panel to recommend the appointment of the external auditor. In these circumstances, the panel must also oversee any non-audit services provided. It must have an independent Chair and a majority of independent Members.
  - Regardless of the option followed for the appointment process, the audit firm chosen must comply with the Code of Audit Practice issued by the National Audit Office.
  - Whichever approach is chosen, we must have appointed our auditor by 31 December 2017.
  - We can only appoint an audit firm that is registered for local audit.
  - Quality must be a key consideration in the procurement and selection process. Appropriate recognition should therefore be given to auditor methodology, systems, processes, staff skills and experience and ability to deliver within our faster closedown targets (which are far tighter than those prescribed by statute).
  - How do the audit staff fit, culturally and strategically with our people and processes – can we work with them?
  - How will we ensure we get value for money and will the auditor add value beyond the assurance work of auditing the financial statements?

#### **5 Summary and recommendation**

- 5.1 Although there are some, limited disadvantages with opting into the national scheme, it is recommended that the County Council opt into the PSAA, sector-led procurement. Although there will be an overhead cost involved, this option delivers significant savings in officer and member time and will ensure the process is carried out by a company with a solid track record of public sector auditor appointments.
- 5.2 It is further recommended that Members delegate to the Chief Financial Officer, responsibility within the PSAA scheme to work with colleagues across Dorset Councils to ensure that efficient and effective audit arrangements are put in place for Dorset's future governance structures after decisions about LGR are taken in January 2017. It is likely that the Chief Financial Officers of Dorset's other Councils will be recommending the same approach.

**Richard Bates**  
**Chief Financial Officer**  
January 2017