

Supporting Information

Section 1: Background Information	
1.	<p>What is the proposal / issue?</p> <p>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. 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.</p> <p>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'.</p> <p>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. The appointing person is sometimes referred to as the sector led body and PSAA has wide support across local government. 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.</p> <p>PSAA is inviting the Council to opt in, along with all other authorities, so that PSAA can enter into a number of contracts with appropriately qualified audit firms and appoint a suitable firm to be the Council's auditor.</p>
2.	<p>What is the current situation?</p> <p>The Council's current external auditor is Grant Thornton, this appointment having been made under a contract let by the Audit Commission. Following closure of the Audit Commission the contract was novated to PSAA, and since this date PSAA has demonstrated its capability in terms of auditor appointment, contract management, and monitoring audit quality. Over recent years authorities have benefited from a reduction in fees in the order of 55% compared with fees in 2012. This has been the result of a combination of factors including new contracts negotiated nationally with the audit firms and savings from closure of the Audit Commission. The Council's current external audit fee is £102,000 per annum plus any grant certification work.</p> <p>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 Council's audit must follow. Not all audit firms will be eligible to compete for the work, they will need to demonstrate that they have the</p>

	required skills and experience and be registered with a Registered Supervising Body approved by the Financial Reporting Council.
3.	<p>What options have been considered?</p> <p>If the Council did not opt in the PSAA there would be a need to establish an independent auditor panel. In order to make a stand-alone appointment the auditor panel would need to be set up by the Council itself. The members of the panel must be wholly or a majority of 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 audit firm to award a contract for the Council's external audit.</p> <p>Alternatively the Act enables the Council 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 would be required on the exact constitution of such a panel having regard to the obligations of each Council under the Act and the Council would need to liaise with other local authorities. Local procurement has been considered and discussed with neighbouring authorities however there was no appetite for such action. This together with only nine providers that are eligible to audit local authorities and other relevant bodies means that any local procurement exercise would seek tenders from these same firms, subject to the need to manage any local independence issues. Local firms could not be invited to bid.</p> <p>None of these options are recommended. All these options would require more resource-intensive processes to implement and without the bulk buying power of the sector led procurement, would be likely to result in a more costly service. It would also be more difficult to manage quality and independence requirements through a local appointment process.</p>
4.	<p>How does this proposal support the ambitions, principles and delivery of the Corporate Plan 2015-19?</p> <p>The proposal supports the Corporate Plan by using reducing resources to best effect. The PSAA as appointing authority would manage the procurement process, ensuring both quality and price criteria are satisfied. Ensure suitable independence of the auditors from the bodies they audit and managing any potential conflicts as they arise whilst minimising the scheme management costs and returning any surpluses to scheme members. Activities that would have placed greater demand on resources that are already stretched.</p>
5.	<p>Who will be affected by this proposal and who do you need to consult with?</p> <p>Torbay Council's officer and elected members. However there would be no change to the delivery model.</p>
6.	<p>How will you propose to consult?</p> <p>Not applicable.</p>

Section 2: Implications and Impact Assessment

7.	<p>What are the financial and legal implications?</p> <p>Legal implications</p> <p>Section 7 of the Local Audit and Accountability Act 2014 requires a relevant Council 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 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 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.</p> <p>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 the auditor named in the direction or appoint a local auditor on behalf of the Council.</p> <p>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.</p> <p>Financial implications</p> <p>There is a risk that current external fee levels could increase when the current contracts end in 2018. Opting-in to a national scheme provides maximum opportunity to ensure fees are as low as possible, whilst ensuring the quality of audit is maintained by entering in to a large scale collective procurement arrangement.</p> <p>If the national scheme is not used some additional resource may be needed to establish an auditor panel and conduct a local procurement. Until a procurement exercise is completed it is not possible to state what, if any, additional resource may be required for audit fees for 2018/19.</p>
8.	<p>What are the risks?</p> <p>The principal risks are that the Council fails to appoint an auditor in accordance with the new frameworks or does not achieve value for money in the appointment process. These risks are considered best mitigated by opting in to the sector led approach through PSAA.</p>
9.	<p>Public Services Value (Social Value) Act 2012</p> <p>No implications</p>

10.	<p>What evidence / data / research have you gathered in relation to this proposal?</p> <p>Information on Council's who have opted in is available on the PSAA website.</p> <p>Informal updates between unitary Council's indicate the significant majority are intending to use the PSAA.</p> <p>Informal update between other Councils in Devon indicates the majority are intending to use the PSAA.</p>
11.	<p>What are key findings from the consultation you have carried out?</p> <p>Not applicable.</p>
12.	<p>Amendments to Proposal / Mitigating Actions</p> <p>Not applicable</p>