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| <p style="text-align: center;">London Borough of Hammersmith & Fulham</p> <p style="text-align: center;">CABINET</p> <p style="text-align: center;">16 JANUARY 2017</p> |  |
| <p>APPOINTMENT OF EXTERNAL AUDITORS</p> | |
| <p>Report of the Leader of the Council – Councilor Stephen Cowan</p> | |
| <p>Open Report</p> | |
| <p>Classification: FOR DECISION</p> | |
| <p>Key Decision: Yes</p> | |
| <p>Wards Affected: ALL</p> | |
| <p>Accountable Director: Hitesh Jolapara, Strategic Finance Director</p> | |
| <p>Report Author: Christopher Harris, Head of Corporate Accountancy and Capital</p> | <p>Contact Details: Tel: 0208 753 6440 Email: christopher.harris@lbhf.gov.uk</p> |

1. EXECUTIVE SUMMARY

- 1.1. This report outlines the approach for appointing the Council's External Auditors further to the end of the transitional arrangements which have been in place since the end of the Audit Commission. It was considered by the Audit, Pensions and Standards Committee on 7th December 2017 who have recommended that Council opts in to the appointing person arrangements made by Public Sector Audit Appointments (PSAA) for the appointment of external auditors.

2. RECOMMENDATIONS

- 2.1. To approve that the Council opts in to the appointing person arrangements made by Public Sector Audit Appointments (PSAA) for the appointment of external auditors.

3. REASONS FOR DECISION

- 3.1. Regulation 19 of the Local Audit (Appointing Person) Regulations 2015 requires that a decision to opt-in to the new appointment arrangements must be made by Full Council. The PSAA have requested that any decision is made by February 2017.

4. INTRODUCTION AND BACKGROUND

- 4.1. The Council's External Auditors were previously appointed by the Audit Commission. Following the demise of the Commission, transitional appointment arrangements were put in place running up to and including the audit of the financial year 2017/18. The Council must ensure it has arrangements in place for the appointment of External Auditors for the financial year 2018/19 onwards.
- 4.2. The Local Audit and Accountability Act 2014 requires authorities to either opt in to the appointing person regime – i.e. as part of a sector-wide consortium - or to establish an auditor panel and conduct their own procurement exercise.
- 4.3. In July 2016 the Department for Communities and Local Government (DCLG) confirmed Public Sector Audit Appointments (PSAA) as the appointing person for this purpose.
- 4.4. The 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). It is the body to whom existing External Audit contracts were novated following the end of the Audit Commission.
- 4.5. The Council must now decide to opt into the PSAA arrangements or undertake its own audit selection and procurement process.
- 4.6. It is recommended that Council opts in to the appointing person arrangements made by PSAA for the appointment of external auditors.
- 4.7. Regulation 19 of the Local Audit (Appointing Person) Regulations 2015 requires that a decision to opt in must be made by Full Council. The PSAA have requested that any decision is made prior to February 2017.

5. REASONS FOR THE PROPOSED DECISION

- 5.1. It is likely that a sector-wide procurement conducted by PSAA will produce significantly better outcomes for the Council than any self-determined procurement. Use of the PSAA will:
 - Be less resource intensive than establishing an auditor panel and conducting our own procurement.
 - Harness the bulk buying power of the sector led procurement, leading to reduced audit fee.
 - Harness the expertise vested in the PSAA. The PSAA has wide support across local government.
- 5.2. The advantages of a sector led body procurement are:
 - 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.

5.3. This report was considered by the Audit, Pension and Standards Committee on 7th December 2016 who recommended that the Council opt into the PSAA arrangements.

6. EQUALITY IMPLICATIONS

6.1. There are no direct equalities implications in relation to this report.

7. LEGAL IMPLICATIONS

7.1. There are no direct legal implications in relation to this report.

7.2. Implications verified/completed by: David Walker, Principal Solicitor, Commercial and Corporate Property, 020 7361 2211.

8. FINANCIAL IMPLICATIONS

8.1. Recent Audit fees are shown below:

| Year | Audit fee (£'000) |
|---------|-------------------|
| 2015/16 | 164 |
| 2014/15 | 216 |
| 2013/14 | 216 |
| 2012/13 | 216 |

Source: Statement of Accounts, excludes grant claim fees

The most recent audit fee reflects the assumed future budgets for this area.

8.2. Implications completed by: Christopher Harris, Head of Finance – Corporate Accountancy and Capital, Tel: 020 8753 6440

9. IMPLICATIONS FOR BUSINESS

9.1. External Audit underpins the Council's arrangements for sound financial control and achieving value for money. This will encompass a number of areas likely to impact on local businesses including:

- Ensuring that arrangements are in place to pay suppliers in a timely and accurate manner;
- Ensuring transparency in the Council's financial information and processes enabling local taxpayers and businesses to hold the Council to account;
- Ensuring that the Council's arrangements for procurement are fair, accessible, and equitable.

9.2. Implications completed by: Antonia Hollingsworth, Principal Business Investment Officer. Tel: 020 8753 1698

10. RISK MANAGEMENT

- 10.1. Auditing is a cornerstone of good public sector governance. By providing unbiased, objective assessments of whether public resources are managed responsibly and effectively to achieve intended results, auditors help councils achieve accountability and integrity, improve operations, and instil confidence among local citizens and taxpayers. The public sector auditor's role supports the governance responsibilities of oversight, insight, and foresight. Oversight addresses whether public sector entities are doing what they are supposed to do and serves to detect and deter public corruption. Insight assists decision-makers by providing an independent assessment of public sector programs, policies, operations, and results. Foresight identifies trends and emerging challenges. Auditors use tools such as financial audits, performance audits, investigations, and advisory services to fulfil each of these roles.
- 10.2. An effective public sector audit activity strengthens governance by materially increasing citizens' ability to hold their public sector entity accountable. Auditors perform an especially important function in those aspects of governance that are crucial for promoting credibility, equity, and appropriate behaviour of public sector officials, while reducing the risk of public corruption. Therefore, it is crucial that audit activities are configured appropriately and have a broad mandate to achieve these objectives. The audit activity must be empowered to act with integrity and produce reliable services, although the specific means by which auditors are appointed vary. The proposed route seeks to deliver the best possible service at least cost to the local taxpayer, the recommended route therefore is in accord with management of risk associated with Market Testing and Delivering Statutory Duties both expressed on the Council's Risk Register.
- 10.3. Implications completed by: Michael Sloniowski, Shared Services Risk Manager ext. 2587

11. PROCUREMENT IMPLICATIONS

- 11.1. Use of the PSAA framework represents an efficient and sensible route for the procurement of external audit. In establishing the framework of external audit providers, the PSAA will need to comply with the requirements of the Public Contracts Regulations 2015.
- 11.2. Implications verified/completed by: John Francis, Interim Head of Procurement (Job-Share) - 020 8753 2582.

LOCAL GOVERNMENT ACT 2000 **LIST OF BACKGROUND PAPERS USED IN PREPARING THIS REPORT**

| No. | Description of Background Papers | Name/Ext of holder of file/copy | Department/ Location |
|------------|---|--|-----------------------------|
| 1. | None | | |