

Committee(s)	Dated:
Audit and Risk Management Committee – For decision	07/02/2017
Subject: External Audit Arrangements	Public
Report of: The Chamberlain	For Decision
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Summary

Under the statutory framework for local public audit the Corporation must appoint an external auditor for the City Fund and Pension Fund by 31 December 2017 for the audit of the accounts of the 2018/19 financial year. The Corporation can either join an appointing person arrangement led by Public Sector Audit Appointments Ltd (PSAA) or carry out a procurement and appointing exercise (individually or jointly with other bodies). Whilst national large-scale contracts under the PSAA option may bring economies of scale they are only open to local authority funds. The Corporation would still need to carry out a procurement and appointing exercise for the non-local authority funds.

In 2012 this Committee concluded that, following the abolition of the Audit Commission, it was likely that it would be more beneficial to have the same auditor across funds. As an interim measure Members resolved to re-tender the contract for the non-local authority funds to be co-terminus with the expected end in 2016/17 of the Audit Commission regime for local authority funds thereby facilitating a single procurement process for the audit of all funds. However, in 2015 the transitional arrangements for local public audit were extended by a year to cover the audit of the 2017/18 accounts.

This report provides further information on the options available and concludes that on balance a single procurement process to appoint the same external auditor for all funds remains the preferred option. If Members concur then it will be necessary to; extend (via a waiver) the non-local authority contract with Moore Stephens LLP by a year to align it with the local authority audit and establish an auditor panel to advise on the selection and appointment of the auditor. The auditor panel will need to be established early in 2017 to provide advice on the tender specification and evaluation criteria and, as the next meeting of the Audit and Risk Management Committee is in May, delegated authority is being requested.

Recommendations

Members are asked to:

- agree the preferred option of a single procurement process to appoint the same external auditor for all funds;

- re-establish an Independent Audit Appointment Panel (IAAP) to act as the auditor panel as required under the Local Audit and Accountability Act 2014;
- appoint two City Corporation Members of the Audit and Risk Management Committee to the IAAP;
- authorise the Town Clerk to advertise for three independent Members for the IAAP;
- establish a selection panel, which is authorised to shortlist and interview applicants, comprising the Chairman and Deputy Chairman of the Audit and Risk Management Committee, up to two Full Members of the Committee, the Chamberlain and the Town Clerk; and
- delegate authority to the Town Clerk in consultation with the Chairman and Deputy Chairman to make a recommendation to the Court of Common Council on the appointment of independent Members to the IAAP.

Main Report

Background

1. In 2012 this Committee concluded that, following the abolition of the Audit Commission, it was likely that it would be more beneficial to have the same auditor across funds. As an interim measure Members resolved to re-tender the contract for the non-local authority funds to be co-terminus with the expected end in 2016/17 of the Audit Commission regime for local authority funds thereby facilitating a single procurement process for the audit of all funds. However, in 2015 the Government decided to extend the transitional arrangements put in place after the Audit Commission was abolished by a year to cover the audit of the 2017/18 accounts.
2. Under the new arrangements put in place by the Local Audit and Accountability Act 2014 (the Act) the City Corporation must appoint an external auditor for the City Fund and Pension Fund by 31 December 2017 for the audit of the accounts of the 2018/19 financial year.

Current Auditor Appointments

3. **For the non-local authority activities**, the audit appointment is inextricably linked with what is termed the “George I Act” in that the auditor must be elected by Common Hall to the Audit Panel as an Auditor of Chamberlain’s and Bridgemasters’ Accounts. Until 2012 only firms on the Panel were invited to tender. However, the current contract with Moore Stephens LLP was let using an open procurement procedure, subject to a representative of the successful firm being elected as an Auditor before the award of the contract. Furthermore, governance arrangements were established to mirror the proposed structure being legislated for auditor appointments in local authorities. Specifically, an Independent Audit Appointment Panel composed of the three independent members of the Audit and Risk Management Committee, one of whom would serve as Chairman, and two City Corporation members was set up. Finally, qualifications for the office of Auditor were established by an Act of Common Council.
4. **For the local authority functions**, the current auditors, BDO LLP, are working under a contract let by the Audit Commission which was novated to Public Sector Audit Appointments Limited (PSAA). This transitional arrangement ends with the

audit of the 2017/18 accounts. The options available for procuring local public audit for 2018/19 onwards are set out in the next section. The scope of the audit will be specified nationally by the National Audit Office (NAO) and not all accounting firms will be eligible to compete for the work, they will need to demonstrate that they have the required skills and experience and be registered with a Registered Supervising Body (RSB) approved by the Financial Reporting Council.

5. Further details of the qualifications required for the office of Auditor for the non-local authority funds and audit firms registered to carry out local authority audits are set out in Appendix 1.
6. The annual cost of the current arrangements based on the audit of the 2015/16 accounts is set out below:

	City Fund £'000	Pension Fund £000	City's Cash £000	Bridge House Estates £000	Total £000
BDO	116	21	4 ¹	0	141
Moore Stephens	0	0	88 ²	37	125
Total	116	21	92	37	266

1. As BDO already certify the local authority return to Teachers' Pension they were also engaged to certify the non-local authority return.

2. Includes audit of GSMD academic year accounts and US loans

Local Public Audit Procurement Options

7. For the appointment of auditors to the City Fund and Pension Fund the statutory framework allows the following options.

Option 1 – Join an Appointing Person Arrangement

8. PSAA has been specified as an appointing person (sometimes referred to as a sector led body) under the relevant Regulations. An invitation has been issued for councils to “opt in” to a new national scheme whereby PSAA will undertake the procurement process and make external audit appointments for a five year period. PSAA require responses by 9 March 2017 and under the Act a decision to opt in must be made at a meeting of full council.
9. Whilst national large-scale contracts procured by the PSAA may bring economies of scale they will only cover the audit of local authority funds. The Corporation would have no input into the appointment process and would still need to carry out a separate procurement and appointing exercise for its non-local authority funds. This option is therefore not recommended.

Option 2 - Undertake a joint procurement and appointing exercise with other bodies

10. The Corporation with its diverse range of roles, responsibilities and funds differs significantly from other eligible Local Authority bodies. It is considered unlikely that the Corporation's requirements for selecting the same auditor across all its funds would match those of a local authority with a single fund. This option has therefore not been pursued any further.

Option 3 - Undertake an individual procurement and appointing exercise

11. This option would allow the Corporation the flexibility to combine the procurement and appointment of both the local authority and non-local authority audits into a single exercise. Tenders could be sought either as separate lots for the local authority or non-local authority audits or as a single contract for all funds. Whilst separate lots widens the potential pool of audit firms for the non-local authority funds beyond those registered for local authority audits it could result in two separate audit firms being appointed. Separate lots are therefore not recommended.

Governance Arrangements

12. For options 2 and 3 the statutory framework for local public audit requires the establishment of an auditor panel to advise the authority on:
- the selection and appointment of the auditor;
 - Whether the authority should adopt a policy on obtaining non-audit services from the auditor, including the contents of such a policy;
 - Any proposal by the authority to enter into a liability limitation agreement;
 - Maintaining an independent relationship with its auditor; and
13. The outcome of any investigation of an auditor's resignation from office, if this occurs, or on any proposal to remove a local auditor from office.
14. CIPFA has published useful guidance on the various options, the operation and functions of the panel and the main task of the panel (a copy of the guidance is available at the following link, or a hard copy can be provided if required, <http://www.cipfa.org/policy-and-guidance/publications/g/guide-to-auditor-panels-pdf>).
15. The Audit and Risk Management Committee established an Independent Audit Appointment Panel (IAAP) in 2012 to advise on the tender for the non-local authority funds external audit. The membership of the panel was based on the provisions included in the Local Audit and Accountability Bill for an auditor panel and comprised two City Corporation Members of the Committee (the Revd Dr Martin Dudley and Oliver Lodge) and the three external Members (Kenneth Ludlam, Hilary Daniels and Caroline Mawhood) and was chaired by Kenneth Ludlum.
16. However, as the IAAP was established before the legislation was enacted it is unlikely that it could be considered to have been appointed for the purposes of the Act. In addition, regulations issued under the Act include a requirement to advertise for independent members of the auditor panel. Although vacancies for external Members of the Audit and Risk Management Committee have previously been advertised they did not include the auditor panel role. To comply with the statutory requirements the IAAP will need to be re-established. It will be

necessary to seek, by way of advertisement, expressions of interest for the role of independent members, to undertake a selection process and make recommendations on appointments to the Court of Common Council. Going forward it should be possible to advertise both roles together as one vacancy provided the term of appointment to the IAAP are co-terminus with the term of appointment to the Audit and Risk Management Committee.

Proposals

17. Option 3 is the preferred option as it allows the Corporation to maximise local input, run a single procurement process and appoint the same auditor across funds.
18. The key advantages of using the same auditor across all funds are:
 - reduction in possible gaps in audit coverage between the various funds;
 - value for money, in particular the impact on audit fees;
 - rounded audit view of the whole City Corporation, albeit separate audit opinions need to be given for individual funds; and
 - a reduction in officer time spent liaising with auditors and responding to queries.
19. There are clear benefits in using the same audit firm across the funds and the disadvantages are not insurmountable. A potential disadvantage to having the same auditor across all the funds is the capacity of the audit firm to carry out the different audits simultaneously. However, this is largely a matter of planning and as the accounting frameworks for the local authority and non-local authority funds differ the firm would usually employ different teams.
20. To progress Option 3 the IAAP will need to be re-established early in 2017 to provide advice on the tender specification and evaluation criteria. As the next meeting of the Audit and Risk Management Committee is not until May delegated authority will be needed to progress the appointment of independent members to the IAAP. It is therefore proposed that an advertisement be placed on the City's website in the last week of February, with the closing date for applications being set for Monday, 13 March 2017 with the selection panel meeting soon after. Once the Selection Panel agrees on a candidate, it would be for the Court of Common Council to approve the appointment. It is proposed that the name of the selected persons be put forward for approval at the Court's meeting on 27th April 2017.

Implications

21. Current fee levels for the local authority audit are based on discounted rates offered by audit firms in return for substantial market share. If the Corporation opts out of the PSAA sector led arrangement for its local authority funds then it would not benefit from reduced fees that may be available. However, appointing one auditor across all funds may also generate reduced fees. To audit financial statements, auditors are required by professional standards to obtain an understanding of the organisation and assess the integrity of the financial systems. Although auditors can rely on each other's work, procedures are needed to mitigate risk and these may carry fee implications. Where the auditor is the same, the work only needs to be undertaken once.

Conclusion

22. In conclusion, Officers consider that the benefits of using the same auditor across all funds as set out in paragraph 18 outweigh the financial risks outlined in paragraph 21.

Appendices

- Appendix 1 – Current list of audit firms eligible to carry out local public audits and current composition of Common Hall Auditors and Qualifications

Background Papers

Interim Report on the Audit of the Non Local Authority Funds, Audit and Risk Management Committee 7 March 2012

Local Public Audit – update, Audit and Risk Management Committee 14 June 2012

Audit of Non-City Fund Accounts, Audit and Risk Management Committee 12 July 2012

Appointment of Non-Local Authority Funds Auditors, Audit and Risk Management Committee 20 September 2012

Local Audit and Accountability Bill, Audit and Risk Management Committee 25 June 2013

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