



**AUDIT COMMITTEE**

**28<sup>TH</sup> JUNE 2016**

**AGENDA ITEM (13)**

**AUDITOR PANELS**

<b>Accountable Member</b>	N/A
<b>Accountable Officer</b>	Jenny Poole Group Manager - GO Shared Services 01285 623313 <a href="mailto:jenny.poole@cotswold.gov.uk">jenny.poole@cotswold.gov.uk</a>

<b>Purpose of Report</b>	To provide Audit Committee with an update on Auditor Panels.
<b>Recommendation</b>	<b>That the Committee discusses and notes the report.</b>
<b>Reason(s) for Recommendation</b>	The Group Manager Go Shared Services agreed at the last Meeting of the Audit Committee to submit a report on Auditor Panels

<b>Ward(s) Affected</b>	None
<b>Key Decision</b>	No
<b>Recommendation to Council</b>	No

<b>Financial Implications</b>	None
<b>Legal and Human Rights Implications</b>	As set out in the background information.
<b>Environmental and Sustainability Implications</b>	None
<b>Human Resource Implications</b>	None
<b>Key Risks</b>	None.
<b>Equalities Impact Assessment</b>	Not Required

<b>Related Decisions</b>	None
<b>Background Documents</b>	CIPFA/Department for Communities and Local Government publication "Guide to auditor panels". Copy available in the Members' Room.

<b>Appendices</b>	<b>Appendix 'A' - Advantages and Disadvantages of Auditor Panel Options</b>
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<b>Performance Management Follow Up</b>	Further reports will be presented to the Audit Committee, the Cabinet and the Council as further information becomes available.
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<b>Background Information</b>	
1.	The Local Audit and Accountability Act 2014 (the Act) established new arrangements for the audit and accountability of relevant authorities, including local authorities.
2.	These new arrangements include the ability of such bodies to appoint their own local public auditors via an Auditor Panel. This may be carried out individually or jointly with one or more other authorities.
3.	The Secretary of State for Communities and Local Government has decided to implement a phased introduction of the new local audit framework. Smaller local authorities must have appointed their local auditors by 31 <sup>st</sup> December 2016 and larger principal authorities (such as this Council) by 31 <sup>st</sup> December 2017.
4.	<u>Options</u>
4.1	There are a number of different options set out in the Act:-
1	<i>Opt into a sector-led body that may be established to fulfil the "appointing person" role as per section 17 of the Act;</i>
	Under this arrangement there is no requirement to pursue further options for establishing an Auditor Panel;
2	<i>Set up own separate and individual auditor panel;</i>
3	<i>Set up a panel with one or more other authorities;</i>
4	<i>Use an existing committee to act as the auditor panel (change would be required to ensure compliance with the Act and associated Local Audit (Appointing Person) Regulations 2015;</i>
5	<i>Ask another authority's auditor panel to carry out the functions.</i>
4.2	There are possible advantages and disadvantages to each option, but these are likely to vary according to the type of authority and its size, geographical location etc. An extract from the CIPFA/Department for Communities and Local Government publication "Guide to Auditor Panels", setting out the advantages and disadvantages of each auditor panel option is attached at <b>Appendix 'A'</b> .
5.	<u>Appointing and Operating an Auditor Panel</u>
5.1	The minimum number of members that an Auditor Panel must have is three. There must be a majority of independent members, as well as an independent Chairman. For a Panel Meeting to be quorate, there must be a majority of independent members present at the Meeting.
5.2	For joint Auditor Panels, it is likely that each authority will want to have representative Members. For each additional Member, there will need to be an additional independent member. Specific regulations clarify how independence is to be defined for the purposes of Auditor Panels.

5.3 Panel members should have a certain level of specific knowledge and experience to ensure that the panel carries out its duties effectively. Authorities will need to ensure that they draft panel member job descriptions carefully and advertise widely enough to reach those potential candidates with the correct skills and experience and maximise the number of suitable applicants for those vacancies.

5.4 Panel members may be paid an allowance and any reasonable expenses. It will be for authorities to determine such arrangements.

## 6. Functions of the Auditor Panel

6.1 The Auditor Panel must advise the authority on:-

- the selection and appointment of the auditor;
- whether the authority should adopt a policy of obtaining non-audit services from the auditor;
- any proposal by the authority to enter into a Liability Limitation Agreement;
- maintaining an independent relationship with its auditor;
- 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.

6.2 There are clear overlaps between the Audit Committee and the Auditor Panel's duties including:-

- the quality and effectiveness monitoring role undertaken by the Audit Committee which will feed into the Panel's contract monitoring role;
- the audit committee should be able to express an opinion on the selection and rotation of the auditor;
- The Audit Committee reviews the authority's policy on non-audit work carried out by the external audit whereas the Auditor Panel has to advise the authority on the contents of any non-audit work policy and whether the authority should adopt such a policy.

6.3 Where there is a separate Audit Committee and Auditor Panel, communication between the Committee and the Panel will need to include open sharing of any performance data related to the audit process and discussion with the Committee relating to the auditor's effectiveness over the lifespan of the contract. This will allow the Committee to express an opinion on the selection and rotation of the auditor.

6.4 Where the Auditor Panel function is performed by an existing Committee, or Sub-Committee, that Committee/Sub-Committee has to ensure that it discharges the Auditor Panel duties separately, as if it were not a ratified Committee/Sub-Committee of the authority. Therefore, there needs to be clear demarcation between the respective duties of the Panels.

6.5 The role of Chairman in such a situation is vital, ensuring that Members are clear about their purposes at any given time and that while their role in one entity can inform their position in the other. The decisions are made independently from each other.

## 7. The Local Government Association and a Sector-Led Approach

7.1 The Local Government Association (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.

7.2 The LGA has lobbied for the legislation to include provision for the establishment of a sector-led body to procure future audit contracts and intends to support the appointment of PSAA as the Sector-led body for local government. The LGA's analysis indicates that this would be far cheaper for Councils than every Council procuring its 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.

7.3 The LGA's survey of Directors of Finance last year indicated a significant majority in favour of the proposal and the LGA will now move forwards towards the process of signing Councils up.

7.4 This Council responded to an LGA survey in April 2016 expressing an interest in the sector-led approach. The response was indicative only and did not commit the Council at this stage.

7.5 The LGA hopes to be able to issue formal invitations later in the year.

## 8. Next Steps

8.1 The views of the Audit Committee on this matter will help to determine Officer actions.

8.2 Officers will monitor the LGA progress regarding the appointment of PSAA as the sector-led body and will begin to engage with finance colleagues to determine options for Auditor Panels, which will be submitted to future Meetings of the Audit Committee, the Cabinet and the Council, as appropriate.

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