

# GREATER LONDON AUTHORITY

## REQUEST FOR MAYORAL DECISION – MD2074

**Title:** External Auditor appointment

### Executive Summary:

The GLA's current external auditor is currently working under a contract originally let by the Audit Commission and the contract was novated to Public Sector Audit Appointments (PSAA) following the closure of the Audit Commission. This contract ends with the completion of the 2017/18 audit. The Mayor's approval is sought to accept an invitation by PSAA to opt into a national scheme for the appointment of external auditors from 1 April 2018, this being a joint decision with the London Assembly.

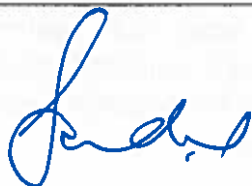
### Decision:

That the Mayor approves the acceptance of the Public Sector Audit Appointments' invitation to opt into the national scheme for the appointment of external auditors from 1 April 2018.

### Mayor of London

I confirm that I do not have any disclosable pecuniary interests in the proposed decision, and take the decision in compliance with the Code of Conduct for elected Members of the Authority. The above request has my approval.

**Signature**



**Date**

10/2/17

## **PART I - NON-CONFIDENTIAL FACTS AND ADVICE TO THE MAYOR**

### **Decision required – supporting report**

#### **1. Background**

- 1.1 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.
- 1.2 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 also allow authorities to 'opt in' for their auditor to be appointed by an 'appointing person'.
- 1.3 The Act sets out four broad options for the appointment of an auditor. These are to:
- (i) opt-in to a Sector Led Body appointed by the Secretary of State under the Act;
  - (ii) set up a Joint Auditor Panel together with other local authorities responsible for auditor selection;
  - (iii) ask another authority's Auditor Panel to carry out the functions of the authority in question; and
  - (iv) make a stand alone appointment through a GLA-only Audit Panel.

#### **2. Issues for consideration**

- 2.1 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.
- 2.2 PSAA is inviting the GLA 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/authority's auditor.
- 2.3 The principal benefits from such an approach are considered to be as follows:
- PSAA will ensure the appointment of a suitably qualified and registered auditor and expects to be able to manage the appointments to allow for appropriate groupings and clusters of audits where bodies work together – this is particularly important for the GLA as there are a number of bodies that fall within the GLA accounting group boundary (currently these are the GLA, its wholly owned subsidiary companies, LLDC and OPDC) and having the same auditor avoids complications/additional work if the auditor can't place reliance on an audit of some of the component parts;
  - PSAA will monitor contract delivery and ensure compliance with contractual requirements, audit quality and independence requirements;

- Any auditor conflicts at individual authorities would be managed by PSAA who would have a number of contracted firms to call upon;
- It is expected that the large scale contracts procured through PSAA will bring economies of scale and attract keener prices from the market than a smaller scale competition;
- The overall procurement costs would be expected to be lower than an individual smaller scale local procurement;
- The overhead costs for managing the contracts will be minimised through a smaller number of large contracts across the sector;
- There will be no need for the GLA to establish alternative appointment processes locally, including the need to set up and manage an 'auditor panel', see below; and
- A sustainable market for audit provision in the sector will be easier to ensure for the future.

2.4 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 GLA'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 required skills and experience and be registered with a Registered Supervising Body approved by the Financial Reporting Council.

#### **Other options**

2.5 If the GLA did not opt in 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 GLA 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 GLA's external audit.

2.6 Alternatively the Act enables the GLA to join with other authorities to establish a joint auditor panel or to ask another authority's to carry this out on the GLA's behalf. 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/authority/body under the Act and the GLA would need to liaise with other bodies to assess the appetite for such an arrangement.

2.7 These options would be 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.

#### **Next steps**

2.8 Following informal consultation with interested parties, it is proposed that the GLA proceeds with accepting the PSAA's invitation to opt in to the sector led option for the appointment of external auditors for the financial years commencing 1 April 2018. Accordingly, the GLA needs to formally respond to PSAA's invitation by 9 March 2017 in the form specified by PSAA.

2.9 PSAA will commence the formal procurement process after this date. It expects to award contracts in summer 2017 and the process of appointing auditors will take place between August and the statutory deadline of December 2017. This will include a formal consultation with each authority on

a proposed auditor appointment, during which time an authority can make representations if it is unhappy with the proposal, which PSAA would consider.

- 2.10 PSAA have advised that once an authority has notified PSAA that it has decided to opt in, PSAA will ask for details of any shared or joint working arrangements that they should be mindful of when making auditor appointments. In the GLA's case this would cover the need to have the same auditor to be appointed to those functional bodies that fall within the GLA accounting group boundary (see above). It would not cover, however, the appointment of an auditor for the GLA's wholly owned subsidiary companies as these are appointments for those companies to make. In order to secure the benefits of the PSAA's competitive process for these companies, it has been agreed with PSAA to coordinate the process of appointment to the companies with the PSAA process when they have awarded their contracts in June 2017.

### **3. Financial implications**

- 3.1 The GLA's current auditor is Ernst & Young LLP and this appointment was made under a contract let by the Audit Commission. Over recent years authorities have benefitted 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 GLA's current external audit fees are £109,500 a year plus an annual fee for the audit of GLA Holding Ltd, including GLAP Ltd, of £112,000. The proposed fees for the subsequent years cannot be known until the procurement process has been completed, as the costs will depend on proposals from the audit firms.

### **4. Legal implications**

- 4.1 Regulation 19 of the Local Audit (Appointing Person) Regulations 2015 requires that a decision to opt in must be made by a meeting of the council/authority (meeting as a whole). This means that this is a joint decision that will need to be taken separately by the Mayor and the London Assembly (and which cannot be delegated to a committee).

### **5. Corporate Investment Board**

- 5.1 This decision form was considered by the Corporate Investment Board on 6 February 2017.

### **6. Background/supporting papers**

- 6.1 There are no background or supporting papers.

**Public access to information**

Information in this form (Part 1) is subject to the Freedom of Information Act 2000 (FOI Act) and will be made available on the GLA website within one working day of approval.

If immediate publication risks compromising the implementation of the decision (for example, to complete a procurement process), it can be deferred until a specific date. Deferral periods should be kept to the shortest length strictly necessary. **Note:** This form (Part 1) will either be published within one working day after approval or on the defer date.

**Part 1 Deferral:**

**Is the publication of Part 1 of this approval to be deferred? NO**

If YES, for what reason:

Until what date: (a date is required if deferring)

**Part 2 Confidentiality:** Only the facts or advice considered to be exempt from disclosure under the FOI Act should be in the separate Part 2 form, together with the legal rationale for non-publication.

**Is there a part 2 form – NO**

**ORIGINATING OFFICER DECLARATION:**

Drafting officer to  
confirm the  
following (✓)

**Drafting officer:**

Tom Middleton, Head of Finance & Governance, has drafted this report in accordance with GLA procedures and confirms the following:

✓

**Sponsoring Director:**

Martin Clarke, Executive Director Resources, has reviewed the request and is satisfied it is correct and consistent with the Mayor's plans and priorities.

✓

**Mayoral Adviser:**

David Bellamy, Chief of Staff has been consulted about the proposal and agrees the recommendations.

✓

**Advice:**

The Finance and Legal teams have commented on this proposal. The proposal originates from Finance.

✓

**Corporate Investment Board**

This decision was agreed by the Corporate Investment Board on 6 February 2017.

✓

**EXECUTIVE DIRECTOR, RESOURCES:**

I confirm that financial and legal implications have been appropriately considered in the preparation of this report.

Signature

*M. J. Clarke*

Date

7.2.17

**CHIEF OF STAFF:**

I am satisfied that this is an appropriate request to be submitted to the Mayor

Signature

*D. Bellamy*

Date

6/2/2017

