

NOTICE
OF
MEETING

AUDIT AND PERFORMANCE REVIEW PANEL

will meet on

TUESDAY, 28TH FEBRUARY, 2017

at

7.30 PM

in the

COUNCIL CHAMBER - TOWN HALL, MAIDENHEAD,

TO: MEMBERS OF THE AUDIT AND PERFORMANCE REVIEW PANEL

COUNCILLOR PAUL BRIMACOMBE (CHAIRMAN)
COUNCILLORS STUART CARROLL, DR LILLY EVANS, LYNNE JONES,
JACK RANKIN, MJ SAUNDERS, ADAM SMITH (VICE-CHAIRMAN) AND
EDWARD WILSON

SUBSTITUTE MEMBERS
COUNCILLORS MALCOLM BEER, JOHN COLLINS, DAVID EVANS,
RICHARD KELLAWAY, ROSS MCWILLIAMS, COLIN RAYNER,
WESLEY RICHARDS, JOHN STORY AND SIMON WERNER

Karen Shepherd - Democratic Services Manager
Issued: 22/02/2017

Members of the Press and Public are welcome to attend Part I of this meeting.

The agenda is available on the Council's web site at www.rbwm.gov.uk or contact David Cook 01628 596560

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AGENDA

PART I

<u>ITEM</u>	<u>SUBJECT</u>	<u>WARD</u>	<u>PAGE NO</u>
1.	<u>APOLOGIES</u> To receive any apologies for absence.		
2.	<u>DECLARATIONS OF INTEREST</u> To receive any declarations of interest.		5 - 6
3.	<u>NEW AUDIT ARRANGEMENTS</u> To consider the report as a continuation of the Panel decision on 16 th February 2017.		7 - 24
	ii.		

MEMBERS' GUIDANCE NOTE

DECLARING INTERESTS IN MEETINGS

DISCLOSABLE PECUNIARY INTERESTS (DPIs)

DPIs include:

- Any employment, office, trade, profession or vocation carried on for profit or gain.
- Any payment or provision of any other financial benefit made in respect of any expenses occurred in carrying out member duties or election expenses.
- Any contract under which goods and services are to be provided/works to be executed which has not been fully discharged.
- Any beneficial interest in land within the area of the relevant authority.
- Any license to occupy land in the area of the relevant authority for a month or longer.
- Any tenancy where the landlord is the relevant authority, and the tenant is a body in which the relevant person has a beneficial interest.
- Any beneficial interest in securities of a body where
 - a) that body has a piece of business or land in the area of the relevant authority, and
 - b) either (i) the total nominal value of the securities exceeds £25,000 or one hundredth of the total issued share capital of that body **or** (ii) the total nominal value of the shares of any one class belonging to the relevant person exceeds one hundredth of the total issued share capital of that class.

PREJUDICIAL INTERESTS

This is an interest which a reasonable fair minded and informed member of the public would reasonably believe is so significant that it harms or impairs your ability to judge the public interest. That is, your decision making is influenced by your interest that you are not able to impartially consider only relevant issues.

DECLARING INTERESTS

If you have not disclosed your interest in the register, you **must make** the declaration of interest at the beginning of the meeting, or as soon as you are aware that you have a DPI or Prejudicial Interest. If you have already disclosed the interest in your Register of Interests you are still required to disclose this in the meeting if it relates to the matter being discussed. A member with a DPI or Prejudicial Interest **may make representations at the start of the item but must not take part in discussion or vote at a meeting.** The term 'discussion' has been taken to mean a discussion by the members of the committee or other body determining the issue. You should notify Democratic Services before the meeting of your intention to speak. In order to avoid any accusations of taking part in the discussion or vote, you must move to the public area, having made your representations.

If you have any queries then you should obtain advice from the Legal or Democratic Services Officer before participating in the meeting.

If the interest declared has not been entered on to your Register of Interests, you must notify the Monitoring Officer in writing within the next 28 days following the meeting.

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Agenda Item 3

Report Title:	New Audit Arrangements
Contains Confidential or Exempt Information?	<i>NO - Part I</i>
Member reporting:	Councillor Saunders, Lead Member for Finance)
Meeting and Date:	Audit Performance and Review Panel 16 February 2017
Responsible Officer(s):	Russell O'Keefe Strategic Director of Corporate and Community Services, Rob Stubbs Head of Finance.
Wards affected:	All

www.rbwm.gov.uk



REPORT SUMMARY

1. KPMG will present the new arrangement and options for the appointment of Auditors for the audit of the 2018/19 accounts to the Audit and Performance Review Panel on 16 February 2017.
2. This paper sets out procurement options, that include the option of accepting an offer from the Public Sector Audit Appointments (PSAA) board which can only be carried out with the agreement of full Council.

1. DETAILS OF RECOMMENDATION(S)

RECOMMENDATION: That the Audit, Performance and Review Panel note the report and:

- i. Offers a preference on procurement route for the appointment of auditors for the audit of the 2018/19 accounts to be recommended to Council on 21 February 2017.

2. REASON(S) FOR RECOMMENDATION(S) AND OPTIONS CONSIDERED

- 2.1. In July 2016, the Secretary of State for Communities and Local Government specified PSAA as an appointing person under regulation 3 of the Local Audit (Appointing Person) Regulations 2015.
- 2.2. For audits of the accounts from 2018/19, PSAA will be able to appoint an auditor to relevant principal authorities that choose to opt into its national collective scheme. Appointments for 2018/19 must be made by 31 December 2017. PSAA have issued an invitation to opt in to the appointing person scheme and the closing date for acceptance is 9 March 2017.
- 2.3. The option to join the scheme is open to all principal local authorities of which there are 493. At the time of writing this report 262 had opted in. The alternative options are:
 - Roll forward incumbent: A short term option of maybe one or two year.

- Stand-alone tender: The Council would tender for its own service through its own procurement process.
 - Combined tender: A collaborative procurement with one or more other authorities.
- 2.4. Implementing any option other than using PSAA requires a recommendation from an independent audit panel. That panel would need to also take oversight over any non-audit services provided by the auditor. The panel must have an independent (unelected) Chair and a majority of independent members.
- 2.5. The Chief Finance Officer and Section 151 Officer recommends to Audit Panel that the Royal Borough join PSAA. This recommendation is made on the basis that it maintains low procurement costs and audit fees. See table 1 for options for appointing an auditor.

Table 1: Options for Appointing an Auditor

Option	Comments
Use PSAA The recommended option.	Potentially lowest cost of procurement, audit fees and audit panel. Least discretion over auditor.
Roll forward current auditor (KPMG).	Short term continuity. Could allow for tendering when market is more settled. May limit opportunities for collaborative tendering.
Tender for an auditor itself.	Highest discretion over approach. Costs for running procurement process and establishing audit panel.
Tender for an auditor in collaboration with one or more other authorities.	Potentially shared procurement costs, shared audit panel. Less control over approach.

3. KEY IMPLICATIONS

Table 2: Implications of new audit arrangements

Outcome	Unmet	Met	Exceeded	Significantly Exceeded	Date of delivery
2018/19 audit costs including procurement cost and set up of audit panel as a % of 2017/18.	>110%	95% - 110%	90% - 95%	<90%	September 2019

4. FINANCIAL DETAILS / VALUE FOR MONEY

- 4.1 There may be financial implications for each of the appointment options. However there is insufficient information to quantify them at this time.

5. LEGAL IMPLICATIONS

- 5.1 Council is following its own governance arrangements and legislation by bringing this paper initially to the Audit Performance and Review Panel.

6. RISK MANAGEMENT

Table 3: Risks of future audit appointments

Risks	Uncontrolled Risk	Controls	Controlled Risk
That audit costs would be higher in future.	High	Council could use a competitive tender process or accept the PSAA offer.	Medium
That the Council would have no control over choice of auditor	High	Council could avoid using the PSAA option	Low

7. POTENTIAL IMPACTS

- 7.1 None

8. CONSULTATION

- 8.1 None

9. TIMETABLE FOR IMPLEMENTATION

- 9.1 The timetable in table 4 is based on the appointment of an auditor for the 2018/19 accounts. This would move on by 1 or 2 years if the agreement with KPMG was extended.

Table 4: Timetable of appointments

Date	Details
9 March 2016	Closing date for receipt of notices to opt in to PSAA
20 February 2017	Contract notice published
By end of December 2017	Consult on and make auditor appointments

10. APPENDICES

- 10.1 None

11. BACKGROUND DOCUMENTS

- 11.1 None.

12. CONSULTATION (MANDATORY)

Name of consultee	Post held	Date sent	Commented & returned
Councillor Saunders	Lead Member for Finance	07/02/17	09/02/17
Councillor Rankin	Deputy Lead Member for Finance	07/02/17	
Alison Alexander	Managing Director	06/02/17	06/02/17
Russell O'Keefe	Strategic Director	06/02/17	
Andy Jeffs	Interim Strategic Director	06/02/17	07/02/17
Rob Stubbs	Section 151 Officer	06/02/17	06/02/17
Terry Baldwin	Head of HR	06/02/17	

REPORT HISTORY

Decision type: Non-key decision	Urgency item? No
Report Author: Richard Bunn, Chief Accountant, 01628 796510	



Appointing your external auditor

Next steps for local government bodies
November 2016



Time to make a choice



Local authorities now have the power to appoint their external auditor themselves

- This appointment will apply from the audit of the 2018/19 financial year
- Government regulations require that the appointment is made by 31 December 2017



Before deciding who the auditor should be, you need to decide how you want to make that decision

- There are a number of options for making this decision
- This includes deciding to pass that responsibility to a sector-led body



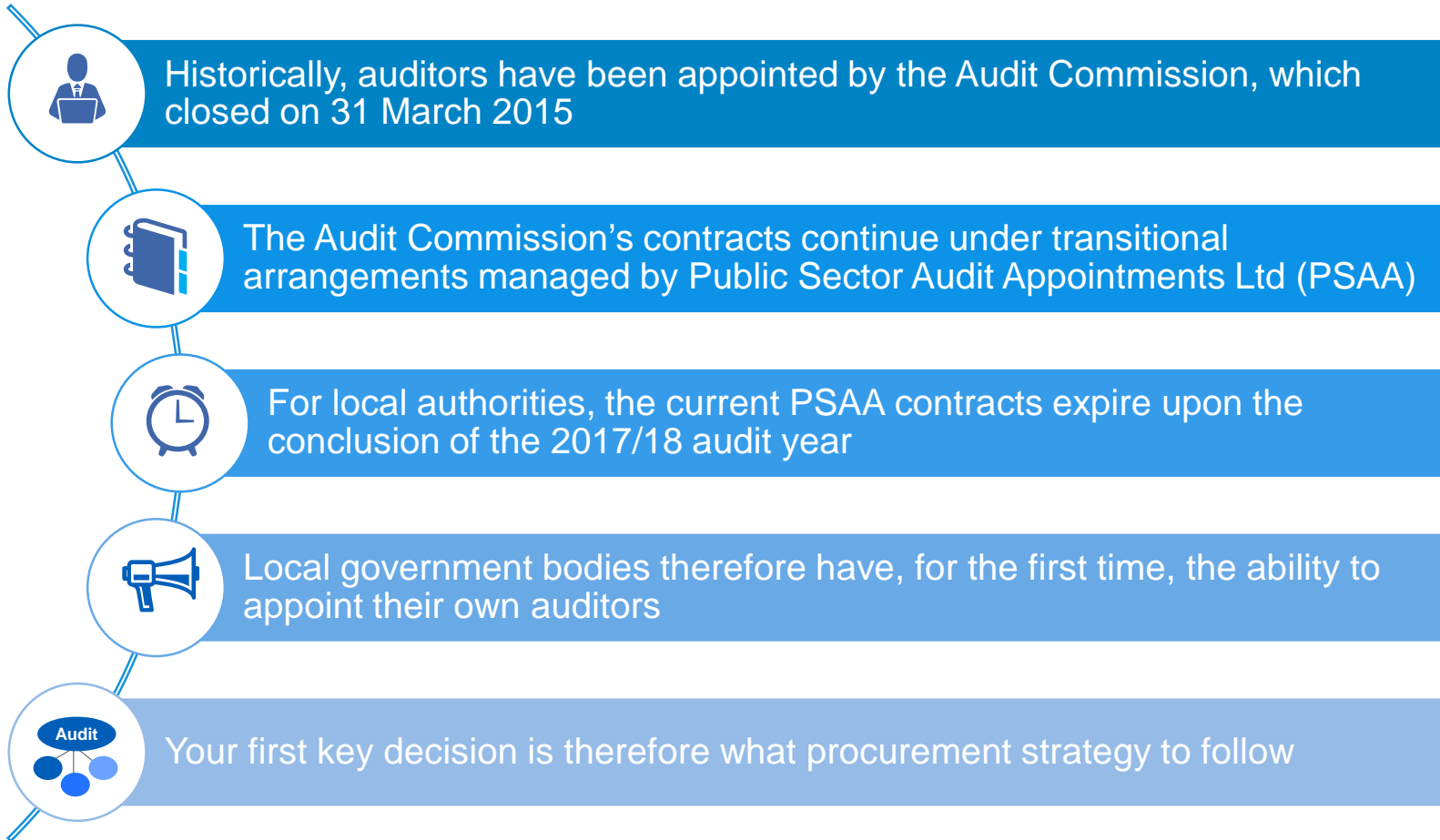
There are certain requirements you must follow

- Specific requirements apply should you run your own tender process
- There are also other requirements which apply to all approaches

This paper summarises the key considerations for local government bodies when deciding on your preferred route to appointing your auditor

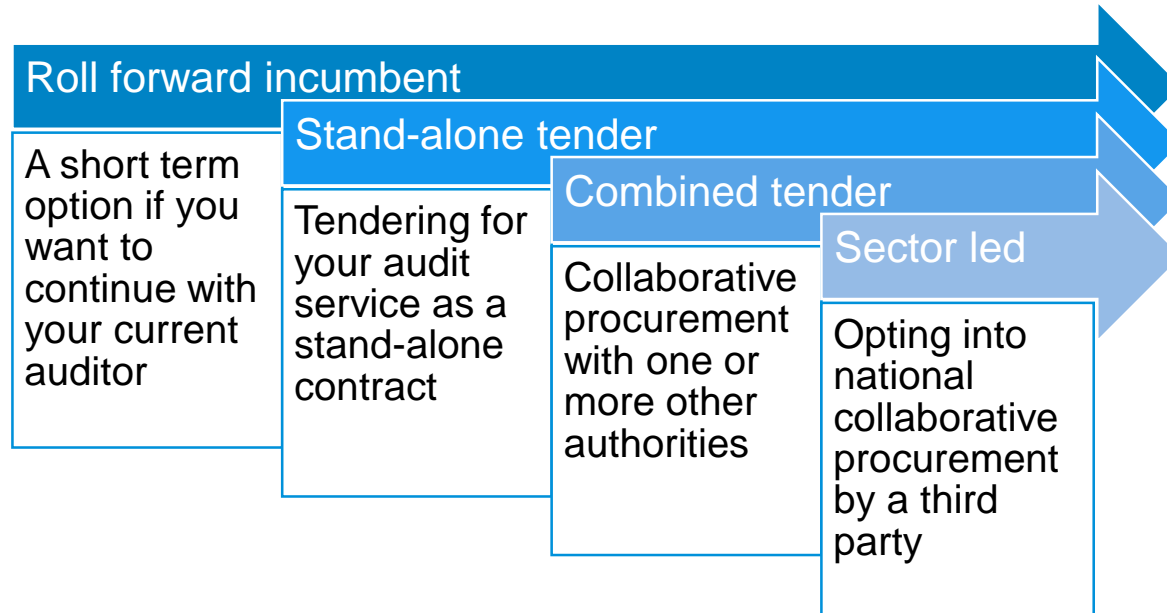
A brief recap

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Procurement options

There are four main options available on how you can appoint your external auditor



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The pros and cons of each are considered in the next few pages, although it is important to note that these are generic views as the circumstances and priorities of individual organisations will vary

While there are a number of important considerations for authorities, this is essentially about choice – how much freedom do you want to have over the appointment of your external auditor?

Option 1 – Roll forward incumbent auditor

What does this involve?

- Engaging your current auditor directly for a short period
- A short-term option for say one or two years prior to subsequent market testing
- A clear business case should be developed setting out the rationale for following this approach

Pros

- Provides short term continuity of audit service
- Particularly useful if your auditor is currently dealing with complex issues (e.g. elector challenge, investigations etc.)
- Allows for future tendering in a more settled and mature market (i.e. avoiding the initial ‘rush’ of tendering activity in first year of new arrangements)

Cons

- Delays market testing through a competitive process
- May limit opportunity to follow collaborative tendering (option 3) if potential partners have alternative timing

Points to note

- Important to obtain relevant professional advice to confirm that this is a viable option (e.g. compliance with EU procurement rules, if applicable, and the Authority’s own financial regulations)
- Your Audit Panel (see later) should be involved in deciding on this option
- Audit fees can be benchmarked for reasonableness against published data

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Option 2 - Stand-alone tender

What does this involve?

- Tendering for your external audit service through the Authority's own procurement process
- The Authority will need to establish an Audit Panel, which will recommend who the auditor should be following the tender process

Pros

- Provides the Authority with the greatest discretion and autonomy over the approach to be followed and in decision making

Cons

- The Authority will incur additional costs (officer time) through running its own procurement process
- The establishment of an Audit Panel may increase costs and will involve recruiting independent members

Points to note

- The Audit Commission produced a [document](#) summarising learning points from its 2012 and 2014 procurements of audit services
- This may provide some useful pointers (although note that these procurements were unique to the Audit Commission's regime so the points may not all be relevant)
- CIPFA has published [guidance](#) on Auditor Panels

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Option 3 - Combined tender

What does this involve?

- A variation of option 2, where two or more authorities undertake a joint procurement process
- This might operate on one or more of a location basis, within or across tiers of local government, or by type of authority

Pros

- Although not fully autonomous, this still offers a high degree of influence over the approach and decision making
- May provide a more competitive audit fee than a stand-alone tender (option 2) through offering a greater volume of work to bidding audit firms
- Procurement costs can be shared across participating authorities
- Audit Panels may also be shared across the authorities

Cons

- Less discretion and autonomy over approach and decision making than option 2
- The Authority will incur additional costs (officer time) through running a joint procurement process
- Establishing an Audit Panel (stand-alone or shared) may increase costs and will involve recruiting independent members

Points to note

- Dependent on identifying suitable partner organisations which have common objectives and similar ideas on the approach to follow
- Well-suited to authorities with established shared service, joint working or strategic partnership arrangements
- This options implies that all partner organisations would select a common auditor, but that need not be the case

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Option 4 - Sector-led procurement

What does this involve?

- Opting into a sector-led procurement process
- The Secretary of State has designated Public Sector Audit Appointments Ltd (PSAA) as an 'appointing person'
- PSAA will undertake the necessary procurement activity to contract with a number of audit firms
- PSAA will then propose an auditor to each participating authority, having considered issues such as auditor independence

Pros

- Avoids the costs and practicalities of running a stand-alone (option 2) or joint procurement (option 3) exercise
- The procurement process will be run by an organisation with experience of procuring external audit services
- Avoids the need to establish an Audit Panel

Cons

- The least discretion over the choice of auditor of all options (although PSAA is establishing an advisory panel of key audited body stakeholders)
- PSAA is still consulting over detailed elements of how the procurement will operate, so at this point in time there is not absolute clarity (it has issued a prospectus setting out expectations)

Points to note

- In simple terms, this option is the most similar to the current arrangements, albeit on an opt-in basis
- Further information on PSAA's role and intended approach can be found on its [website](#)
- The deadline for opting into this option with PSAA is 9 March 2017
- PSAA's costs would be absorbed into audit fees payable by participating authorities

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Requirements to note

Regardless of the procurement option followed, there are a number of requirements which apply



Audit Panel

- The Panel's role (which can be fulfilled by PSAA) is to recommend which auditor to appoint and have oversight over any non-audit services provided by the auditor
- It must have an independent (unelected) Chair and a majority of independent members



Professional standards

- Regardless of the option followed to appoint them, your auditor must comply with the Code of Audit Practice issued by the National Audit Office



Timing

- Regardless of the procurement option followed, authorities must appoint an auditor for the 2018/19 financial year by 31 December 2017



Registered auditor

- You can only appoint an audit firm which is registered for local audit (ICAEW maintains a Local Audit [register](#))
- As a leading local government auditor, KPMG is registered with ICAEW for local audit and has a substantial number of registered Key Audit Partners

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Key considerations when appointing auditors

When you are deciding who to appoint as your external auditor you will need to consider a range of factors

Key areas to consider are as follows

Quality



- This is the most important consideration and should be appropriately weighted in any scoring methodology for assessing tenders
- Relevant considerations include audit methodologies, systems and processes, staff training and expertise, and quality monitoring arrangements

Experience



- Local government auditing is a specialist business and your auditor must have the necessary skills and sector experience
- This is not just about understanding local authority financial reporting, but extends into auditors' value for money audit responsibilities and 'challenge' work

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Key considerations (continued)

Independence



- You will need to consider possible relationships with audit firms via non-audit work such as consultancy and tax advice
- Independence is also an important mind-set for auditors to adopt, where you should be satisfied that your future auditor will be sufficiently challenging
- Your current auditor should not be constrained in exercising their duties by any tendering process

Organisational fit



- As with any service it is important to consider how the people you see in the audit team fit with your own organisational culture – i.e. can you work with these people

Price



- Like any other out-sourced service you need to obtain good value through a competitive audit fee
- However, best value does not mean the cheapest quote
- The fee must be sufficient to provide a good quality service taking account of the scale, nature and risk profile of your organisation, and also the requirement for your auditor to comply with auditing standards and other statutory duties

Other services



- Although ethical standards provide limitations, you should consider what other services you might want your auditor to perform
- This might include other assurance services (e.g. certifying grant claims) or more added-value services

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KPMG in the local government sector



We are a leading firm in local government audit and assurance – in England we audit:

- 27% of local authorities
- 21% of police bodies
- 26% of fire & rescue authorities



We have substantial specialist local government audit resource

- we have 22 Partners and Directors registered as Key Audit Partners with ICEAW
- our public sector audit teams operate in all regions providing national coverage
- our subject matter experts enhance our audit work



We use cutting edge technology and audit techniques

- our eAudit system embeds our audit methodology to drive quality
- we use Data & Analytics tools to enhance audit quality and provide insight



We provide thought leadership to challenge and support the sector

- through KPMG publications on key issues affecting the sector
- through articles and case studies in the trade press



We contribute to and influence technical development and financial reporting

- we are represented on CIPFA/LAASAC and LAAP
- we are a member of the NAO's Local Auditor Advisory Group
- we actively participate in the CIPFA community



We add value and support our clients

- through our highly regarded Audit Committee Institute
- through workshops, seminars and events for financial professionals and others
- through the challenge, insight and improvement focus of our audit work

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<https://home.kpmg.com/uk/en/home/industries/government-public-sector/local-government.html>

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