

Report of the Deputy Chief Executive

Report to Corporate Governance and Audit Committee

Date: 28th January 2016

Subject: Changes to the statutory timescales for approving the accounts and future arrangements for appointing external auditors

Are specific electoral Wards affected? If relevant, name(s) of Ward(s):	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Are there implications for equality and diversity and cohesion and integration?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Is the decision eligible for Call-In?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Does the report contain confidential or exempt information? If relevant, Access to Information Procedure Rule number: Appendix number:	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

Summary of main issues

1. The Accounts and Audit Regulations 2015 have made changes to the statutory timescales for the production of local authority accounts and to the requirements for the public inspection period. Whilst the reduction in the timescales for approval of the statement of accounts will not apply until 2017/18, there are some changes which will affect the 2015/16 accounts process.
2. The Local Audit and Accountability Act 2014 introduced significant changes to the audit regime for local authorities, but did not specify when these changes would come into effect. It has now become clear that transitional arrangements will apply until the 2017/18 financial year, and the new arrangements for appointing external auditors will apply from the 2018/19 accounts process onwards.
3. KPMG have also asked that the attached report, which gives their views on the future arrangements for appointing external auditors, should be presented to committee.

Recommendations

4. Members are asked to note the changes to the public inspection arrangements for the 2015/16 accounts and the reduced statutory timescales for producing the accounts from 2017/18 onwards.

5. Members are asked to note the latest position on the new arrangements for appointing external auditors, and that these are not expected to come into force until 2018/19.
6. Members are asked to receive and note the report from KPMG giving their views on the future appointment of external auditors.

1 Purpose of this report

- 1.1 This report is to inform members of changes to the statutory timescales for approving the accounts which have come into force for 2015/16, and to update members on the latest developments on the future appointment of external auditors for local authorities.

2 Background information

- 2.1 During 2015 the government issued new Accounts and Audit Regulations which made changes to the timetable for approval of the accounts. Although the main changes apply from 2017/18, there are some which apply from the 2015/16 accounts onwards.
- 2.2 The Local Audit and Accountability Act 2014 introduced significant changes to the audit regime for local authorities and local NHS bodies. It abolished the Audit Commission and established a new structure for the appointment of external auditors for local authorities. The Act itself did not specify commencement dates for its various provisions, but left this to be established by subsequent regulations. There has therefore been some uncertainty as to when its provisions would take effect, but the situation has now become clearer. The Audit Commission was abolished at 31st March 2015, and transitional arrangements are now in place until the remaining sections of the Act come into force.

3 Main issues

3.1 Changes to the timetable for approval of the accounts

- 3.1.1 The Accounts and Audit Regulations 2015 introduced changes to the statutory timetable for the production of local authority accounts, which will bring forward the timetable for audit and approval. These will not fully come into effect until the 2017/18 accounts process, but there are transitional arrangements in place for 2015/16 and 2016/17 which will bring some changes.
- 3.1.2 The changes which will apply from 2017/18 are :
- The draft accounts must be certified by the responsible financial officer on or before 31st May.
 - The public inspection period must commence on or before 1st June, and will last for 30 working days, rather than the 20 working days which applied until 2014/15.
 - The Annual Governance Statement must be included in the documents published for public inspection. This must be as a draft document if it has not yet been formally approved
 - The final statement of accounts must be approved by this committee on or before 31st July, and published together with the auditors' report and the annual governance statement

- 3.1.3 For the 2015/16 and 2016/17 accounts, the transitional arrangements are :
- The approval dates will remain as 30th June for the draft accounts and 30th September for the final published accounts.
 - The increase of the public inspection period to 30 days and the inclusion of the Annual Governance Statement in the documents to be made available for public inspection will both apply from 2015/16 onwards.
 - However the deadline date for commencement of the public inspection period will be 1st July for 2015/16 and 2016/17.
- 3.1.4 The new deadline for the start of the public inspection period will restrict the opportunity within the statutory timescales for the draft accounts to be reviewed by this committee before they are made available for public inspection. During the two years of the transition period, as the authority works towards earlier production of its accounts but still with a 1st July deadline for the public inspection period to start, it should still be practical for committee to meet between the draft accounts being certified by the Deputy Chief Executive and 1st July. However for future years there would be considerable difficulties in completing the accounts in time for them to be distributed with committee papers within the normal timescales for a committee to be held before the end of May.
- 3.1.5 To illustrate the scale of the reduction in timescales which we will have to meet, under the previous regulations, an authority had approximately 12 weeks in which to prepare its draft accounts. Under the transitional arrangements, allowing for a committee meeting before public inspection will reduce the time available to 10 weeks. From 2017/18 onwards, the time available will reduce to 8 weeks.
- 3.1.6 Whilst it is not a statutory requirement, the committee has in the past determined that it wished to receive and review the draft accounts before they were made available for public inspection. If the committee wishes to continue to receive the draft accounts at an early stage in the process, there are two suggested options as regards timescales from 2017/18 onwards. The certified draft accounts could be circulated to the committee at the end of May for a committee meeting in early June, so that Members would have sight of the draft accounts before they were made available to the public. Alternatively, the committee meeting could be held at the end of May but with the draft accounts being circulated as a late item a few days before the meeting.
- 3.1.7 The authority is working towards meeting the reduced statutory timescale gradually. The 2014/15 draft accounts were produced a week earlier than usual, and plans are in place to produce the 2015/16 accounts a further two weeks earlier. It is intended that the 31st May deadline will be met for the 2016/17 draft accounts.
- 3.1.8 It should also be noted that there is a similar reduction of 4 weeks in the timescales allowed for the audit of the accounts from 2017/18. Discussions will be held during the year with KPMG on their proposed approach to this, and the implications for the council in terms of the working papers and data they will require.

3.2 Arrangements for future appointment of external auditors

3.2.1 The Local Audit and Accountability Act introduced a requirement for each local authority to appoint its own auditors, with new appointments having to be made at least every five years. In order to ensure the independence of auditor arrangements, each authority is required to have an auditor panel to advise it on the appointment of its auditor and on the maintenance of an independent relationship with its auditor. Auditor panels must have a majority of members who are independent of the authority, and must have an independent chair. The Act does allow groups of authorities to establish joint audit panels. It also allows the government to issue regulations to make provision for collective procurement of external audit via an 'appointing person'.

3.2.2 The government has since issued such regulations, allowing it to specify an 'appointing person' who would have the powers to appoint auditors for local authorities. Authorities would be invited to opt in for the duration of the appointing period (expected to be five years) and would then have their auditors appointed as part of a national procurement exercise. Authorities which opted in to these arrangements would not be required to have auditor panels. The Local Government Association is currently developing proposals for a national sector-led body to fulfil the role of an 'appointing person' for local authorities.

3.2.3 In March 2015 the government issued regulations which would have required the new audit appointment arrangements to take effect from 2017/18. However, the Local Government Association has successfully lobbied for this to be delayed by one year until 2018/19. Auditor appointments for the 2018/19 accounts will have to be made by 31st December 2017. The LGA requested the delay to allow sufficient time for them to fully develop their proposals for a national procurement body to act as the 'appointing person'. However the delay also means that new auditor appointments will no longer coincide with the start of the earlier statutory deadlines for publishing the final audited accounts in 2017/18.

3.2.4 In summary, the council will have three options for procuring its auditors for 2018/19 :

- Independently procuring its own auditors
- Acting with a group of other authorities, for example within West Yorkshire, to run a joint procurement exercise
- Opting in to the national scheme so that its auditors are appointed by the 'appointing person'

A further report will be brought to committee once there are some clear proposals available for the national procurement option.

3.2.5 Transitional arrangements were initially put in place until the end of the 2016/17 accounts process, and the existing audit contracts which were let by the Audit Commission are now being managed by Public Sector Audit Appointments Ltd (PSAA), a company owned by the LGA. KPMG's current contract to be our

auditors expires at the end of the 2016/17 audit, and it is expected that we will be consulted by PSAA on audit arrangements for 2017/18.

- 3.2.6 The attached report from KPMG sets out some issues which they feel that local authorities may wish to take into account in deciding which route to follow in appointing their external auditors.

4 Corporate Considerations

4.1 Consultation and Engagement

- 4.1.1 This is a factual report informing members of the impact of legislative changes and consequently no public, Ward Member or Councillor consultation or engagement has been sought.

4.2 Equality and Diversity / Cohesion and Integration

- 4.2.1 There are no direct implications for equality, diversity, cohesion and integration arising from this report.

4.3 Council policies and Best Council Plan

- 4.3.1 Under this Committee's terms of reference members are required to consider the Council's arrangements relating to external audit, including the receipt of external audit reports. The report updates members on future arrangements for appointing external auditors.

4.4 Resources and value for money

- 4.4.1 There are no immediate implications for value for money arising from this report. However this will be a consideration when the council is required to decide on its approach for appointing its auditor for 2018/19 onwards.

4.5 Legal Implications, Access to Information and Call In

- 4.5.1 This report advises members of the impact of legislation and statutory regulations.
- 4.5.2 As this is a factual report based on legislative changes none of the information enclosed is deemed to be sensitive or requesting decisions going forward and therefore raises no issues for access to information or call in.

4.5 Risk Management

- 4.6.1 The reduced timescales for publication of the draft and final statement of accounts represent a reputational risk for the council, should it be unable to meet the deadlines. Plans are in place to work towards achieving the 31st May deadline by 2016/17.

5 Conclusions

- 5.1 The Accounts and Audit Regulations 2015 have increased the period for public inspection of the accounts from 20 days to 30 days, and for 2015/16 this must start no later than 1st July. From 2017/18, the draft accounts will need to be certified by

the Deputy Chief Executive by 31st May, and the final audited accounts will need to be approved by this committee by 31st July.

- 5.2 New arrangements for the appointment of external auditors will come into force from 2018/19. The council will have the choice of opting into national procurement arrangements, joining together with other authorities, or acting alone to procure its auditors.

6 Recommendations

- 6.1 Members are asked to note the changes to the public inspection arrangements for the 2015/16 accounts, and the reduced statutory timescales for producing the accounts from 2017/18 onwards.
- 6.2 Members are asked to note the latest position on the new arrangements for appointing external auditors, and that these are not expected to come into force until the 2018/19 accounts process.
- 6.3 Members are asked to receive and note the report from KPMG giving their views on the future appointment of external auditors.

7 Background documents¹

- 7.1 None.

¹ The background documents listed in this section are available to download from the Council's website, unless they contain confidential or exempt information. The list of background documents does not include published works.