

Title of meeting: Governance and Audit and Standards Committee

Date of meeting: 1 July

Subject: External Audit Arrangements After 2017/18

Report by: Director of Finance and Information Services (Section 151 Officer)

Wards affected: All

Key decision: No

Full Council decision: No

1. Purpose of report

This report explains the latest position in relation to the requirement in the Local Audit and Accountability Act 2014 for the Council to eventually appoint its own auditor.

2. Recommendation

That the committee supports in principle the proposal that we ask Public Sector Audit Appointments Ltd (PSAA) to assist with the appointment of an external auditor for the 2018/19 and subsequent accounts.

3. Background

The Council is required to have an independent external audit of its financial statements that also provides some assurance that the Council takes reasonable actions to secure economy, efficiency and effectiveness in its use of resources. Historically the external auditor has been appointed by the Audit Commission.

Following the passing of the Local Audit and Accountability Act the Audit Commission was finally abolished on 31 March 2015. Its key functions were transferred to other bodies, and in relation to auditor appointments, PSAA, an independent company limited by guarantee incorporated by the Local Government Association took on the role.

The Department for Communities and Local Government recently exercised their contract rights (established when the Audit Commission let the last batches of audit tenders) to extend by one year the two year initial contract that had been agreed. This means that EY will continue to be the Council's auditor until the completion of the 2017/18 audit, and a new appointment will be needed for 2018/19.

By law an authority must make an appointment by the end of December prior to the year for which the audit is required, so we will need to have found our auditor by 31 December 2017.

The choice for the Council will be:

- a) Establish its own independent auditor panel. The panel must be made up of a majority or of wholly independent members and must be chaired by an independent member.
- b) Opt-in to an approved collective procurement arrangement. This encompasses local joint procurement for groups of authorities or through to a sector led body acting for the sector as a whole such as PSAA. Ministerial approval is required for bodies (sector wide or for smaller groups) to be given the power to appoint auditors.

4. Reasons for recommendations

Opting into an arrangement for PSAA to appoint the Council's auditor has the following advantages:

- Purchasing power to negotiate audit fees with accountancy firms
- Savings on the cost of an invitation to tender exercise and on the costs of bid appraisal, contract specification and negotiation
- Economies of scale to be achieved from collective procurement, enabling the firms to plan and resource audits more efficiently and effectively.
- Quality monitoring and other information sharing across contracts (subject to protections over confidentiality)
- Oversight of wider services eg data collection and certification schemes
- Resolution of sector wide issues such as the possible need to indemnify auditors for legal costs of defending claims in respect of the exercise of statutory powers
- Sensible distribution of audit appointments taking in to consideration joint working between individual Councils and other public bodies such as NHS trusts, managing rotations where conflicts of interest arise.

5. Options considered and rejected

The Council establish its own independent auditor panel

A locally appointed auditor would reflect local requirements. Appointing the auditor locally would also give the Council more control over the process and give it influence over the audit fee.

However it is felt that these advantages are outweighed by the need the need to establish an auditor panel, a time consuming and relatively costly procurement exercise, no economies of scale and limited purchasing power.

Joint procurement with a group of other local authorities, possibly neighbouring authorities

A locally appointed auditor would be more likely to reflect local requirements. Procurement costs would be shared. The Council would have some control over the process and an opportunity to influence the level of fees.

Again it is felt that these advantages are outweighed by the need for an auditor panel to be established by the Council or jointly with another body in the joint arrangement, and additional time for planning and collaboration with other audited bodies would be required.

6. Equality impact assessment (EIA)

The contents of this report do not have any relevant equalities impact and therefore an equalities assessment is not required.

7. Legal Implications

The Section 151 Officer is required by the Local Government Act 1972 and by the Accounts and Audit Regulations 2015 to ensure that the Council's budgeting, financial management, and accounting practices meet the relevant statutory and professional requirements. Members must have regard to and be aware of the wider duties placed on the Council by various statutes governing the conduct of its financial affairs.

8. Director of Finance and Information Services (Section 151 Officer) comments

All financial considerations are contained within the body of the report.

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Signed by Director of Finance and Information Services (Section 151 Officer)

The following documents disclose facts or matters, which have been relied upon to a material extent by the author in preparing this report:

Title of document	Location
1 Information pertaining to the appointment of external auditors	Financial Services
2	

