

**AUDIT COMMITTEE**

**26 JANUARY 2017**

**REPORT OF CORPORATE DIRECTOR (CORPORATE SERVICES)**

**A.5 APPOINTMENT OF EXTERNAL AUDITOR FROM 2018/19**

(Report prepared by Richard Barrett)

**PART 1 – KEY INFORMATION**

**PURPOSE OF THE REPORT**

To set out the proposal to opt in to the Public Sector Audit Appointments (PSAA) arrangements for appointing External Auditors from 2018/19.

**EXECUTIVE SUMMARY**

- Following the demise of the Audit Commission, new arrangements were needed for the longer term appointment of external auditors.
- The Local Audit and Accountability Act 2014 requires the Council to either opt in to an appointing person regime or to establish an auditor panel and conduct their own procurement exercise once the existing contract with Ernst and Young Expires.

**RECOMMENDATIONS**

**That the Audit Committee recommends to Full Council that this Council opts in to the appointing person arrangements made by Public Sector Audit Appointments (PSAA) for the appointment of external auditors from 2018/19.**

**PART 2 – IMPLICATIONS OF THE DECISION**

**DELIVERING PRIORITIES**

The aim of continuing to be financially stable and well managed and provide good value for money is directly supported through learning and improving through audit and inspection.

**FINANCE, OTHER RESOURCES AND RISK**

**Finance and other resources**

Until the associated procurement exercise is completed it is not possible to state what additional resource may be required for audit fees from 2018/19, although it is anticipated that any increase will be minimised through using PSAA given economies of scale that such arrangements are expected to provide. Once costs are known then they will be reflected in the financial forecast as necessary.

If the Council does not opt in to the PSAA arrangements, then additional resource may be needed to establish an auditor panel and to conduct a local procurement process and the potential for economies of scale would potentially be lower.

**Risk**

The main risks associated with this report are value for money considerations in terms of cost and the Council's capacity if it decided not to opt in to the appointing person regime and carry out its own appointment process via an independent panel.

**LEGAL**

The proposals set out in this report are compliant with the Local Audit and Accountability Act 2014.

The PSAA were specified by the Secretary of State as an appointing person under regulation 3 of the Local Audit (Appointing Person) Regulations 2015

**OTHER IMPLICATIONS**

Consideration has been given to the implications of the proposed decision in respect of the following and any significant issues are set out below.

**Crime and Disorder / Equality and Diversity / Health Inequalities / Area or Ward affected / Consultation/Public Engagement.**

This report does not have a direct impact.

**PART 3 – SUPPORTING INFORMATION****BACKGROUND AND CURRENT POSITION**

As part of closing the Audit Commission the Government novated external audit contracts to PSAA on 1 April 2015. The contracts were due to expire following conclusion of the audits of the 2016/17 accounts, but could be extended for a period of up to three years by PSAA, subject to approval from the Department for Communities and Local Government.

In October 2015 the Secretary of State confirmed that the transitional provisions would be amended to allow an extension of the contracts for a period of one year. This meant that for the audit of the 2018/19 accounts it would be necessary for authorities to either undertake their own external audit procurement process or opt in to an appointed person regime.

An appointed person regime is to a large extent how the external auditors were appointed under the previous Audit Commission arrangements.

There was a degree of uncertainty around the new appointed person regime until July 2016 when PSAA were specified by the Secretary of State as an appointing person body. 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 and is a company owned by the Local Government Association's Improvement and Development Agency (IDeA).

An invitation to local authorities to opt in was received from the PSAA on 27 October and a response is required by 9 March 2017. Subject to the agreement of this Committee, the recommendation to make use of the appointing person arrangements offered by PSAA will be considered by Council on 7 February 2017 as required by the regulations.

The main advantages of opting in to the PSAA's appointing person option is set out in its prospectus which are summarised below;

- Assure timely auditor appointments
- Manage independence of auditors
- Secure highly competitive prices
- Save on procurement costs
- Save time and effort needed on auditor panels
- Focus on audit quality
- Operate on a not for profit basis and distribute any surplus funds to scheme members.

The alternative approach of establishing an auditor panel and conducting a local procurement process will be a far more resource intensive process and without the bulk buying power of the sector led procurement and would be likely to result in a more costly External Audit service.

As highlighted above a decision to opt in to the PSAA appointing person approach must be made by Full Council. To comply with this regulation the Committee is asked to make its recommendation to Council on 7 February 2017, which would allow a response to be made by the deadline of 9 March 2017.

For information, at the time of writing this report, via discussions with other authorities, it is understood that most other authorities across Essex will be opting in to the new PSAA appointing person approach.

#### **BACKGROUND PAPERS FOR THE DECISION**

PSAA Prospectus

PSAA – Appointing Person – Frequently Asked Questions

#### **APPENDICES**

None