

## APPOINTMENT OF EXTERNAL AUDITORS

DECEMBER 2016

### 1. Introduction

- 1.1 This report summarise the changes to the arrangements for appointing External Auditors following the closure of the Audit Commission and the end of the transitional external audit arrangements at the conclusion of the 2017/18 audits.
- 1.2 The Local Audit and Accountability Act 2014 (the Act) included transitional arrangements covering the audit contracts originally awarded by the Audit Commission in 2012 and 2014. These contracts covered the audit of accounts up to 2016/17, and gave the Department for Communities and Local Government (DCLG) the power to extend these contracts to 2019/20.
- 1.3 The Local Government Association (LGA) established an independent company, Public Sector Audit Appointments Ltd (PSAA) to take on the management of the external audit contracts for local public bodies during the interim period.
- 1.4 On 5th October 2015 the Secretary of State Communities and Local Government announced that the audit contracts for large local government bodies (including county councils) would be extended to include the audit of the 2017/18 financial statements.
- 1.5 The Council's current external auditor is Grant Thornton, an appointment made under the contract let by the Audit Commission.
- 1.6 Whilst the Council has until December 2017 to appoint the external auditors for the 2018/19 accounts, it needs to confirm its position on whether to opt-in with PSAA by March 2017, giving PSAA sufficient time for their procurement process and successful transition to the new arrangement.
- 1.7 The scope of the 2018/19 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 audits must follow. Not all accounting 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. The registration process has not yet commenced and so the actual number of

firms is unknown but it is reasonable to expect that the list of eligible firms may include the top 10 or 12 firms in the country, including our current auditor. It seems unlikely that smaller local independent firms will meet the eligibility criteria.

## **2. Appointment of External Auditors from 2018/19**

- 2.1 When the current transitional arrangements end on 31st March 2018, authorities need to appoint their own auditors. There are a number of ways this can be achieved, each with varying risks and opportunities. Current fees are based on discounted rates offered by the firms in return for substantial market share. When the contracts were last negotiated nationally by the Audit Commission they covered NHS and local government bodies and offered maximum economies of scale. Therefore, fee levels are likely to be a significant factor when making new auditor appointments.
- 2.2 Over the last two years the LGA have been working on developing a Sector-Led Body (SLB) arrangement for appointment of external auditors. In total, around 270 councils and local bodies have expressed initial (non-committal) interest in their national scheme, including this Council.
- 2.3 In late July 2016, the Department for Communities & Local Government confirmed PSAA's (as a not-for-profit company established by the LGA) bid to become the SLB for the independent appointment of auditors for principal authorities in England, beginning with responsibilities for the financial year 2018-19. When announcing this development PSAA confirmed that only firms that have a proven track record in undertaking public audit work will be offered contracts. Their plan is to set a three-year time period for both contracts and public sector bodies' membership of the scheme, with the option to extend it to five years. PSAA will limit contracts to a small number of companies in two or three large contract areas, in order to try to achieve the most competitive prices possible.
- 2.3 Opting-in to PSAA's national SLB potentially provides the best opportunity to limit future fees or costs, in terms of both appointment of auditors and audit fees, by entering into a large scale collective procurement arrangements. It automatically removes the need for the Council to establish an auditor panel, and the associated costs.
- 2.4 The LGA has continuously supported the SLB approach, believing it will offer best value to Councils by reducing set-up costs and having the potential to negotiate lowest possible fees.

- 2.5 The September Audit & Governance Committee considered a detailed report outlining the process and options available to the Council for the appointment of external auditors from the 2018/19 Statement of Accounts.
- 2.6 The Committee supported the option of “opting-in” to a Sector Led Body (SLB) appointed by the Secretary of State under the legislation. Therefore the Committee recommends to Council the option of opting-in to PSAA as the sector led body for the appointment of the Council’s external auditors from 2018/19. Relevant regulations dictate that a decision to opt into the national scheme for auditor appointments can only be made by the full Council.

### **3. Recommendations**

- 3.1 It is recommended that Council approves the recommendation from Audit and Governance Committee to accept the invitation from the Public Sector Audit Appointment (PSAA) to become an opted-in authority for the purposes of the appointment of our auditor under the provisions of the Local Audit and Accountability Act 2014 and the requirements of the Local Audit (Appointing Person) Regulations 2015.

*Cllr Nigel Robbins*  
*Chairman of the Audit and Governance Committee*