

<b>Local Members' Interest</b>
N/A

## **Audit and Standards Committee –25 September 2017**

### **Local Public Audit – Update**

#### **Recommendation**

1. To note the outcome of the sector led body procurement process for the appointment of the external auditor for the County Council with effect from 2018/19, for a period of five years, as being Ernst & Young LLP.

#### **Report of the Director of Finance & Resources**

2. The Local Audit and Accountability Act 2014 brought to a close the Audit Commission and established transitional arrangements for the appointment of external auditors and the setting of audit fees for all local government and NHS bodies in England. In October 2015 the Secretary of State - Communities and Local Government (DCLG) determined that the transitional arrangements for local government bodies would be extended by one year to also include the audit of the accounts for 2017/18. Currently, Ernst & Young (EY) are the Council's External Auditor.
3. When the current transitional arrangements come to an end on 31 March 2018 the Council will be able to move to local appointment of the auditor. Under the existing regulations the County Council, including the pension fund, must have appointed its External Auditor for the 2018/19 financial year by December 2017. There were three broad options open to the Council under the Local Audit and Accountability Act 2014 (the Act); to make a stand alone appointment; set up a Joint Auditor Panel/local joint procurement arrangements; or opt-in to a sector led body arrangement.
4. The Local Government Association had lobbied for the Local Audit & Accountability Act 2014 to include provision for the establishment of a sector led body (SLB) to procure future audit contracts. A SLB would have the ability to negotiate contracts with the firms nationally, maximising the opportunities for the most economic and efficient approach to procurement of external audit on behalf of the whole sector.
5. During July 2016 it was announced by DCLG that Public Sector Audit Appointments Ltd (PSAA) had been named as the body authorised to make future audit appointments on behalf of principal local authorities in England. The first appointments made under the agreement will be in relation to the financial year 2018/19.
6. There were three broad options open to the Council under the Local Audit and Accountability Act 2014:
  - Option 1 – to make a stand alone appointment via an Auditor Panel;
  - Option 2 - set up a joint Auditor Panel/ local joint procurement arrangements; and
  - Option 3 – opt-in to a sector led body.

7. At the September 2016 meeting of the Audit & Standards Committee a detailed paper outlining the pros and cons of each of the three options was presented. Members considered the merits of each of the three options in detail and concluded that Option 3 should be the preferred route, subject to approval by Full Council. Full Council approved the decision to opt in to the sector led body procurement process at its December 2016 meeting.
8. The benefits to this approach were summarised as follows, based on the latest information from PSAA (Ltd)
  - Assured appointment of a qualified, registered, independent auditor;
  - Appointment, if possible, of the same auditor to bodies involved in significant collaboration/joint working, if the parties believe it will enhance efficiency and value for money;
  - Avoidance of independence issues.
  - On-going management of independence issues;
  - Securing highly competitive prices from audit firms;
  - Minimising scheme overhead costs;
  - Savings from one major procurement as opposed to a multiplicity of small procurements;
  - A scale of fees which reflects size, complexity and audit risk for each body;
  - Avoiding the necessity for individual bodies to establish an auditor panel and to undertake an auditor procurement.
9. PSAA(Ltd) has now concluded the procurement exercise and under regulation 13 of the Regulations has commenced the process of appointing an external auditor to each opted in authority. Appendix 1 attached, details the formal communication that has been received by the Chief Executive and Director of Finance & Resources regarding the proposed appointment of Ernst & Young LLP as the County Council's external auditor commencing 2018/19 for a further period of five years. Ernst & Young LLP is the current external auditor.

### **Equalities and Legal and Climate Change Implications**

10. Section 7 of the Local Audit and Accountability Act 2014 requires a relevant authority to appoint a local auditor to audit its accounts for a financial year not later than 31 December in the preceding year. Section 8 governs the procedure for appointment including the authority must consult and take account of the advice of its auditor panel on the selection and appointment of a local auditor.
11. Section 12 makes provision for the failure to appoint a local auditor. The authority must immediately inform the Secretary of State, who may direct the authority to appoint the auditor named in the direction or appoint a local auditor on behalf of the authority.
12. Section 17 gives the Secretary of State the power to make regulations in relation to an 'appointing person' specified by the Secretary of State. This power has been exercised in the Local Audit (Appointing Person) Regulation 2015 (SI 192) and this gives the Secretary of State the ability to enable a sector led body to become the appointing person.

### **Resource and Value for Money Implications**

13. Opting-in to a national SLB (i.e. PSAA Ltd) provides maximum opportunity to limit the extent of any increase in fees by entering into a large scale collective procurement arrangement and would remove the costs of establishing an auditor panel.

### **Risk Implications**

14. There is a financial risk that the current fees could increase when the present External Audit contract ends in March 2018.

### **Health Impact Assessment**

15. There are no specific Health Impact Assessment implications presented by this report.

### **Report author**

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### **List of Background Documents:**

The Local Audit and Accountability Act 2014  
CIPFA's Auditor Panels guidance