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| <b>Report for:<br/>INFORMATION</b> |
| <b>Item Number: 8</b>              |

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| <b>Contains Confidential or Exempt Information</b> | <b>NO</b>  |
| <b>Title</b>                                       | Public Sector Audit Arrangements Update                        |
| <b>Responsible Officer</b>                         | Ross Brown, Director of Finance                                |
| <b>Authors</b>                                     | Simon Peet, Finance Manager - Financial Control & Banking      |
| <b>Portfolio</b>                                   | Cllr Yvonne Johnson – Finance, Performance & Customer Services |
| <b>For Consideration By</b>                        | Audit Committee  |
| <b>Date to be considered</b>                       | 29 November 2017   |
| <b>Implementation Date if Not Called In</b>        | N/A  |
| <b>Affected Wards</b>                              | All  |
| <b>Keywords/Index</b>                              | External Audit, PSAA   |

**Purpose of Report:**

This report is to inform the Committee that the Public Sector Audit Appointments Limited (PSAA) has proposed the appointment of Deloitte LLP, as the Council's appointed external auditor with effect from 1 April 2018

In July 2017 this Committee approved a recommendation to delegate powers to the Executive Director of Corporate Resources, in consultation with the Chair and Deputy Chair of the Audit Committee, to respond to the PSAA on behalf of the Council.

In August 2017 the Council communicated to PSAA that it is satisfied with the proposed appointment of Deloitte LLP.

**1. Recommendations**

- 1.1 It is recommended that the Committee notes:
- The proposed appointment of Deloitte LLP as the Council's external auditors from 1 April 2018

**2. Reason for Decision and Options Considered**

- 2.1 This report is for information only, no decision is required

### **3. Background**

- 3.1 The Council's current external auditor is KPMG; this appointment having been made under a contract let by the Audit Commission. Following closure of the Audit Commission the contract is currently managed by Public Sector Audit Appointments Limited (PSAA), the transitional body set up by the Local Government Association (LGA) with delegated authority from the Secretary of State Communities and Local Government (CLG).
- 3.2 The Local Audit and Accountability Act 2014 (the Act) 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. These arrangements will last until 31 March 2018.
- 3.3 The Local Audit and Accountability Act 2014 (the Act) set out the arrangements for the appointment of external auditors, with the opportunity for authorities to make their own decisions about how and by whom their auditors are appointed post 2017/18. Regulations made under the Act allow authorities to 'opt in' for their auditor to be appointed by an 'appointing person'.
- 3.4 In December 2016 (on the recommendation of Audit Committee), Full Council accepted the Public Sector Audit Appointments' (PSAA) invitation to 'opt in' to the 'sector-led body' option for the appointment of external auditors for five financial years, commencing 1 April 2018.
- 3.5 In line with the timetable published in the PSAA prospectus, contracts were awarded in June 2017 and the results of the procurement process were announced by the PSAA on 20 June 2017. Seven firms were awarded a contract over six lots; the council's existing auditor's KPMG LLP were not one of those seven.
- 3.6 The PSAA have also published further information regarding the appointment process on their website. Within the overall context of developing auditor appointments that represent value for money, the PSAA have regard to the following six principles:
  1. ensuring auditor independence;
  2. meeting our contractual commitments;
  3. accommodating joint/shared working arrangements where possible;
  4. ensuring a blend of authority types for each audit firm;
  5. taking account of a firm's principal locations; and
  6. providing continuity of audit firm, if possible.

They also state that a primary consideration in allocating proposed appointments to individual opted-in bodies is ensuring independence and then balancing the remaining principles.

#### **4. Consultation & Confirmation**

- 4.1 The PSAA wrote to the Council on 15 August to consult on the auditor appointment of Deloitte LLP. This consultation closed on 22 September 2017 at which time the Council communicated it was satisfied with the appointment of Deloitte LLP.
- 4.2 Where an audited body accepts the PSAA's proposals, no further action is needed. If a body did not wish to accept the proposed appointment then the timetable allowed for representations to be made and considered during October and November 2017.
- 4.3 The PSAA will approve all proposed appointments from 2018/19 at its meeting in mid-December 2017, following which the PSAA will write to each audited body to confirm the appointment. This is currently planned to be by 18 December 2017, before the statutory deadline of 31 December.

#### **5. Financial**

- 5.1 Current external fees levels are not expected to increase when the current contracts end in 2018 following the PSAA procurement of auditor services completed in June 2017. Whilst Ealing's proposed fees will not be known until 2018, savings of up to 18% are expected in scale fees payable by local bodies. Audit costs for 2016/17 for the main statement of accounts were £188k.

#### **6. Legal**

- 6.1 Section 7 of the Local Audit and Accountability Act 2014 (the Act) 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 that the authority must consult and take account of the advice of its auditor panel on the selection and appointment of a local auditor. Section 8 provides that where a relevant authority is a local authority operating executive arrangements, the function of appointing a local auditor to audit its accounts is not the responsibility of an executive of the authority under those arrangements.
- 6.2 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.
- 6.3 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) Regulations 2015 (SI 192) and this gives the Secretary of State the ability to enable a Sector Led Body to become the appointing person.

#### **7. Value for Money**

- 7.1 Based on potential cost savings identified in joining the PSAA, this has represented the best value for money option.

## **8. Sustainability Impact Appraisal**

8.1 Not applicable.

## **9. Risk Management**

9.1 There is no immediate risk to the Council; with the confirmation of appointment currently planned to be communicated by 18 December 2017, before the statutory deadline of 31 December. However, early planning will be required so as to achieve a successful transition to the new arrangement in a timely and efficient manner.

## **10. Community Safety**

10.1 Not Applicable

## **11. Links to the 6 Priorities for the Borough**

11.1 Financial reporting and audit assists the council's in delivery of all six of its priorities for the borough, which are to make Ealing:

- prosperous
- safer
- healthier
- cleaner
- fairer
- accessible

## **12. Equalities, Human Rights and Community Cohesion**

12.1 The need for the completion of an Equality Analysis Assessment (EAA) was considered but not required.

## **13. Staffing/Workforce and Accommodation implications**

13.1 Not Applicable

## **14. Property and Assets**

14.1 Not Applicable

## **15. Any other implications:**

15.1 None.

## **16. Consultation**

16.1 As per table below.

## **17. Timetable for implementation**

17.1 The updated timetable for the PSAA is as follows:

- Invitation to opt in issued - October 2016
- achieve 'sign-up' of scheme members - March 2017
- Contract Notice Published- February 2017
- Contracts awarded - June 2017
- Consult on auditor appointment proposals – 14 August to 22 September 2017
- Consideration of representations for change in appointment proposals – October to November 2017
- Confirm final auditor appointments - by 31 December 2017

- consult on, propose audit fees and publish fees - by 31 March 2018

## **18. Appendices**

18.1 None

## **19. Background information**

- The Local audit (appointing persons) Regulations 2015
- The Local Government (Accounts and Audit) Regulations 2015
- The Local Audit and Accountability Act 2014
- PSAA Website - <http://www.psaa.co.uk/appointing-auditors/>

## Consultation

| <b>Name of consultee</b> | <b>Post held</b>                          | <b>Date sent to consultee</b> | <b>Date response received</b> | <b>Comments appear in paragraph:</b> |
|--------------------------|---|-------------------------------|-------------------------------|--------------------------------------|
| Pat Main                 | Head of Corporate Finance                 | 15/11/2017                    | 15/11/2017                    |                                      |
| Ross Brown               | Director of Finance                       | 15/11/2017                    | 15/11/2017                    |                                      |
| Catherine Taylor         | Head of Legal (Litigation and Contracts)  | 16/11/2017                    |                               |                                      |
| Ian O'Donnell            | Executive Director of Corporate Resources | 16/11/2017                    |                               |                                      |
| Cllr Yvonne Johnson      | Finance, Performance & Customer Service   | 16/11/2017                    |                               |                                      |

## Report History

|                       |  |
|-----------------------|--|
| <b>Decision type:</b> | <b>Urgency item?</b>   |
| For information       | No   |
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