

**Report for:
Audit Committee**

Item Number:

Contains Confidential or Exempt Information	NO
Title	Public Sector Audit Arrangements Update
Responsible Officer	Ian O'Donnell Executive Director Corporate Resources Ross Brown Director of Finance
Authors	Maria Campagna Head of Corporate Finance
Portfolio	Cllr Yvonne Johnson – Finance, Performance & Customer Services
For Consideration By	Audit Committee
Date to be considered	27 July 2017
Implementation Date if Not Called In	N/A
Affected Wards	All
Area Committees	N/A
Keywords/Index	External Audit, PSAA

Purpose of Report:

This report provides an update following the council's acceptance in December 2016 of the Public Sector Audit Appointments' (PSAA) invitation to 'opt in' to the sector led body option for the appointment of external auditors for 5 financial years commencing 1 April 2018.

1 Recommendations

1.1 It is recommended that the Committee:

- Notes the update regarding the appointment of external auditors from 1 April 2018, including the updated timetable for consultation.
- Delegate powers to the Executive Director of Corporate Resources, following consultation with the chair and deputy chair of the Audit Committee, to respond to the consultation regarding acceptance of the PSAA's post 1 April 2018 external auditor appointment on behalf of the council.

2 Reason for decision and options considered

- 2.1** 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'.
- 2.2** 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 5 financial years commencing 1 April 2018.
- 2.3** In line with the timetable published in the PSAA prospectus, contracts were awarded in June 2017, and the PSAA will consult on and confirm auditor appointments to opted-in bodies between August and December 2017. The timetable has been set to enable appointments to be confirmed by the statutory deadline of 31 December 2017.
- 2.4** The process of consulting audited bodies on proposed appointments will begin in August 2017, allowing five weeks for the consultation (14 August to 22 September). Where a body accepts the proposed appointment, no further action is needed. Where a body does not wish to accept the proposed appointment then the timetable allows for representations to be made and considered before the end of November 2017.
- 2.5** The next Audit Committee is scheduled for 29 November 2017. An update regarding the consultation process will be provided to that meeting.

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 which will last until 31 March 2018.
- 3.3** The Act also set out the arrangements for the appointment of auditors for subsequent years, with the opportunity for authorities to make their own decisions about how and by whom their auditors are appointed. Regulations made under the Act allow authorities to 'opt in' for their auditor to be appointed by an 'appointing person'. The PSAA were approved as an

'appointing person' or sector-led body for local government which enabled them to offer an invitation to 493 bodies eligible to join the scheme. 484 (98%) took the decision to opt in for the initial five year period.

4 Procurement, consultation and Timetable Update

4.1 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 have not been awarded a contract and therefore the council's external auditors will change for the 2018/19 audit.

4.2 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 will 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.

The primary consideration in allocating proposed appointments to individual opted-in bodies will be ensuring independence, then balancing the remaining principles.

4.3 The updated consultation timetable was also published in July 2017. It is shown in section 15 below.

5 Financial Implications

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 Implications

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 Risk Management

8.1 There is no immediate risk to the Council; however, early consideration by the Council of its preferred approach will enable detailed planning to take place so as to achieve successful transition to the new arrangement in a timely and efficient manner.

9 Community Safety

9.1 Not Applicable

10 Links to strategic objectives

10.1 The Council's accounts form a key part of working towards the Council priority of "delivering value for money". The production, publication and audit of The Statement of Final Accounts provide valuable information to the residents of the Council and to its suppliers. The External auditors carry audit a value for Money audit.

11 Equalities and cohesion

11.1 No Identified need for the completion of an Equality Impact Assessment

12 Staffing/Workforce and Accommodation implications

12.1 Not Applicable

13 Property and Assets

13.1 Not Applicable

14. Consultation

14.1 As per table below.

15 Timetable for implementation

15.1 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

16 Appendices

None

17 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

Name of consultee	Department	Date sent to consultee	Date response received from consultee	Comments appear in report para:
Internal				
Ian O'Donnell	Executive Director of Finance & Resources			-
Ross Brown	Director of Finance	18/7/17		
Helen Harris	Director of Legal & Democratic Services	18/7/17		-

Report History

Decision type: For information and action	Urgency item?		
Authorised by Cabinet member:	Date report drafted:	Report deadline:	Date report sent:
Report no.: Report author and contact for queries: Maria Campagna Head of Corporate Finance 020 8825 9727			