

Agenda Item No: 14 **Report No:** 161/16

Report Title: Appointment of External Auditor

Report To: Council **Date:** 7th December 2016

Cabinet Member: Councillor Bill Giles

Ward(s) Affected: All

Report By: Alan Osborne, Deputy Chief Executive

Contact Officer(s)-

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Purpose of Report:

To seek authorisation to opt into the national public sector scheme for the appointment of external auditors.

Officers Recommendation(s):

- 1 To authorise the Deputy Chief Executive to accept the invitation received from Public Sector Audit Appointments Limited to enrol the Council in the national public sector scheme for the appointment of external auditors.

1. Reasons for Recommendations

- 1.1. An external auditor for the audit of the accounts for 2018/19 must be appointed before the end of 2017.

2. Background

- 2.1. Previously external auditors were appointed to authorities by the Audit Commission. With the closure of the Audit Commission on 31st March 2015 its various functions were transferred.
- 2.2. Public Sector Audit Appointments Limited (PSAA) was incorporated by guarantee by the Local Government Association (LGA) in August 2014. It is based in the LGA's offices in London but is operationally independent.
- 2.3. There is a revised timetable for the completion of the audit of accounts for 2017/18. The Audit and Standards Committee will need to accept the audited accounts by the end of July.

3. Information

- 3.1. The external auditor for the audit of the accounts for 2018/19 must be appointed before the end of 2017. The Council now has a choice as to how it makes that appointment.
- 3.2. The Secretary of State has awarded the role of appointing local auditors under a national scheme to PSAA which is a not-for-profit company owned by the Local Government Association's "Improvement and Development Agency" (IDeA). It was established to operate the transitional arrangements following closure of the Audit Commission.
- 3.3. PSAA has written to the Council, asking it if it wishes to opt into the national scheme. Any decision to opt in must be made by full Council and the closing date for acceptance is 9 March 2017. There is not a fee to opt into the national scheme. However opted-in bodies will be charged audit fees to cover the cost of PSAA appointing local auditors and managing the arrangements. The fee will reflect the size, audit risk and complexity of the work requested.
- 3.4. PSAA believe that the audit fees achieved through large contracts under the national scheme will be lower than the costs that individual authorities might be able to negotiate. The length of the contract between PSAA and firms will be 5 years. PSAA will consult individual authorities on individual auditor appointments.
- 3.5. PSAA will seek feedback on its auditors as part of its engagement with its local authority members. It will have a complaints process and it will undertake contract monitoring of the firms it appoints. PSAA anticipates that it will consult on and make final auditor appointments by 31 December 2017 and consult on, propose, and publish audit fees by 31 March 2018.

4. Considerations

- 4.1. Consideration has also been given to the sharing of services with Eastbourne Borough Council. If each authority is allocated a different external auditor this could cause issues with duplicated work and, possibly, different standards being used by different companies.
- 4.2. The PSAA has informed officers that in setting up the new arrangements one of its aims will be to make auditor appointments that take account of joint working and shared service arrangements. Requests for the same auditor as another authority will be considered providing there is no conflict with auditor independence considerations e.g. an audit firm could not properly audit schemes on which it had previously been engaged as an advisor. The PSAA has also confirmed that they will request the information on joint working and independence constraints after the opt-in period closes on 9th March 2017, in the March-April 2017 period.

5. Financial Appraisal

- 5.1. If the Council chooses not to opt in to the national scheme then it will be responsible for procuring external auditors itself and for managing the contract with them. It will also be required to set up an auditor panel with independent

members. (Opting in to the national scheme will remove the need to set up an auditor panel).

- 5.2. By not opting in the Council will not benefit from lower fees that could be negotiated by PSAA from the number of authorities that they would be negotiating for.
- 5.3. There will be a fee payable to PSAA although this has not yet been determined as well as the fee payable to the company providing the external audit service. In their recent letter PSAA stated that "PSAA will pool scheme costs and charge fees to audited bodies in accordance with a fair scale of fees which has regard for size, complexity and audit risk as evidenced by audit fees for 2016/17" and "scale fees will be determined by the prices achieved in the auditor procurement that PSAA will need to undertake".

6. Legal Implications

- 6.1. There are no legal implications arising from this report.

7. Risk Management Implications

- 7.1. By not enrolling in the PSAA scheme the Council is likely to incur higher fees for its external audit for 2018/19 and onwards as well as a significant additional administrative burden for the process.

8. Equality Implications

- 8.1. There are no equality implications arising from this report.

9. Background Papers

- 9.1. None.