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## REPORTS FROM THE EXECUTIVE, COMMITTEES AND SUB-COMMITTEES TO COUNCIL

### 1 REPORT OF THE AUDIT COMMITTEE

#### **New Arrangements to Appoint External Auditors**

- 1.1 This item of business was referred by the Audit Committee on 28 September 2016 to Full Council with a recommendation in relation to new arrangements for appointing the Council's external auditors as required by the Local Audit and Accountability Act 2014. An extract of the key elements of the report of the Section 151 Officer and Assistant Director, Democratic Services to the Committee is appended.
- 1.2 The Committee noted that other Essex authorities had indicated that they are likely to opt into the central Public Sector Audit Appointments service arrangements.
- 1.3 The annual charges for the service are not yet known, but are unlikely to be higher than is paid to Ernst Young, the Council's current external auditors.
- 1.4 It is proposed that Council **RESOLVES**  
That the Council opts into the proposed central arrangements for appointing external auditors.

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## **NEW ARRANGEMENTS TO APPOINT EXTERNAL AUDITORS**

### **2 PURPOSE OF REPORT**

- 2.1 To seek the Audit Committee's view on which approach to appointing new external auditors should be recommended to Full Council.

### **3 INTRODUCTION**

- 3.1 The Audit Committee's terms of reference make it responsible for managing the budget associated with the external auditors' fees. In practical terms, this means the Audit Committee should satisfy itself the external auditors' work is satisfactory and fees represent value for money.
- 3.2 The Audit Commission was until 31 March 2015 the statutory body responsible for ensuring all local authorities' accounts were audited. It discharged this duty by either appointing one of its own in-house audit teams or a private sector auditor to audit a Council's accounts.
- 3.3 The Audit Commission was abolished on 31 March 2015. The audit contracts held by the Commission have been transferred to a company called 'Public Sector Audit Appointments Ltd,' which has been set up by the Local Government Association (LGA) for this purpose.
- 3.4 The Council's current appointed external auditor is Ernst and Young (EY). EY are appointed to audit the Council's accounts up to and including those of financial year 2017/18.
- 3.5 The Council has to appoint new external auditors by 31 December 2017 ready for the audit of the accounts for 2018/19.
- 3.6 The Local Audit and Accountability Act 2014 requires the Council to either appoint its own auditor, following the advice of an independent auditor panel, or to opt into a central system where the auditor will be appointed by an 'appointing person'.
- 3.7 The Department of Communities and Local Government on 17 August 2016 specified Public Sector Auditor Appointments Ltd as the 'appointing person,' meaning this will be the central system used by those Councils that opt into this arrangement.

### **4 OPTIONS FOR APPOINTING NEW EXTERNAL AUDITORS**

- 4.1 The Council has therefore the following options:-
- a. Create its own auditor panel to advise the Council and appoint its own external auditors following a procurement exercise;

- b. Create, or work with other Councils to create, a joint auditor panel which will advise and appoint external auditors to those participating Councils following a joint procurement exercise; or
  - c. Opt into the central Public Sector Audit Appointments Ltd service, in which case the Council will not be required to have an auditor panel or undertake a procurement exercise.
- 4.2 An auditor panel is required to have a majority of independent members. There are strict requirements of independence which may, in practice, make it difficult to find people able and willing to serve on auditor panels. Independent persons must not have friends or relatives who work for Rochford or for accountants likely to want to be appointed as auditors.
- 4.3 On 7 March 2016 the LGA wrote to all local authorities with its analysis of the above options indicating that using a central system under option c would be far cheaper for Councils than having every Council procuring their external auditor separately.
- 4.4 Joining the central appointment system would also mean separate procurement exercises and auditor panels are not needed and therefore save the time and costs to do so. However, a central system can only be a success if most Councils opt in.
- 4.5 The LGA says that a 2015 survey indicates that a significant majority of finance directors have indicated that in principle they are favour of a central system.
- 4.6 The LGA hopes to be able to formally issue invites to Councils to participate in the central appointment system in December 2016. The invites need to be confirmed by 31 December 2016.
- 4.7 Regulation 19 of the Local Audit (Appointing Persons) Regulations 2015 requires Full Council to take a decision whether to accept the invite to join the central appointment system.
- 4.8 The LGA has been made aware that the above timescale may prove impractical given the timings of Full Council meetings. It is hoped they will clarify the required acceptance process and its timings soon.

## **5 RISK IMPLICATIONS**

- 5.1 If the Council fails to appoint new external auditors it will breach the Local Audit and Accountability Act 2014.
- 5.2 The way in which the Council appoints its new external auditors may not achieve value for money.

## **6 RESOURCE IMPLICATIONS**

- 6.1 Depending on the option chosen, there will be differing resource implications. If options a or b set out in paragraph 3.1, this will entail:-
- Staff resources and costs of creating an auditor panel or panels, recruiting suitable independent members and administering its work;
  - Staff resources to run a Rochford-only procurement exercise, or participate in a joint exercise.
- 6.2 Option c will avoid costs associated with creating auditor panels and procurement exercises.
- 6.3 If option a or b is chosen, the external auditors' fee will be determined by the procurement exercise and therefore will not be certain at this time.
- 6.4 If option c is chosen, the external auditors' fee will be calculated using a scale set by the central appointing person after consulting those opting in and firms of accountants.
- 6.5 Opted in authorities must pay the scale fee, together with any extra charges that apply, for example for producing public interest reports.
- 6.6 Any extra charges would be payable to any external auditor.

## **7 LEGAL IMPLICATIONS**

- 7.1 The Local Audit and Accountability Act 2014 requires the Council to either appoint its own auditor, following the advice of an independent auditor panel, or to opt into a central system where the auditor will be appointed by an 'appointing person'.