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## EXTERNAL AUDITOR – APPOINTMENT FROM 2018/19

### 1 INTRODUCTION

- 1.1 In July 2016, the Secretary of State for Communities and Local Government confirmed that Public Sector Audit Appointments Limited (PSAA) had been specified as an appointing person under the provisions of the Local Audit and Accountability Act 2014 (the 2014 Act) and the Local Audit (Appointing Person) Regulations 2015. This means that PSAA will make auditor appointments to relevant principal local government bodies that chose to opt into the national appointment arrangements, for audits of the accounts from 2018/19.
- 1.2 Current auditor appointments are made under the audit contracts previously let by the Audit Commission and now managed by PSAA under transitional arrangements. These audit contracts will end with the completion of the 2017/18 audits for principal local government bodies, including police and fire bodies, and the completion of the 2016/17 audits for NHS bodies.
- 1.3 Rochford District Council (RDC) chose to opt for Public Sector Audit Appointments Limited (PSAA) to become the appointing person for the purposes of the Regulations, as did many other Local Authorities throughout the country.

### 2 RESULTS FOR ROCHFORD DISTRICT COUNCIL

- 2.1 The procurement was completed on the country-wide procurement exercise across a number of lots. PSAA must, under regulation 13 of the Regulations, appoint an external auditor to each opted-in authority and consult the authority about the proposed appointment.
- 2.2 Rochford District Council has opted into PSAA's auditor appointment arrangements. PSAA has sent regular email communications to audited bodies about this process, and wrote to RDC on 19 June 2017 to advise that that it had completed a procurement exercise to let audit contracts from 2018/19.
- 2.3 Ernst & Young LLP was successful in winning a contract in the procurement exercise, and we therefore propose appointing this firm as Rochford District Council's auditor.
- 2.4 Ernst & Young LLP (EY) is a multi national professional services firm with 231,000 employees based in over 150 countries worldwide. It provides assurance, tax, consulting and advisory services, and is one of the "Big Four" accounting firms. EY employs around 13,000 people in the UK. There are 240 staff, including 14 Key Audit Partners, who currently work full-time in the Government and Public Sector assurance service team, who are also able to draw from an extensive pool of specialists.

2.5 In developing this appointment proposal, they have applied the following principles, balancing competing demands, based on the information provided to them by audited bodies and audit firms:-

- ensuring auditor independence, as required by the Regulations;
- meeting commitments to the firms under the audit contracts;
- accommodating joint/shared working arrangements where these are relevant to the auditor's responsibilities;
- ensuring a balanced mix of authority types for each firm;
- taking account of each firm's principal locations; and
- providing continuity of audit firm if possible, but avoiding long appointments.

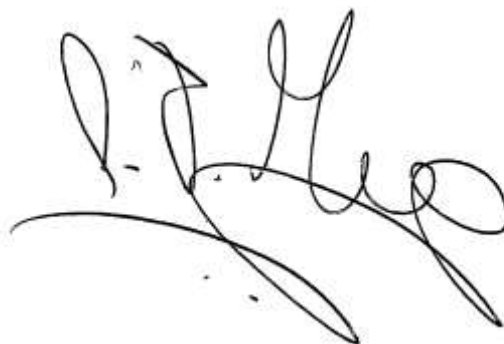
### 3 SCALE FEES FOR 2018/19

3.1 PSAA will consult on scale fees for 2018/19 in due course and will publish confirmed scale fees for 2018/19 for opted-in bodies on their website in March 2018. The results of the audit procurement indicate that a reduction in scale fees in the region of approximately 18 per cent should be possible for 2018/19, based on the individual scale fees applicable for 2016/17.

### 4 RECOMMENDATION

4.1 It is proposed that the Committee **RESOLVES**

That the appointment be noted of Ernst & Young as the external auditors for 2018/19 for a period of five years unless the body ceases to exist or the body ceases to fall within the classes of authorities for which PSAA is the appointing person.



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Section 151 Officer

**Background Papers:-**

None.

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APPENDIX 1

KEY RECOMMENDATIONS ARISING FROM FINAL REPORT TO THE AUDIT COMMITTEE 2015/16

CONCLUSIONS FROM WORK	RECOMMENDATIONS	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER	TIMING
<p><b>1</b> The Council succeeded in bringing forward its timetable for the preparation of the narrative report, financial statements and annual governance statement to meet the timetable for publication this year. However, the Council made two errors in publishing the required information on the website by 30/6/2016.</p> <p>The statement of accounts did not include the cash and cash equivalents balance of £5.28 million on the face of the balance sheet as the PDF version had not picked up the relevant line from the final accounts template and the published accounts did not include the narrative statement.</p>	<p>We did not consider any further formal reporting was required as the Council corrected the omissions by early July 2016. We judged this would give the public sufficient time to consider all documents fully.</p>	<p>Agreed. Rochford District Council will continue to strive to achieve the stricter timetable for closure and reporting by 2018/19 with a continual drive to reduce the time required, through a streamlined year-end process.</p> <p>The errors will not be repeated as a separate approval check by the Principal Finance Officer and then the Section 151 Officer will now be completed.</p> <p>30 June 2016 was the first submission of a narrative statement and as such we underestimated the length of time it would take to produce. Going forwards, this will be timetabled much earlier in the closure process</p> <p><b>Update May 2017</b> A detailed timetable was produced in February 2017 to progress the final accounts with a target date for completion of the end of May 2017.</p>	<p>S151 Officer</p>	<p><b>Completed</b></p>

CONCLUSIONS FROM WORK	RECOMMENDATIONS	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER	TIMING
		<p><b>Update June 2017</b> All reports and statements were produced on time for this year’s closedown (Accounts 2016/17).</p>		
<p><b>2</b> Management completed its working papers to support the financial statements in the week of 18 July 2016. Management also created further working papers in response to our queries during the audit and had difficulty in fulfilling our request in respect of our analytic tools.</p>	<p>Best practice is for all working papers to be prepared at the time of sign off of the financial statements to 30 June each year. As the timetable moves to 31 May in 2017/18, management needs to bring forward its preparations to meet this date.</p>	<p>Agreed. This will form part of the streamlined year end process.</p> <p><b>Update May 2017</b> In line with timetable detailed in Conclusion 1</p> <p><b>Update June 2017</b> All working papers were completed for 2016/17. We are looking at processes to make this smoother through the 2017/18 closedown.</p>	<p>S151 Officer</p>	<p><b>Completed</b></p>
<p><b>3</b> Our initial review of the financial statements identified that there were no provisions disclosed in the Balance Sheet, which is unusual compared with other District Council accounts.</p>	<p>Management has amended the financial statements to include a provision note within the Balance Sheet and at Note 18b.</p>	<p>Agreed. Rochford District Council will continue this practice in future years.</p> <p><b>Update May 2017</b> In line with timetable detailed in Conclusion 1.</p> <p><b>Update June 2017</b> Provisions are reported on the balance sheet for 2016/17.</p>	<p>S151 Officer</p>	<p><b>Completed</b></p>

CONCLUSIONS FROM WORK	RECOMMENDATIONS	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER	TIMING
<p>4 Bridging the budget gap to ensure the Council’s future financial viability presents a significant challenge for the Council we have concluded that the Council is responding well to the financial challenges it is facing, but could improve arrangements for sensitivity and scenario analysis in its budget setting, its public reporting of performance and continuing to review all sources of income to increase reserves.</p>	<p>Improve Budget sensitivity and scenario analysis.</p> <p>Improve public Reporting of Performance.</p> <p>Continue to review all sources of income.</p>	<p>Agree. The budget has several scenarios and sensitivity analyses, but these are not always passed on to Members. This will form part of the budget away days in future budget rounds.</p> <p><b>Update May 2017</b> These scenarios were discussed during the January Budget away day.</p> <p>Agree. The Performance reporting of the Council has been integrated with Finance and the Transformation programme. Further consideration needs to be given as to what elements can be made public.</p> <p><b>Update May 2017</b> Included in Quarterly Financial Reports.</p> <p>Agree. New process in place to review with the Assistant Directors all income streams on a regular basis.</p> <p><b>Update May 2017</b> In place.</p>	<p>S151 Officer</p>	<p><b>Completed</b></p>

CONCLUSIONS FROM WORK	RECOMMENDATIONS	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER	TIMING
<p><b>5</b> The Council has not complied with Section 5 of the Accounts and Audit Regulations 2015 by not undertaking an effective internal audit to evaluate the effectiveness of its risk management and governance processes. Internal Audit has not complied with the UK Public Sector Internal Audit Standards in a number of significant areas during 2015/16. The Council did not appoint a Chief Audit Executive with the qualifications or experience required by the Standards from September 2015 to 31 March 2016 and did not put in place alternative arrangements to deliver the same impact as indicated within CIPFA Statement on the Role of the Head of Internal Audit.</p>	<p>We note that the Council has reported publicly the weaknesses described and is addressing this in the 2016/17 financial year. The Council is in the process of appointing a new Chief Audit Executive (CAE) and is intending to develop an internal audit programme to ensure that sufficient work will be carried out to enable an overall opinion to be given in 2016/17 on the Council's systems of governance, risk management and internal control.</p>	<p>Agree. Rochford District Council has recognised this issue, which is now being addressed by the new Chief Audit Executive agreement with Essex County Council, the updated Audit plan and the large changes in the Internal Audit approach.</p> <p><b>Update May 2017</b> The CAE role was filled for 2016/17 and CAE arrangements are in place on an on going basis.</p> <p>An internal audit programme was put in place to enable an Internal Audit Opinion to be given for 2016/17.</p>	<p>Assistant Director, Democratic Services</p>	<p><b>Completed</b></p>

CONCLUSIONS FROM WORK	RECOMMENDATIONS	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER	TIMING
<p><b>6</b> The Historical Minimum Revenue Provision (MRP) is not detailed</p>	<p>To review the historic balances here and update for 2016/17 year end.</p>	<p>The RDC finance team has this in progress and will have something in place for March 2017.</p> <p>Note, the MRP is basically an annual amount of spend which has to be recognised if the Council has borrowed any money. As RDC has no borrowings, then we should have no MRP. EY agree with this, but would like us to confirm the calculation for the last few years. It's good house keeping and I am more than happy to oblige.</p> <p><b>Update May 2017</b> In line with the timetable detailed in Conclusion 1.</p> <p><b>Update June 2017</b> We are in discussions with EY in respect of this recommendation as there is no debt.</p>	<p>S151 Officer</p>	<p><b>Completed</b></p>
<p><b>7</b> The classification of provisions and contingent liabilities is not detailed</p>	<p>To review our notes and disclosures in this section of the accounts.</p>	<p>The RDC finance team is happy to do this and it will be ready for the year end accounts process, which kicks off in March/April.</p>	<p>S151 Officer</p>	<p><b>Completed</b></p>



CONCLUSIONS FROM WORK	RECOMMENDATIONS	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER	TIMING
		<p><b>Update May 2017</b> In line with the timetable detailed in Conclusion 1.</p> <p><b>Update June 2017</b> Provisions are detailed as part of note 18 to the balance sheet.</p>		

APPENDIX 2

KEY RECOMMENDATION ARISING FROM CERTIFICATION OF CLAIMS AND RETURNS ANNUAL REPORT 2015/16

RECOMMENDATION	PRIORITY	AGREED ACTION	RESPONSIBLE OFFICER	TIMING
Perform early extended testing in those areas where errors were identified in 2015-16, to ascertain the extent of similar errors arising in 2016-17.	High	None Stated.  <b>Update August 2017</b> Work on these areas is in progress but not yet completed. This work will be completed prior to External Audit in house start date on the HB Subsidy.	Section 151 Officer	End August 2017  Revised to 30/9/17