



**TO: Audit & Governance Committee**

**FROM: Director of Finance & IT**

**DATE: 9 January 2018**

**PORTFOLIOS AFFECTED: All**

**WARDS AFFECTED: All**

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**TITLE OF REPORT Confirmation of the Appointment of the Council's External Auditor**

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**1. PURPOSE**

1.1 To note:

- the appointment of Grant Thornton as the external auditor to the Council for the 2018/19 accounts and beyond following the end of the transitional arrangements at the conclusion of the 2017/18 audits; and
- the proposed arrangements for the appointment of an accredited accounting firm to carry out the work required under the auditors to new arrangements for the Housing Benefit (Subsidy) Assurance Process for Subsidy claims from 2018/19 onwards.

1.2 The Council's external auditors are currently working under a contract originally let by the Audit Commission and the contract was novated to Public Sector Audit Appointments (PSAA) following the closure of the Audit Commission. This included the work necessary to certify the Council's Housing Benefits Subsidy claim.

1.3 The Council is required to have new arrangements in place to make a first appointment of its external auditors by 31 December 2017 for the audit year 2018/19 and to inform the Department for Works and Pensions (DWP) of the procurement of its reporting accountant for subsidy claims from 2018 onwards by 1 March 2018.

**2. RECOMMENDATIONS**

2.1 The Committee is asked to note the appointment of Grant Thornton as the Council's external audit services provider from 2018/19.

**3. BACKGROUND**

3.1 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. The Act also 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.

- 3.2 The options under the Act were to establish our own independent audit panel to make a stand-alone appointment or join with other authorities to establish a joint appointment. Alternatively, Regulations made under the Act allowed authorities to 'opt in' for their auditor to be appointed by an 'appointing person'.
- 3.3 In July 2016 PSAA were specified by the Secretary of State as an appointing person under Regulation 3 of the Local Audit (Appointing Person) Regulations 2015. The appointing person is sometimes referred to as the sector led body and PSAA had wide support across local government. PSAA was originally established to operate the transitional arrangements following the closure of the Audit Commission under powers delegated by the Secretary of State. PSAA is an independent, not-for-profit company limited by guarantee and established by the LGA
- 3.4 The Council Forum meeting in January 2017 approved that the Council opt in to the sector led option for the appointment of external auditors for five years commencing from 1 April 2018.
- 3.5 Following the completion of the procurement exercise the PSAA consulted with opted in bodies on their proposed auditors for five weeks during August and September 2017. The proposed appointment was considered at the Audit & Governance Committee meeting on 19 September. The members confirmed that they were satisfied with the appointment of Grant Thornton (UK) LLP as the Council's external auditor from 1 April 2018. This appointment was formally confirmed to the Council following the PSAA Board meeting on 14 December. The contract will cover a five year period commencing with the audit of the accounts for 2018/19. The PSAA has an option to extend the contract for a further two year period, to a total of seven years, if it chooses to do so.
- 3.6 From 1 April 2018 the PSAA will no longer oversee or appoint auditors for Housing Benefit Certification work. From that date the DWP will assume responsibility for issuing guidance and providing support for this assurance process. However, the DWP will not appoint auditors on behalf of Local Authorities. The Council is therefore required to procure services from an accredited accounting firm for this work from that date.
- 3.7 We are required to inform the DWP of the appointment by 1 March 2018. There will be separate engagement requirements and terms and conditions for this work. The process to procure the auditors to carry out this work will be carried out in accordance with the Council's Contract & Procurement Procedure Rules to ensure that the arrangements are in place by the due date.

#### **4. RATIONALE**

- 4.1 The Audit & Governance Committee, in its role of providing an independent and high-level focus on the audit, assurance and reporting arrangements that underpin good governance and financial standards, is required to oversee external audit, helping to ensure efficient and effective assurance arrangements are in place.

- 4.2 The work of external audit forms a key element of the Council's overall system of internal control. Effective external audit arrangements promote best practice and improvements in the management of risks and value for money. A key requirement for the Audit & Governance Committee, in order for the Committee to meet its Terms of Reference, is to assess the adequacy of the external audit provision.

## **5. KEY ISSUES AND RISKS**

- 5.1 The principal risks are that the Council fails to appoint an auditor in accordance with the new frameworks or does not achieve value for money in the appointment process. These risks have been mitigated by opting in to the sector led approach through PSAA for the provision of external audit.

## **6. POLICY IMPLICATIONS**

- 6.1 To meet its terms of reference the Audit & Governance Committee needs to assess the adequacy of the external audit provision.

## **7. FINANCIAL IMPLICATIONS**

- 7.1 The Council will benefit from reduced fees in 2018/19 as a result of the successful procurement process led by PSAA. The PSAA has estimated that the savings will be the equivalent of approximately 18% in the scale fees payable by local bodies. The fees for the statutory audit of the Council for 2016/17 were £102,839.

- 7.3 Opting-in to a national scheme provided maximum opportunity to ensure fees are as low as possible, whilst ensuring the quality of audit is maintained by entering in to a large scale collective procurement arrangement.

## **8. LEGAL IMPLICATIONS**

- 8.1 Section 7 of the Local Audit and Accountability Act 2014 requires a relevant Council 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 Council 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 Council is a local Council operating executive arrangements, the function of appointing a local auditor to audit its accounts is not the responsibility of an executive of the Council under those arrangements.
- 8.2 Section 12 makes provision for the failure to appoint a local auditor: the Council must immediately inform the Secretary of State, who may direct the Council to appoint the auditor named in the direction or appoint a local auditor on behalf of the Council.
- 8.3 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. In July 2016 the Secretary of State specified PSAA as the appointing person.

**9. RESOURCE IMPLICATIONS**

There are no resource implications arising from this report.

**10. EQUALITY IMPLICATIONS & HEALTH IMPLICATIONS**

There are no equality or health implications arising as a result of this report.

**11. CONSULTATIONS**

Chief Executive, Deputy Chief Executive

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Date: 21 December 2017

Background Papers: New Arrangements for External Audit, noted at the Audit Committee meeting of 20 September 2011.

Arrangements for the Appointment of External Auditors, noted at the Audit & Governance Committee meetings of 20 September 2016 and 10 January 2017 and at Council Forum on 26 January 2017.

DCLG: Government response to the Future of Local Audit

DCLG: Future of local public audit – consultation: summary of responses

Local Audit and Accountability Act 2014.