

**To:** Council

**Date:** 5 December 2016

**Report of:** Head of Financial Services

**Title of Report:** External Audit Contract from 2018/19

## Summary and Recommendations

**Purpose of report:** To authorise the Head of Financial Services to opt in to the national scheme for auditor appointments on behalf of the Council in accordance with the recommendation from Audit and Governance Committee.

**Policy Framework:** **Efficient and Effective Council**

**Recommendation(s):** That Council resolves to authorise the Head of Financial Services to opt in to the national scheme for auditor appointments for the provision of external audit services starting with the audit of the 2018/19 accounts.

## Background

1. Under the current audit contract, the Council's External Auditor is Ernst & Young LLP. Ernst & Young LLP were assigned to the Council by the audit commission. This contract was due to expire after the audit of the 2016/17 accounts.
2. Following the closure of the Audit Commission in 2015, the Secretary of State for Communities and Local Government delegated statutory functions on a transitional basis to Public Sector Audit Appointments (PSAA), a not-for-profit company supported by the Local Government Association (LGA). They were delegated by a commencement order made under the Local Audit and Accountability Act 2014.
3. In October 2015, the Secretary of State confirmed that the transitional provisions would be amended to allow an extension of the audit contracts for a period of one year for audits of principal local government bodies. A commencement order was made on 27 June 2016, supported by a revised letter of delegation to PSAA. The appointment of Ernst & Young LLP under

the current audit contracts will conclude with the completion of the 2017/18 audit.

4. Auditor appointments for 2018/19 audits must be made by 31 December 2017, as required by section 7 of the Local Audit and Accountability Act 2014. Appointments may be made by the audited body itself, by groups of audited bodies, or by a specified appointing person.
5. PSAA has been specified by the Secretary of State for Communities and Local Government as the appointing person for principal local government bodies under the provisions of the 2014 Act. This means that PSAA will make auditor appointments to relevant principal local government bodies that choose to opt into the national appointment arrangements.
6. As indicated in paragraph 4, the Council can choose to appoint its own external auditor or opt in to the national scheme administered by PSAA. To appoint its own external auditor the Council would have to set up an independent audit panel, members of which would normally be paid a fee. This could be done in conjunction with other local authorities. However the other Oxfordshire authorities have decided that they do not wish to adopt this approach.
7. Opting in to the national scheme is expected to achieve lower fees than an independent procurement due to the scale of the procurement. Additionally PSAA will also:
  - manage audit independence issues,
  - minimise overheads and
  - distribute any surpluses to participating bodies.
8. PSAA have established a stakeholder advisory panel to inform their proposals. Members of the panel are drawn from representative councils, police and fire authorities. The first meeting of the group was held on 30 September 2016. Further meetings are scheduled for 23 November 2016, 26 January 2017 and 25 May 2017.
9. PSAA will run a national tendering exercise and evaluate bids and award contracts. They will consult authorities on individual auditor appointments; however the appointment will remain independent of the body to be audited to ensure effective corporate governance.
10. PSAA will organise the contracts to maximise the number of firms appointed nationally. The minimum number of audit firms is probably four or five but this is dependent upon the number of bodies that opt in. This is to ensure competition and capacity and also compliance with the Financial Reporting Council's ethical standards. Compliance with the ethical standards means that an individual firm may not be appointable for 'independence' reasons, for example, because they have undertaken consultancy work at an audited body. PSAA will consult on appointments that allow each firm a balanced portfolio of work subject to independence considerations.

11. PSAA will seek feedback on its auditors as part of its engagement with the sector, have a clear complaints process and undertake contract monitoring of the firms it appoints.
12. The Council's Audit & Governance Committee at its meeting of 28<sup>th</sup> September 2016 agreed a recommendation to Council that the Council should opt in to the PSAA scheme. To opt in to the national scheme, notice must be given to PSAA by 9<sup>th</sup> March 2017.

### **Legal Issues**

13. These are covered in the body of the report.

### **Financial Issues**

14. A national procurement should achieve lower audit fees than if the Council managed its own procurement individually. Opting into the national scheme will also reduce the administration that would be associated with operating the scheme locally.

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### **Background papers:**

PSAA Prospectus

Appointing person: Frequently asked questions

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