

<b>Meeting:</b>	<b>Council</b>
<b>Meeting date:</b>	<b>Friday 13 October 2017</b>
<b>Title of report:</b>	<b>Appointment of external auditor</b>
<b>Report by:</b>	<b>Chairman, audit and governance committee</b>

## **Classification**

Open

## **Decision type**

This is not an executive decision

## **Wards affected**

(All Wards);

## **Purpose and summary**

To approve the appointment of external auditors for audits of the accounts from 2018/19.

Herefordshire Council has opted in to the PSAA auditor appointment arrangements, which proposes appointing Grant Thornton as the external auditor of Herefordshire Council. Council primarily approved opting into PSAA external auditor appointment process to have the ability to negotiate contracts with accountancy firms nationally, maximising the opportunities for the most economic and efficient approach to procurement of external audit on behalf of the whole sector. In addition the costs of setting up the appointment arrangements and negotiating fees would be shared across all opt-in council and police bodies. The appointment process would also not be made by locally appointed independent panel members but instead a separate body acting in the collective interests of all opted-in.

## **Recommendation(s)**

**That:**

- (a) Grant Thornton be appointed as external auditor for a period of 5 years from April 2018 at fees determined by PSAA.**

## Alternative options

1. Under the existing transitional arrangement PSAA appoint the auditors to all principal local government bodies in England. From 2018/19 the PSAA has been specified as an appointing person under the provisions of the Local Audit and Accountability Act 2014 and regulation 3 of the Local Audit (Appointing Person) Regulations 2015. For audits of the accounts from 2018/19, PSAA will appoint an auditor to councils that have opted into its national scheme. Appointments for 2018/19 must be made by 31 December 2017.
2. Herefordshire Council accepted PSAA's invitation to opt in; this means it is opted in for the duration of the compulsory appointing period (five years from 2018/19).
3. The council can object to the proposed PSAA auditor appointment. This must be done in writing and the PSAA would consult the council on an alternative auditor appointment. Following their procurement process PSAA have access to the following auditor bodies:
  - a. Grant Thornton LLP;
  - b. EY LLP;
  - c. Mazars LLP;
  - d. BDO LLP;
  - e. Deloitte LLP; and
  - f. Moore Stephens LLP and Scott-Moncrieff LLP.
4. There are no reasons apparent for rejecting the proposal from PSAA therefore this alternative option is not recommended

## Key considerations

5. The Local Audit and Accountability Act 2014 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. Following closure of the Audit Commission the contract is currently managed by Public Sector Audit Appointments Limited (PSAA), the transitional body set up by the Local Government Association (LGA) with delegated authority from the Secretary of State CLG. The transitional arrangements for local government bodies includes the audit of the accounts for 2017/18.
6. The council's current external auditor is Grant Thornton, this appointment having been made under a contract let by the Audit Commission. Grant Thornton UK comprises around 4,500 employees delivering services to 40,000 clients. The UK Public Sector Assurance team employs 301 people, including 29 Key Audit Partners, based in designated 'centres of excellence', providing it with locally based public sector specialists across the country. The team is solely dedicated to public audit work in local government and the NHS, with contracts with PSAA, Audit Scotland and the Wales Audit Office. The Public Sector Assurance team is a regular commentator on issues facing the sector and oversees the firm's development of appropriate thought leadership and support, such as its series of publications and workshops on income generation in councils. In addition, the team can draw on the commercial skills and experience of a wider assurance team of over 1,516 individuals, to reflect the changing assurance needs of local authorities and

NHS bodies.

7. The current transitional arrangements come to an end on 31 March 2018. Following the decision by full Council in December 2016, Herefordshire Council has advised the LGA of its intention to opt in to PSAA's auditor appointment arrangements. PSAA has advised that following completion of the procurement process to let audit contracts from 2018/19. Grant Thornton (UK) LLP was successful in winning a contract in the procurement leading to the proposal to appoint this firm as the external auditor to the council.
8. The council could have objected to the proposed auditor by making its representations by email before Friday 22 September 2017. Representations can include matters that the council believes might be an impediment to the proposed firm's independence. The following examples may represent acceptable reasons to object:
  - a. there is an independence issue in relation to the firm proposed as the auditor, which had not previously been notified to PSAA;
  - b. there are formal and joint working arrangements relevant to the auditor's responsibilities, which had not previously been notified to PSAA; or
  - c. there is another valid reason, for example a history of inadequate service from the proposed firm.
9. No reasons to submit an objection have been identified. If an objection was made and recognised then PSAA would consult the council on an alternative auditor appointment. Audit and Governance Committee considered the matter on 20 September and recommended the proposed appointment to full Council.
10. The scope of the audit will still be specified nationally, the National Audit Office (NAO) is responsible for writing the Code of Audit Practice which all firms appointed to carry out the council's audit must follow. Not all accounting firms will be eligible to compete for the work, they will need to demonstrate that they have the required skills and experience and be registered with a Registered Supervising Body approved by the Financial Reporting Council.
11. PSAA must, under regulation 13 of the Regulations, appoint an external auditor to each opted-in council and consult the council about the proposed appointment. In developing this appointment proposal, they have applied the following principles:
  - ensuring auditor independence, as we are required to do by the Regulations;
  - meeting our 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.

12. The PSAA Board will consider all proposed auditor appointments at its meeting scheduled for 14 December 2017, following this they will write by email to all opted-in to confirm auditor appointments.

## **Community impact**

13. The council is committed to maintaining high standards of corporate governance in order to achieve the council's vision of "people, organisations and businesses working together to bring sustainable prosperity and well-being for all, in the outstanding natural environment of Herefordshire." A principle of the council's code of corporate governance is to implement good practices in transparency, reporting, and audit to deliver effective accountability

## **Equality duty**

14. Under section 149 of the Equality Act 2010, the 'general duty' on public authorities is set out as follows:

A public authority must, in the exercise of its functions, have due regard to the need to -

- (a) eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act;
  - (b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;
  - (c) foster good relations between persons who share a relevant protected characteristic and persons who do not share it.
15. The public sector equality duty (specific duty) requires us to consider how we can positively contribute to the advancement of equality and good relations, and demonstrate that we are paying 'due regard' in our decision making in the design of policies and in the delivery of services. As this is a decision on mandatory back office functions, we do not believe that it will have an impact on our equality duty.

## **Resource implications**

16. The duty to prescribe scales of audit fees is a statutory function delegated to PSAA by the Secretary of State for Communities and Local Government. Before prescribing any scale of fees, PSAA have a statutory duty to consult councils. Following consultation, PSAA publish the work programme on their website each year with the scale fee for each audited body. The PSAA will consult on scale fees for 2018/19 and will publish confirmed scale fees for 2018/19 for opted-in bodies on their website in March 2018. The council's current external audit fees are £124k per annum. The results of the audit procurement indicate that a reduction in scale fees in the region of approximately 18 per cent could be possible for 2018/19, based on the individual scale fees applicable for 2016/17.
17. The scale fees for individual audited bodies are normally based on the scale fee for the previous year, reflecting the auditor's assessment of audit risk and complexity. PSAA can approve proposed variations to the scale fee for an individual audited body, to reflect changes in circumstances. Scale fees are based on the expectation that audited bodies are able to provide the auditor with complete and materially accurate financial statements, with supporting working papers, within agreed timeframes.

18. PSAA will charge fees for considering objections from the point at which auditors accept an objection as valid, or any special investigations such as those arising from disclosures under the Public Interest Disclosure Act 1998, as a variation to the scale fee.

## **Legal implications**

19. Section 7 of the Local Audit and Accountability Act 2014 (the Act) requires a relevant authority to appoint a local auditor to audit its accounts for a financial year not later than 31 December in the preceding year.
20. Local Audit (Appointing Person) Regulations 2015 specifies the PSAA as an appointed person. By opting into this arrangement the council has conferred to the PSAA the appointment of the auditors and before doing so the PSAAA must consult with the council about the proposals.

## **Risk management**

21. By accepting the PSAA recommendation the procurement and auditor requirement risks are minimised, PSAA are committed to ensuring that the quality of the audit work provided is of the highest standards. To promote transparency and encourage best practice, they provide a number of reports on the assessments made, namely the Quality Review Programme annual report, an annual regulatory compliance and quality report and a regime compliance monitoring report. Details can be viewed here: <http://www.psa.co.uk/audit-quality/>

## **Consultees**

22. None.

## **Appendices**

None

## **Background papers**

None identified.