

DECISION-MAKER:		Governance Committee			
SUBJECT:		Local Appointment of External Auditors			
DATE OF DECISION:		12 <sup>th</sup> February 2018			
REPORT OF:		Service Director Finance & Commercialisation			
<u>CONTACT DETAILS</u>					
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<b>STATEMENT OF CONFIDENTIALITY</b>		
N/A		
<b>BRIEF SUMMARY</b>		
This report provides an update regarding the appointment of an external auditor from 1 <sup>st</sup> April 2018 and summaries that outcome of the procurement exercise undertaken by Public Sector Audit Appointments ('PSAA') in their capacity as an 'appointing person' (or 'sector led body'). This follows decision taken by Full Council in November 2016 that the Council should opt in to the national scheme rather than make its own auditor appointment.		
<b>RECOMMENDATIONS:</b>		
	(i)	To note to outcome of the procurement exercise undertaken by PSAA which has resulted in Ernst & Young LLP being appointed to audit the accounts of Southampton City Council for five years, from 2018/19 to 2022/23 and that scale fees are expected to reduce by approximately 23% compared to the 2017/18 fees.
<b>REASONS FOR REPORT RECOMMENDATIONS</b>		
1.	The appointment of Ernst & Young LLP via PSAA reflects the need for the Council to have external auditors in place from 1 <sup>st</sup> April 2018. The appointment process has been undertaken by PSAA in accordance with the Local Audit and Accountability Act 2014 ('the Act') which allowed authorities to opt in for their external auditor to be appointed by an 'appointing person'.	
<b>ALTERNATIVE OPTIONS CONSIDERED AND REJECTED</b>		
2.	Not applicable as the decision to opt in to the national sector led body was approved at Full Council on 16 <sup>th</sup> November 2016.	
<b>DETAIL (Including consultation carried out)</b>		
3.	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. Following closure of the Audit Commission, contracts let by them were novated to PSAA who were established to operate the transitional arrangements under powers delegated by the Secretary of State. PSAA is an independent, not-for-profit company limited by guarantee and established by the LGA.	
4.	These transitional arrangements come to an end on 31 March 2018 at which	

	time the council is able to move to local appointment of the external auditors. The Local Audit (Appointing Person) Regulations 2015 ('the Regulations') made under the Act also included the provision for authorities to 'opt in' for their auditor to be appointed by an 'appointing person' with PSAA being specified by the Secretary of State as an 'appointing person' (or 'sector led body').
5.	The Regulations required that a decision to opt in must be made by a meeting of the Council (meeting as a whole). A report was therefore taken to the Governance Committee on 14 <sup>th</sup> November 2016 and then to Full Council on 16 <sup>th</sup> November 2016 where it was agreed that the Council should accept PSAA's invitation to 'opt in' to the sector led option.
6.	PSAA subsequently advised that 98% of the 494 eligible bodies decided to opt in to the national scheme rather than make their own auditor appointment.
7.	<b>During the period August to December 2017 PSAA has consulted on and confirmed auditor appointments for opted-in bodies in. This followed a procurement exercise undertaken by PSAA which resulted in six firms being awarded an audit contract with them in June 2017.</b>
8.	<p>In respect of the appointment process the PSAA Board had regard to the following six principles:</p> <ol style="list-style-type: none"> <li>1. Ensuring auditor independence;</li> <li>2. Meeting our contractual commitments;</li> <li>3. Accommodating joint/shared working arrangements where possible;</li> <li>4. Ensuring a blend of authority types for each audit firm;</li> <li>5. Taking account of a firm's principal locations; and</li> <li>6. Providing continuity of audit firm, if possible.</li> </ol> <p>The primary consideration in allocating proposed appointments to individual opted-in bodies was to ensure independence, and then to balance the remaining principles.</p>
9.	PSAA have confirmed that the bid prices secured through this process are expected to result in a reduction of scale fees for all participating bodies of approximately 23% compared to the fees applicable for 2017/18. The PSAA Board will approve the final 2018/19 scale of fees for publication in March 2018.
10.	Discussions will be held between the Council and Ernst & Young LLP in terms of the arrangements for the audit going forward.

## RESOURCE IMPLICATIONS

### Capital/Revenue

11.	The proposed scale fee for 2018/19 is £109,891 compared with the 2017/18 fee which was £142,715. PSAA have stated that they may be able to sustain the 23 per cent reduction for the full five years of the appointing period, but that it is not possible to be certain at this early stage.
12.	<p>PSAA have stated that they may be able to sustain the 23 per cent reduction for the full five years of the appointing period, but that it is not possible to be certain at this early stage. The key factors that could have an impact on future scale fees:</p> <ul style="list-style-type: none"> <li>• Uncertainty in respect of <b>inflation</b> (noting that the contracts with audit firms include an increase for inflation in the later years of the appointing</li> </ul>

	<p>period);</p> <ul style="list-style-type: none"> <li>Any changes to the scope of auditors' work arising from changes to the <b>Code of Audit Practice</b>. <b>A new code is required to be</b> published every five years with the next code applicable from 2020/21; and</li> <li><b>Changes in financial reporting requirements:</b> current scale fees reflect the audit work needed based on current financial reporting requirements. Changes to these requirements may have an impact on scale fees.</li> </ul>
13.	It should be noted that PSAA is a not-for-profit company it does not therefore aim to generate surpluses. If, however, in the course of its activities any surplus funds are accumulated then they will be returned to opted-in bodies on a fair and proportionate basis.
<b><u>Property/Other</u></b>	
14.	None
<b>LEGAL IMPLICATIONS</b>	
<b><u>Statutory power to undertake proposals in the report:</u></b>	
15.	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. Section 8 governs the procedure for appointment which is reserved to full Council.
16.	Section 12 of the Act makes provision for the failure to appoint a local auditor: the authority must immediately inform the Secretary of State, who may direct the authority to appoint the auditor named in the direction or appoint a local auditor on behalf of the authority.
17.	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 Regulations (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.
<b><u>Other Legal Implications:</u></b>	
18.	None
<b>RISK MANAGEMENT IMPLICATIONS</b>	
19.	The decision to opt in the sector led arrangement has ensured that the appointment of an audit firm has been made via a compliant procurement process, within required timescales and has delivered a cost saving.
<b>POLICY FRAMEWORK IMPLICATIONS</b>	
20.	None

<b>KEY DECISION?</b>	No
<b>WARDS/COMMUNITIES AFFECTED:</b>	Not applicable

SUPPORTING DOCUMENTATION

**Appendices**

1.	n/a
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**Documents In Members' Rooms**

1.	None
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**Equality Impact Assessment**

Do the implications/subject of the report require an Equality and Safety Impact Assessment (ESIA) to be carried out.	No
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**Privacy Impact Assessment**

Do the implications/subject of the report require a Privacy Impact Assessment (PIA) to be carried out.	No
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**Other Background Documents**

Other Background documents available for inspection at:

Title of Background Paper(s)	Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)
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1.	None	
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