

**AUDIT COMMITTEE
20 SEPTEMBER 2016**

**ARRANGEMENTS FOR THE APPOINTMENT OF EXTERNAL AUDITORS FROM
2017/18**

Cabinet Member Cllr Peter Hare-Scott
Responsible Officer Audit Team Leader, Catherine Yandle

Reason for Report:

1. This report summarises highlights the key proposals contained in the Public Sector Audit Appointments Ltd (PSAA) prospectus (Appendix A).
2. To decide whether the Committee wish to formulate a reply on behalf of MDDC to the questions posed by PSAA on page 7 of the Prospectus.

RECOMMENDATION(S): None at present, for information only.

Relationship to Corporate Plan: Effective External Audit plays a fundamental role in assisting the Council to deliver its corporate plan.

Financial Implications: The Council's external audit fees are £47,700 for 2016/17.

Legal Implications: In July 2016, the Secretary of State for Communities and Local Government specified Public Sector Audit Appointments Ltd (PSAA) as an appointing person under regulation 3 of the Local Audit (Appointing Person) Regulations 2015. This means that PSAA can make auditor appointments for audits of the accounts of principal authorities, which choose to opt into its arrangements, from 2018/19.

Risk Assessment: There is no immediate risk to the Council; however, early consideration by the Council of its preferred approach will enable detailed planning to take place so as to achieve successful transition to the new arrangement in a timely and efficient manner.

1.0 Introduction

- 1.1 This is a further update to the report which was presented to the Audit Committee on the 28 June 2016;
- 1.2 Nearly 270 councils and local bodies have expressed an interest in opting in to the national scheme. PSAA has published an initial draft prospectus (Appendix A) and is inviting views on proposed arrangements.

2.0 Prospectus for PSAA

2.1 Key points to note in the prospectus include:

- The expiry of the current contracts at the end of the 2017/18 audits will mark the end of the current mandatory regime for auditor appointments. Thereafter, local bodies will exercise choice about whether they opt in to the authorised national scheme, or whether they make other arrangements to appoint their own auditors.
- The scheme will also endeavour to appoint the same auditors to bodies which are involved in formal collaboration/joint working initiatives or within combined authority areas, if the parties consider that a common auditor will enhance efficiency and value for money.
- PSAA will only contract with firms which have a proven track record in undertaking public audit work. In accordance with the 2014 Act, firms must be registered with one of the chartered accountancy institutes acting in the capacity of a Recognised Supervisory Body (RSB).
- Current indications are that fewer than ten large firms will register meaning that small local firms will not be eligible to be appointed to local public audit roles.
- They will include obligations in relation to maintaining and continuously improving quality in our contract terms and quality criteria in our tender evaluation method. Current thinking is that the best prices will be obtained by letting three year contracts, with an option to extend to five years, to a relatively small number of appropriately registered firms in two or three large contract areas nationally.
- By having contracts with a number of firms they will be able to ensure independence and avoid dominance of the market by one or two firms.
- Audit fees must ultimately be met by individual audited bodies. PSAA will ensure that fee levels are carefully managed by securing competitive prices from firms and by minimising PSAA's own costs. The changes to our role and functions will enable us to run the new scheme with a smaller team of staff.
- PSAA is a not-for-profit company and any surplus funds will be returned to scheme members.
- PSAA will pool scheme costs and charge fees to audited bodies in accordance with a fair scale of fees which has regard to size, complexity and audit risk.

3.0 Conclusion and Next Steps

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- The date by which principal authorities will need to opt into the appointing person arrangement is not yet finalised. The aim is to award contracts to audit firms by June 2017, giving six months to consult with authorities on appointments before the 31 December 2017 deadline.

- 3.2 The PSAA are working on developing a detailed timetable over the next 3-4 weeks and will advise authorities of the relevant dates as soon as they can. They anticipate that invitations to opt in will be issued before December 2016 at the latest. Therefore a formal recommendation is unlikely to be made to Full Council before the January Audit Committee meeting at this stage.
- 3.3 The Committee needs to decide whether they wish to formulate a reply on behalf of MDDC to the questions posed by PSAA on page 7 of the Prospectus.

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Circulation of the Report: Management Team and Cllr Peter Hare-Scott

List of Background Papers: PSAA Prospectus Appendix A