

CHESHIRE EAST COUNCIL

REPORT TO: AUDIT & GOVERNANCE COMMITTEE

Date of Meeting:	15 th March 2018
Report of:	Interim Executive Director of Corporate Services
Subject/Title:	Update on the Arrangements for the Appointment of External Auditors
Portfolio Holder:	Councillor Paul Bates

1.0 Report Summary

1.1 This report provides an update regarding the appointment of an external auditor from 1st April 2018 and summarises the outcome of the procurement exercise undertaken by Public Sector Audit Appointments Ltd (PSAA) in their capacity as an 'appointing person' (or 'sector led body').

1.2 This follows the decision taken by Full Council on 15th December 2016 that the Council should 'opt in' to the national scheme rather than make its own auditor appointment.

1.3 Recommendation

1.4 To note the outcome of the procurement exercise undertaken by PSAA which has resulted in Mazars LLP being appointed to audit the accounts of Cheshire East 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.

1.5 Reasons for Recommendations

1.6 The appointment of Mazars LLP reflects the need for the Council to have external auditors in place from 1st 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'.

1.7 Wards Affected

1.8 All.

1.9 Local Ward Members

1.10 Not applicable.

1.11 Policy Implications

1.12 None.

1.13 Implications for Rural Communities

1.14 None

1.15 Financial Implications

1.16 The proposed scale fee for 2018/19 is £119,034 compared with the 2017/18 fee which was £154,590. The contract is managed, and budgeted for, within the Finance & Performance Team, within the Corporate Directorate. Opt-in arrangements for this procurement process were approved by Council on 15th December 2016.

1.17 PSAA have stated that they may be able to sustain the 23% 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 are:

- Uncertainty in respect of inflation (noting that the contracts with audit firms include an increase for inflation in the later years of the appointing period);
- Any changes to the scope of auditors' work arising from changes to the Code of Audit Practice. A new code is required to be published every five years with the next code applicable from 2020/21; and
- Changes in financial reporting requirements.

1.18 The 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.

1.19 Legal Implications

1.20 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.

1.21 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.

1.22 Risk Management

- 1.23 The decision to opt in to 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.
- 1.24 The process has been led by the S.151 Officer, in consultation at appropriate times from the Chief Executive, Audit & Governance Committee, the Portfolio Holder for Finance & Communications as well as liaison with PSAA Ltd and the proposed external auditors.

1.25 Background and Options

- 1.26 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, 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 Local Government Association (LGA).
- 1.27 These transitional arrangements come to an end on 31st 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.
- 1.28 The Regulations required that a decision to opt in must be made by a meeting of the Full Council. A report was therefore taken to the Audit and Governance Committee on 8th December 2016 and then to Full Council on 15th December 2016 where it was agreed that the Council should accept PSAA's invitation to 'opt in' to the sector led option.
- 1.29 PSAA subsequently advised that 98% of the 494 eligible bodies decided to opt in to the national scheme.
- 1.30 PSAA consulted on and confirmed auditor appointments from 2018/19 to opted-in bodies in the period August to December 2017, following award of contracts to audit firms, six in total, in June.
- 1.31 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.
- 1.32 Discussions will be held between the Council and Mazars LLP in terms of the arrangements for the audit going forward.

1.33 Access to Information

The background papers relating to this report can be inspected by contacting the report writer:

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