

**Report to**     Audit committee  
                    5 September 2017  
**Report of**     Chief internal auditor, LGSS  
**Subject**       External audit appointment

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**Item**

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## **Purpose**

There is a statutory requirement for the council's Statement of Accounts to be independently audited. The Local Audit and Accountability Act 2014 brings changes to the appointment process for external auditors (referred to in the Act as a local auditor).

The contract for the present external auditors, Ernst & Young LLP (EY), is due to expire 31 March 2018. The council must, by 31 December 2017, have appointed a local auditor to be in place by April 2018, to undertake the audit of the council's financial statements for 2018-19 onwards.

Appointments are made through an audit panel. On 20 September 2017 the Audit Committee approved using the Public Sector Audit Appointments Ltd (PSAA) to act as an audit panel. The PSAA have proposed that the local auditor for the Council continues to be EY, which will provide continuity.

## **Recommendation**

To note the report and recommend to cabinet that it endorses the proposal from the panel of the Public Sector Audit Appointments Ltd (PSAA) that Ernst & Young LLP continues to be the council's external auditor.

## **Corporate and service priorities**

The report helps to meet the corporate priority "Value for money services".

**Financial implications:** None directly.

**Ward/s:** All wards

**Cabinet member:** Councillor Kendrick – Resources

## **Contact officers**

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## **Background documents**

None

# Report

## Background

1. The Local Audit and Accountability Act 2014 closed the Audit Commission and established transitional arrangements for the appointment of external auditors and the setting of audit fees for councils.
2. On 5 October 2015 the Secretary of State Communities and Local Government (CLG) determined that the transitional arrangements for local government bodies would be extended by one year to also include the audit of the accounts for 2017-18.
3. The council's current external auditor is Ernst & Young LLP (EY). 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.
4. When the current transitional arrangements come to an end on 31 March 2018 the council will need to appoint a local auditor. The Act requires that a relevant authority, i.e. Norwich City Council, '...consult and take in to account advice from its audit panel when selecting and appointing a local auditor'.
5. The Local Government Association (LGA) successfully lobbied for councils to be able to 'opt-in' to a Sector Led Body (SLB) appointed by the Secretary of State under the Act. An SLB has the ability to negotiate contracts with external audit firms nationally, maximising the opportunities for the most economic and efficient approach to procurement of external audit on behalf of the whole sector. PSAA is the Sector Led Body.
6. On the 20 September 2016 the audit committee considered options for forming an audit panel and agreed that continuing to use the PSAA would be best value. The committee recommended to cabinet that this option should be progressed. Cabinet endorsed the recommendation, and PSAA was appointed as an audit panel by a full council decision on 29 November 2016.

## Consultation for auditor proposal

7. The scope of the audit will continue to 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.
8. The PSAA completed a tender exercise to identify who could be local auditors. Accounting firms had to demonstrate that they have the required skills and experience and be registered with a Registered Supervising Body approved by the Financial Reporting Council.
9. Subsequently the PSAA wrote to the council, on 15 August 2017, proposing that Ernst & Young (EY) continues to be our local auditor.
10. Ernst & Young LLP (EY) is a multinational professional services firm with 231,000 employees based in over 150 countries worldwide. They provide assurance, tax, consulting and advisory services, and are one of the "Big Four" accounting firms. EY employs around 13,000 people in the UK. There are 240 staff including 14 Key

Audit Partners who currently work full-time in the Government and Public Sector assurance service team, who are also able to draw from an extensive pool of specialists.

11. In developing this appointment proposal, PSAA applied the following principles, balancing competing demands, based on the information provided by audited bodies and audit firms:
  - ensuring auditor independence, as required by the Regulations;
  - meeting 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 council can object or confirm this proposal. Reasons for objection, could include an independence issue, partnership arrangements (i.e. if we wanted to change to the same auditor as a partner council), or dissatisfaction with the service. The PSAA can reject an objection. If they agreed to an objection, they would appoint another auditor for us.
13. The External Auditor assesses their independence as part of their annual plan (reported annually to Audit Committee in March). There is also an opportunity to discuss perceived independence and objectivity, through the Audit Committee, as part of their audit results (reported annually in September). In addition the PSAA has a complaints process, and will undertake contract monitoring of the audit firms.
14. There is no prescribed process for consultation. For transparency the audit committee could support the proposal for EY, and recommend this is endorsed by cabinet and council, reflecting the previous report on external audit appointments.
15. The council must respond to this consultation by 27 September. Following consultation, all appointments must be approved by the PSAA Board. This is scheduled for the meeting of the Board on 14 December, following which the PSAA will write to all opted-in bodies to confirm the appointments.

## Summary

16. 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 including that the authority must consult and take account of the advice of its auditor panel on the selection and appointment of a local auditor.
17. Further information on the auditor appointment process is available on the PSAA website: <https://www.psaa.co.uk/appointing-person/frequently-asked-questions/>
18. The auditor panel has proposed that EY continues to be our local auditor for the next 5 years. The committee should object or support the proposed appointment.