

 <p>Brent</p>	<p>Audit Advisory Committee</p> <p>20 September 2017</p> <p>Report of the Chief Finance Officer</p>
For Information	Wards affected: ALL
<p>Public Sector Audit Appointments Consultation on Auditor Appointment from 2018/19</p>	

1. INTRODUCTION

- 1.1. Council decided in January 2017 to accept the invitation of Public Sector Audit Appointments Ltd (PSAA) to opt into a sector led option for the appointment of auditors for five years from 2018/19. Following this decision, and similar ones by 483 other authorities, PSAA have run a procurement and awarded approximately £36.5m of work to seven large accountancy firms.
- 1.2. PSAA have produced provisional allocations of auditors to authorities, and are consulting on these allocations. Authorities may confirm satisfaction with the proposed arrangements, or object on a number of grounds. This report outlines the proposal for Brent Council and the Chief Finance Officer's planned response to the consultation.

2. RECOMMENDATIONS

- 2.1. The Audit Advisory Committee notes and endorses the Chief Finance Officer's positive response to the PSAA Consultation.

3. BACKGROUND

3.1. The Local Audit and Accountability Act 2014 (the Act) brought to a close the Audit Commission. The Act established transitional arrangements for the management and supervision of existing contracts for external audit (eventually extended to 2017/18), and detailed future arrangements (for 2018/19 onwards) for the appointment of external auditors and the setting of audit fees for all local government and NHS bodies in England. These arrangements were outlined in a report to Audit Committee in March 2016, and allow the Council to procure and appoint auditors through either:

- setting up its own independent auditor panel,
- with other authorities (or authority) to set up a joint independent auditor panel, or to
- opt into a sector-led arrangement, which would allow a body, designated 'appointing person' to complete the process for a large number of authorities.

The committee noted that the preferred option was the third, and that it was being progressed by the LGA.

3.2. In July 2016, the Secretary of State approved the sector-led arrangement, and designated PSAA an appointing person. Formal invitations were issued, and the Council opted into the arrangement following decisions at Audit Committee and Council in January 2017.

3.3. Authorities were required to opt-in by March 2017 to allow the procurement process to be carried out through the summer. The following amounts of work were awarded to seven firms:

- c.£14.6m per audit year to Grant Thornton LLP;
- c. £10.9m per audit year to EY LLP;
- c.£6.6m per audit year to Mazars LLP;
- c.£2.2m per audit year to BDO LLP;
- c.£2.2m per audit year to Deloitte LLP; and
- no guaranteed value to a consortium of Moore Stephens LLP and Scott-Moncrieff LLP.

- 3.4. The next steps are for PSAA to allocate auditors to authorities, to consult on those allocations, and then to repeat the cycle following the first consultation. The appointments will then be finalised in December, meeting the statutory deadline. PSAA will then establish final costs and propose, consult on, and publish audit fees for 2018/19 by 31 March 2018.
- 3.5. The first round of the allocation process has been completed, and is based on the following six principles:
- ensuring auditor independence;
 - meeting our contractual commitments;
 - accommodating joint/shared working arrangements where possible;
 - ensuring a blend of authority types for each audit firm;
 - taking account of a firm's principal locations; and
 - providing continuity of audit firm, if possible.
- 3.6. The provisional allocation for Brent Council is Grant Thornton (UK) LLP, for whom PSAA have provided the following precis:

Grant Thornton UK comprises around 4,500 employees delivering services to 40,000 clients. The public sector has played a significant role within the firm for over 30 years. 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 local authorities. 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.

- 3.7. The potential grounds for objection to the proposed appointment are:
- there is an independence issue;
 - there are formal and relevant joint working arrangements; or
 - there is another valid reason, for example a body can demonstrate a history of inadequate service from a particular firm.

None of these grounds are known to exist for Brent Council, and it is therefore proposed to confirm acceptance of the allocation.

4. FINANCIAL IMPLICATIONS

- 4.1. In a similar way to the current system, PSAA will pool the total costs of the scheme and their activities overseeing the auditors and managing the contracts, and charge authorities a scale fee which has regard to the size of the organisation, its complexity, and the level of audit risk involved. The particular auditor appointed will not have any impact on the fees charged, so there are no financial implications arising as a result of the report.
- 4.2. Further information on proposed scale fees will be provided, via a consultation, by the end of 2017/18 and will be incorporated into the Council's budget setting and monitoring processes. The initial indication from PSAA, and based on the procurement outcome is that a reduction in fees of approximately 18% should be possible, this would mean approximately £42k based on the 2016/17 fee.

5. LEGAL IMPLICATIONS

- 5.1. The PSAA arrangement described in this report means that the Council's legal duty to appoint an auditor for 2018/19 by 31 December 2017 will be fulfilled.

CONTACT OFFICER

Conrad Hall
Chief Finance Officer
conrad.hall@brent.gov.uk

Conrad HALL
Chief Finance Officer