



## OFFICER REPORT TO COUNCIL

### APPOINTING AN EXTERNAL AUDITOR

#### **KEY ISSUE/DECISION:**

This report sets out the changes to the arrangements for the appointment of the Council's external auditors. County Council is required to approve the decision on how the Council will appoint its external auditor from the 2018/19 financial year. The report recommends that the Council's external auditor is appointed through opting into the sector-led appointment.

#### **BACKGROUND:**

1. Surrey County Council's current external audit contract with Grant Thornton will end after the audit of the 2017/18 accounts. This will mark the end of the current mandatory system for auditor appointments managed by the Audit Commission.
2. The Local Audit & Accountability Act 2014 established new arrangements for the audit and accountability of local authorities, which includes the ability of local authorities to appoint their own auditors from the 2018/19 financial year. Under the provisions of the new regulations Surrey County Council must appoint an external auditor by 31 December 2017 for the 2018/19 accounts.
3. The Council has two options in order to appoint an external auditor:
  - Option 1: Establish an auditor panel; or
  - Option 2: Opt for the sector-led appointment (no need for an auditor panel)
4. The decision on whether the council opts in or establishes an auditor panel must be made by County Council.

#### **THE OPTIONS**

##### **Option 1 – Establish an Auditor Panel**

5. The Council can decide to establish an auditor panel in order to advise the authority on:
  - Selecting and appointing the external auditor;
  - Maintaining an independent relationship with the external auditor; and
  - Whether to adopt a policy on the purchasing of non-audit services.

6. The composition of the auditor panel is prescribed as a minimum of three members, a majority of independent members (must meet a number of specific conditions) and an independent chairman.
7. Establishing an auditor panel would give the Council full ownership of the auditor appointment process. However, due to the extensive conditions that need to be adhered to in order to meet the criteria of the 'independence' definition, a panel may prove both difficult and time consuming to administer.

### **Option 2 – Sector led appointment**

8. Surrey County Council can 'opt in' to a sector led appointment provided by Public Sector Audit Appointments Ltd (PSAA<sup>1</sup>) who are developing a national collective scheme. The auditor appointment process will be similar to the current arrangements whereby a joint procurement process will be undertaken by PSAA and the Council will be allocated an external auditor along with a fee for a fixed period of time.
9. PSAA is aiming to award contracts to firms by June 2017 and it is therefore expected that authorities will need to commit to 'opting-in' by the end of 2016.
10. The sector-led option removes the need to create an independent auditor panel and transfers the role of procuring and administering the contracts to the PSAA. It represents the least resource intensive option in relation to officer time and administration costs. PSAA aims to provide advantages in relation to quality, cost, responsiveness and convenience through economies of scale opportunities.
11. Over the last few years, PSAA have managed the auditor contracts let by the Audit Commission under transitional arrangements. These contracts have shown that large block contracts can achieve lower external audit fees and avoid the costs of individual procurement exercises.
12. There appears to be a general preference among local authorities to favour the sector led appointment, with over 200 authorities having expressed an interest in this option.

### **CONSULTATION**

13. Views have been gathered from the Chief Executive, Deputy Chief Executive, Leader, Deputy Leader, Audit and Governance Committee, Society of County Treasurers and Surrey County Treasurers.

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<sup>1</sup> PSAA is a company owned by the LGA's Improvement and Development Agency. It has been specified as the sector-led body and has the power to make auditor appointments from 2018/19 on behalf of principal local government bodies that opt in.

<b>RECOMMENDATIONS:</b>
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It is recommended that the Council approves opting in to the sector led appointment.

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**Sources/background papers:**

The Local Audit & Accountability Act 2014  
The Local Audit (Appointing Person) Regulation 2015

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