

## **ATTACHMENT A**

### **The audit of the accounts for the West Suffolk Shadow Authority**

#### **Why?**

The order to create the West Suffolk Shadow Authority stated that the Shadow Authority would be subject to the Local Audit and Accountability Act 2014 and therefore requires an external audit to take place of the Shadow Authority accounts (for the period 24 May 2018 to 31 March 2019).

#### **Context**

The Shadow Authority is not expected to incur significant income / expenditure for West Suffolk, the only current planned expenditure is in relation to an insurance premium of circa £2,500. As such, even though the Shadow Authority is seen as a District Council for the purposes of the Local Audit and Accountability Act 2014, the Shadow Authority also meets the criteria of a smaller authority under s.6 of the Local Audit and Accountability Act 2014.

A smaller authority is one that meets 'qualifying conditions' (Part 2 Section 6, 1) which is the condition that the gross expenditure or income does not exceed £6.5m for a year (Part 2 Section 6, 2).

Smaller Authority audit procedures are established by the Local Audit (Smaller Authority) Regulations 2015. These do provide some exemptions from audit requirements, however as the Shadow Authority is in its first year it can't be exempt from an audit.

#### **Smaller Authorities' Audit Appointments (SAAA)**

Smaller Authorities' Audit Appointments (SAAA) is the sector led company appointed by the then Department of Communities and Local Government (now Ministry of Housing, Communities and Local Government) as the 'specified person' to procure and appoint external auditors to smaller authorities, perform the functions set out in the relevant legislation, and to manage the ongoing audit contracts awarded for the 5 year period commencing 1 April 2017.

Under regulation 14, the West Suffolk Shadow Authority is entitled to be considered "opted in" to the smaller authorities scheme as it is newly established during a Compulsory Appointing Period. The Suffolk external audit appointees under the SAAA arrangements are PKF Littlejohn, an independent firm of chartered accountants and business advisors based at Canary Wharf in London's Docklands.

#### **SAAA process**

The SAAA have confirmed following their own discussions with the National Audit Office and MHCLG, that a Shadow Authority created as a formal legal entity is a Category 2 authority under the Local Audit and Accountability Act 2014. Therefore it is

eligible to be part of the smaller authorities limited assurance review regime for 2018/19, and to have an external auditor appointed by SAAA.

The process the Shadow Authority needs to follow in respect of the SAAA, is to confirm that the Shadow Authority does not wish to opt out of the central procurement of external auditors managed by SAAA. An external auditor can then be appointed by the SAAA for the Shadow Authority. The Shadow Authority will then be formally notified of the appointment.

The audit itself will require the Shadow Authority to complete an Annual Governance and Accountability Return (Part 3) for 2018/19 at the end of the financial year, which will then be reviewed and signed off by the external auditor.

### **Scale of fees**

Under SAAA, the scales of fees for smaller authorities are based on bands of annual income or expenditure, whichever is the higher. This means that the fees are broadly proportionate to the public funds involved and the ability of each authority to pay.

Table 1 sets out the scales of audit fees for smaller authorities that complete their Annual Returns fully and accurately within the required timescales, and provide the necessary supporting information and any explanations sought.

**Table 1** – Scale of fees for bodies subject to limited assurance review

| <b>INCOME/EXPENDITURE BAND (£)</b> | <b>FEE FOR LIMITED ASSURANCE REVIEW (£)</b> |
|------------------------------------|---|
| 0 – 25,000                         | 0 (see note)                                |
| 25,001 – 50,000                    | 200   |
| 50,001 – 100,000                   | 300   |
| 100,001 – 200,000                  | 400   |
| 200,001 – 300,000                  | 600   |
| 300,001 – 400,000                  | 800   |
| 400,001 – 500,000                  | 1,000                                       |
| 500,001 – 750,000                  | 1,300                                       |
| 750,001 – 1,000,000                | 1,600                                       |
| 1,000,001 – 2,000,000              | 2,000                                       |
| 2,000,001 – 3,000,000              | 2,400                                       |
| 3,000,001 – 4,000,000              | 2,800                                       |
| 4,000,001 – 5,000,000              | 3,200                                       |
| 5,000,001 – 6,500,000              | 3,600                                       |

**Note:** An authority with neither income nor expenditure exceeding £25,000 that is **not** able to certify that it is an exempt authority as it does not meet the qualifying criteria, as is the case for the West Suffolk Authority as it will be in its first year, then the fee payable will be £200.

### **What other options are there?**

Officers have explored other options with MHCLG. These could include the authority going through its own audit appointment process, however this would require the Shadow Authority to go through an appointment process, the costs of which are likely to be disproportionate to the fee payable. Alternatively, as the Shadow Authority has not yet "opted in", then MHCLG could write to the Council to appoint an auditor on our behalf; this would likely either be EY, as the Forest Heath and St Edmundsbury Auditors, or PKF, as the smaller bodies auditors. EY have indicated that due to the necessary procedures they are required to undertake, the fee would likely be substantially higher than the smaller bodies audit rates.

On this basis, officers consider that the smaller body audit opt-in would be the most cost-efficient route for the Shadow Authority, whilst also providing a well-established audit regime that can provide assurances to stakeholders that are consistent with other comparative organisations.

Doing nothing i.e. not arranging an external audit, isn't considered an option as the consequences of completing accounts that remain unaudited would mean the authority was in breach of legislation with both legal and financial consequences.

It should be noted that any expenditure incurred by the Shadow Authority would be funded by Forest Heath and St Edmundsbury, and in practice will also be audited by EY in respect of Forest Heath and St Edmundsbury as well.

### **Recommendation**

It is recommended that:

- a) The Shadow Council agrees to the External Audit of the Shadow Authority Accounts, to be prepared under the Smaller Authority audit procedures.
- b) The S151 Officer write to Smaller Authorities' Audit Appointments (SAAA) and inform them we would like to be treated as opted in, and as such the auditor would be PKF Littlejohn (the appointees for Suffolk).