

26 January 2022		ITEM: 12
Council		
Appointment of External Auditor		
Wards and communities affected: All	Key Decision: No	
Report of: Councillor Shane Hebb, Portfolio Holder for Finance		
Accountable Assistant Director: Jonathan Wilson, Assistant Director - Finance		
Accountable Director: Sean Clark, Corporate Director of Resources and Place Delivery		
This report is Public		

Executive Summary

Under the Local Government Audit and Accountability Act 2014 the Council is required to appoint an auditor to audit its accounts each financial year.

This report sets out the options and a preferred approach for appointing the external auditor to the Council for the five year period from 2023/24, noting that the current appointment applies up to and including the 2022/23 accounts.

The decision on the appointment of the auditor is one that is required to be taken by Full Council.

1. Recommendation

- 1.1 That the Council accepts the Public Sector Audit Appointment Limited (PSAA) invitation to 'opt-in' to the sector led national scheme for the appointment of external auditors for the five financial years commencing 1 April 2023.**

2. Introduction and Background

- 2.1 The current auditor appointment arrangements were agreed by the Council in 2017 and cover the five years up to and including the audit of the 2022/23 accounts. To make the appointment the Council opted into the 'appointing person' arrangements made by Public Sector Audit Appointments Limited (PSAA) for the Council's local auditor appointments.

- 2.2 Under the Local Government Audit and Accountability Act 2014, the Council is required to appoint an auditor to audit its accounts for each financial year. The statutory requirement is to have an auditor appointment in place by 31 December of the year preceding the start of the contract i.e. by 31 December 2022. The time needed to run an effective procurement process means that the Council now needs to decide how it wishes to undertake the process.
- 2.3 There are three options for the appointment of the external auditor:
- the Council could undertake its own individual procurement process;
 - the Council could undertake a joint procurement process with other local authorities; and
 - the Council could opt into a sector led arrangement provided by PSAA. The decision to take this route requires Council approval and the council would need to opt in by 11th March 2022.
- 2.4 The scope of the audit will still be specified nationally by the National Audit Office in their Code of Audit Practice which all audit firms must follow. Auditors are regulated by the Financial Reporting Council (FRC). Councils therefore have very limited influence over the nature of the audit services they are procuring, the nature and quality of which are determined and overseen by third parties.
- 2.5 The advantages of the Sector-led procurement by PSAA include an expected reduction in the cost of the audit for the Council through being included in a wider sector based procurement process. The approach also eliminates the need for the Council to establish and operate its own audit panel (including an independent chair and independent members to oversee a local auditor procurement). Further, the Council will receive wider PSAA support and an agreed framework for the ongoing management of the audit contract. It is also noted that under the existing contract, and procured under the same approach, the external audit process has been delivered effectively.
- 2.6 This report concludes that the sector-wide procurement conducted by PSAA will be the most efficient way to appoint the external auditor and is likely to achieve the most competitive price.

3. Issues, Options and Analysis of Options

- 3.1 The options available to the Council are set out below:

Option 1: Individual auditor procurement and Appointment

- 3.2 The Council may elect to appoint its own external auditor under the Act, which would require the Council to establish an independent Auditor Panel to make a stand-alone appointment. The Auditor Panel would need to be set up by the Council, and the members of the panel must be wholly, or have a majority of,

independent members. Managing the contract for its duration, would also be overseen by the Auditor Panel.

3.3 Advantages/benefits

- Setting up an Auditor Panel allows local input to the decision.

3.4 Disadvantages/risks

- Recruitment and servicing of the Auditor Panel, running the bidding exercise and negotiating the contract would be time consuming and costly to the Council.
- The Council would not be able to take advantage of reduced fees and economies of scale that may be available through joint or national procurement contracts.
- The Council would also be procuring in what is a very challenging market currently. The local procurement exercise would be seeking tenders from the same firms as the national procurement exercise.

Option 2: Joint audit procurement and appointing exercise with other Local Authorities

3.5 The Local Audit and Accountability Act 2014 enables the Council to join other local authorities in setting up an Auditor Panel. Again, this will need to be established of wholly or a majority of independent appointees.

3.6 Advantages/benefits

- The costs of setting up the Panel, running the bidding exercise and negotiating the contract will be shared across a number of authorities.
- Provide opportunity for negotiating some economies of scale from a combined large value contract.

3.7 Disadvantages/risks

- The choice of auditor could be complicated where individual Councils have independence issues due to, for example, consultancy or advisory work performed by the audit firms. This may limit firms who are appointable by a joint process and the Council would then need to make their own arrangements.
- Initial discussions with other Local Authorities, in particular those within the Essex boundary, have identified that the majority of Councils are recommending to opt in to the appointed person regime. As such the ability for the Council to consider joint procurement with other authorities is limited.

Option 3: Opt in to the Sector Led Arrangement operated by Public Sector Audit and Appointments Ltd (PSAA)

3.8 PSAA is the sector-led body appointed by the Secretary of State specified as the 'appointing person' for local government under the provisions of the Local Government Audit and Accountability Act 2014 and the Local Audit (Appointing Person) Regulations 2015. PSAA let five-year audit services contracts in 2017 for the first appointing period, covering audits from 2018/19 to 2022/23. It is now undertaking the work needed to invite eligible bodies to opt in for the next

appointing period, from the 2023/24 audit onwards for a period of five years and to complete a procurement for audit services.

3.9 Advantages/benefits

- PSAA will manage the procurement process to ensure both quality and price criteria are satisfied.
- The costs of setting up the appointment arrangements and negotiating fees would be shared across all opt-in authorities, saving time and resources.
- The suitable independence of the auditors from the bodies they audit and managing any potential conflicts as they arise during the appointment period will be ensured.
- PSSA would undertake ongoing contract and performance management of the contracts once these have been let.
- A national exercise offering large contract values may also encourage participating firms to offer more realistic prices in what is currently a challenging market.
- Independence issues would be managed by PSAA that would have a number of contracted firms to call upon.
- PSAA has built up considerable expertise and has been working hard to address the issue from the contracts over the last couple of years i.e. commitment to further enhance arrangements related to monitoring quality of service, delays in audits and auditors staffing issues, contract management and value for money in fee setting.

3.10 Disadvantages/risks

- Individual elected members would have less opportunity for direct involvement in the appointment process other than through stakeholder representative groups.
- To remain viable and place itself well in terms of negotiating position, PSAA Ltd will need to secure opt in from a good number of Councils.

4. Conclusions and Timescales

- 4.1 The advantages of a sector led procurement by PSAA are considered to outweigh the issues as noted in the assessment above. The process provides the appointment of an independent auditor with limited administrative cost to the Council. The Council will be acting with other Councils to optimise the opportunity to influence the market that a national procurement provides.
- 4.2 PSAA is now inviting Councils to opt in for the second appointing period, for 2023/24 to 2027/28. Based on the level of opt-ins it will enter into contracts with appropriately qualified audit firms and appoint a suitable firm to be the Council's auditor.
- 4.3 Regulation 19 of the Local Audit (Appointing Person) Regulations 2015 requires that a decision to opt-in must be made by a meeting of the Full Council.

- 4.4 Assuming the recommendation to opt-in to the national auditor appointment scheme is made, the Council will then respond formally to PSAA's invitation by the close of the opt-in period on 11 March 2022.
- 4.5 PSAA will commence the formal procurement process in Spring/Summer 2022. It expects to award contracts in August 2022 and will then consult with authorities on the appointment of auditors so that it can make appointments by the statutory deadline of 31 December 2022.

5. Reasons for Recommendation

- 5.1 To ensure the Council has a process in place for the appointment of the external auditors. It is recommended that the most efficient and cost effective approach for the Council would be to 'opt in' to Sector Led arrangement for the appointment of the external auditor, provided by PSAA.

6. Consultation (including Overview and Scrutiny, if applicable)

- 6.1 There has been consultation with the current external auditors, the PSAA and other local authorities.

7. Impact on corporate policies, priorities, performance and community impact

- 7.1 The Council continues to deliver the corporate priorities that underpin the work of the Council. Strong Governance arrangements form part of these core principles and external audit provide the authority with independent assurance over the Council's governance arrangements in relation to the production of the opinion of the final accounts and value for money conclusion.

8. Implications

8.1 Financial

Implications verified by: **Jonathan Wilson**
Assistant Director of Finance

There is a risk that current external audit fee levels could increase when the current contracts end. It is clear that the scope of audit has increased, requiring more audit work. There are also concerns about capacity and sustainability in the local audit market.

Opting into a national scheme provides maximum opportunity to ensure fees are as realistic as possible, while ensuring the quality of audit is maintained, by entering into a large scale collective procurement arrangement.

If the national scheme is not used some additional resource may be needed to establish an auditor panel and conduct a local procurement. Until a

procurement exercise is completed it is not possible to state what, if any, additional resource may be required for audit fees from 2023/24.

8.2 Legal

Implications verified by: **Gina Clarke**
Corporate Governance Lawyer and Deputy Monitoring Officer

The process as set out above and the recommendation should ensure compliance with the requirements of the Local Audit and Accountability Act 2014.

Section 7 of the Local Audit and Accountability Act 2014 requires a relevant Council 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 Council must consult and take account of the advice of its auditor panel on the selection and appointment of a local auditor. Section 8 provides that where a relevant Council is a local Council operating executive arrangements, the function of appointing a local auditor to audit its accounts is not the responsibility of an executive of the Council under those arrangements.

Section 12 makes provision for the failure to appoint a local auditor. The Council must immediately inform the Secretary of State, who may direct the Council to appoint the auditor named in the direction or appoint a local auditor on behalf of the Council.

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 Local Audit (Appointing Person) Regulations 2015 (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.

8.3 Diversity and Equality

Implications verified by: **Roxanne Scanlon**
Community Engagement and Project Monitoring Officer, Adults, Housing and Health

There are no specific implications from this report. Appointment of an External Auditor or recruitment to an Auditor Panel would adhere to equalities legislation.

8.4 **Other implications** (where significant) – i.e. Staff, Health Inequalities, Sustainability, Crime and Disorder and Looked After Children

There are no specific implications from the report.

9. **Background papers used in preparing the report** (including their location on the Council's website or identification whether any are exempt or protected by copyright):

None

10. **Appendices**

None

Report Author

Jonathan Wilson

Assistant Director of Finance