

Divisions Affected – N/A

COUNCIL 8 FEBRUARY 2022

APPOINTMENT OF EXTERNAL AUDITOR

Report by Director of Finance

RECOMMENDATION

1. **The Council is RECOMMENDED to accept the Public Sector Audit Appointments (PSAA) invitation to ‘opt in’ to the sector led option for the appointment of external auditors for the period 2023/24 – 2027/28.**

Executive Summary

2. The current auditor appointment arrangements cover the period up to and including the audit of the 2022/23 accounts. The Council previously opted into the ‘appointing person’ national auditor appointment arrangements established by Public Sector Audit Appointments (PSAA) for the period covering the accounts for 2018/19 to 2022/23.
3. PSAA is now undertaking a procurement for the next appointing period, covering audits for 2023/24 to 2027/28. During 2021/22 all local government bodies need to make important decisions about their external audit arrangements from 2023/24. They have options to arrange their own procurement and make the appointment themselves or in conjunction with other bodies, or they can join and take advantage of the national collective scheme administered by PSAA.
4. The report concludes that the sector-wide procurement conducted by PSAA will produce better outcomes and will be less burdensome for the Council than a procurement undertaken locally because:
 - collective procurement reduces costs for the sector and for individual authorities compared to a multiplicity of smaller local procurements;
 - if it does not use the national appointment arrangements, the Council will need to establish its own auditor panel with an independent chair and independent members to oversee a local auditor procurement and ongoing management of an audit contract;
 - it is the best opportunity to secure the appointment of a qualified, registered auditor - there are only nine accredited local audit firms, and a local procurement would be drawing from the same limited supply of auditor resources as PSAA’s national procurement; and

- supporting the sector-led body offers the best way of ensuring there is a continuing and sustainable public audit market into the medium and long term.
5. If the Council wishes to take advantage of the national auditor appointment arrangements, it is required under the local audit regulations to make the decision at full Council. The opt-in period closes on 11 March 2022. To opt into the national scheme from 2023/24, the Council needs to return completed opt-in documents to PSAA by 11 March 2022.
 6. The Audit and Governance Committee considered the options for the external auditor appointment at their meeting on 17 November 2021. They resolved to “recommend to Council to allow Public Sector Audit Appointments (PSAA) to appoint external auditors on behalf of the Council for the period 2023/24 to 2027/28

Procurement of External Audit for the period 2023/24 to 2027/28

7. Under the Local Government Audit & Accountability Act 2014 (“the Act”), the council is required to appoint an auditor to audit its accounts for each financial year. The council has three options;
 - To appoint its own auditor, which requires it to follow the procedure set out in the Act.
 - To act jointly with other authorities to procure an auditor following the procedures in the Act.
 - To opt in to the national auditor appointment scheme administered by a body designated by the Secretary of State as the ‘appointing person’. The body currently designated for this role is Public Sector Audit Appointments Limited (PSAA).
8. In order to opt in to the national scheme, a council must make a decision at a meeting of the Full Council.

The Appointed Auditor

9. The auditor appointed at the end of the procurement process will undertake the statutory audit of accounts and Best Value assessment of the council in each financial year, in accordance with all relevant codes of practice and guidance. The appointed auditor is also responsible for investigating questions raised by electors and has powers and responsibilities in relation to Public Interest Reports and statutory recommendations.
10. The auditor must act independently of the council and the main purpose of the procurement legislation is to ensure that the appointed auditor is sufficiently qualified and independent.
11. The auditor must be registered to undertake local audits by the Financial Reporting Council (FRC), employ authorised Key Audit Partners to oversee the work. There is currently a shortage of registered firms and Key Audit Partners.

12. Auditors are regulated by the FRC, which will be replaced by a new body with wider powers, the Audit, Reporting and Governance Authority (ARGA) during the course of the next audit contract.
13. Councils therefore have very limited influence over the nature of the audit services they are procuring, the nature and quality of which are determined or overseen by third parties.

Options

Appointment by the Council itself or jointly

14. 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 itself, and the members of the panel must be wholly or a majority of independent members as defined by the Act. Independent members for this purpose are independent appointees, excluding current and former elected members (or officers) and their close families and friends. This means that elected members will not have a majority input to assessing bids and choosing to which audit firm to award a contract for the Council's external audit.
 - Manage the contract for its duration, overseen by the Auditor Panel.
15. Alternatively, the Act enables the Council to join with other authorities to establish a joint auditor panel. Again, this will need to be constituted of wholly or a majority of independent appointees. Further legal advice would be required on the exact constitution of such a panel having regard to the obligations of each Council under the Act and the Council would need to liaise with other local authorities to assess the appetite for such an arrangement.

The national auditor appointment scheme

16. PSAA is specified as the 'appointing person' for principal local government under the provisions of the Act and the Local Audit (Appointing Person) Regulations 2015. PSAA let five-year audit services contracts in 2017 for the first appointing period, covering audits of the accounts 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, and to complete a procurement for audit services. PSAA is a not-for-profit organisation whose costs are around 4% of the scheme with any surplus distributed back to scheme members.

In summary the national opt-in scheme provides the following:

- the appointment of a suitably qualified audit firm to conduct audits for each of the five financial years commencing 1 April 2023;

- appointing the same auditor to other opted-in bodies that are involved in formal collaboration or joint working initiatives to the extent this is possible with other constraints;
 - managing the procurement process to ensure both quality and price criteria are satisfied. PSAA has sought views from the sector to help inform its detailed procurement strategy;
 - ensuring suitable independence of the auditors from the bodies they audit and managing any potential conflicts as they arise during the appointment period;
 - minimising the scheme management costs and returning any surpluses to scheme members;
 - consulting with authorities on auditor appointments, giving the Council the opportunity to influence which auditor is appointed;
 - consulting with authorities on the scale of audit fees and ensuring these reflect scale, complexity, and audit risk; and
 - ongoing contract and performance management of the contracts once these have been let.
17. PSAA is now inviting the Council to opt in for the second appointing period, for 2023/24 to 2027/28, along with all other eligible authorities. 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. Details relating to PSAA's invitation are provided in Annex 1 to this report.

Assessment of Options

18. If the Council did not opt in there would be a need to establish an independent auditor panel to make a stand-alone appointment, or to join with other authorities to establish a joint auditor panel. The regulations around the constitution of the auditor panels are very prescriptive; and would mean that that elected members will not have a majority input to assessing bids and choosing to which audit firm to award a contract for the Council's external audit.
19. These would be more resource-intensive processes to implement for the council, and without the bulk buying power of the sector-led procurement would be likely to result in a more costly service. It would also be more difficult to manage quality and independence requirements through a local appointment process. The council is unable to influence the scope of the audit and the regulatory regime inhibits the council's ability to affect quality.
20. The Council and its auditor panel would need to maintain ongoing oversight of the contract. Local contract management cannot, however, influence the scope or delivery of an audit.
21. The national offer provides the appointment of an independent auditor with limited administrative cost to the council. By joining the scheme, the council would be acting with other councils to optimise the opportunity to influence the market that a national procurement provides.

22. The recommended approach is therefore to opt in to the national auditor appointment scheme.

Financial Implications

23. There is a risk that current external audit fee levels could increase when the current contracts end. The scope of audit has increased, requiring more audit work. There are also concerns about capacity and sustainability in the local audit market.
24. 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.
25. If the national scheme is not used some additional resource will 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.

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Legal Implications

26. 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.
27. 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.
28. 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.
29. 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.

Staff Implications

30. There are no staff implications.

Equality & Inclusion Implications

31. There are no equality and inclusion Implications associated with this report.

Sustainability Implications

32. There are no sustainability implications associated with this report.

Risk Management

33. There is a risk that that the Council:
- fails to appoint an auditor in accordance with the requirements and timing specified in local audit legislation; or
 - does not achieve value for money in the appointment process.
34. These risks are considered best mitigated by opting into the sector-led approach through PSAA.

NAME

Lorna Baxter, Director of Finance

Annex: PSAA invitation letter and details to opt in.

Background papers: Audit & Governance Committee 17 November 2021, item 73/21 "External Auditor Appointments"

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