

AUDIT AND ACCOUNTS COMMITTEE

1 DECEMBER 2021

APPOINTMENT OF EXTERNAL AUDITORS

1.0 Purpose of Report

- 1.1 For the Committee to agree a procurement route for the appointment of the Council's External Audit arrangements post for the 2023/24 financial year onwards.

2.0 Background Information

- 2.1 The Local Audit and Accountability Act 2014 brought to a close the Audit Commission and established transitional arrangements for the appointment of external auditors and the setting of audit fees for all local government and NHS bodies in England. On 5 October 2015 the Secretary of State Communities and Local Government (CLG) determined that the transitional arrangements for local government bodies would be extended by one year to also include the audit of the accounts for 2017/18.
- 2.2 At the Council meeting on 11 October 2016, Council agreed to Opt-in to the sector led arrangements run by PSAA (Public Sector Audit Appointments Limited), who were set up and specified as an appointing person under the provisions of the Local Audit and Accountability Act 2014 and the Local Audit (Appointing Person) Regulations 2015.
- 2.3 As the Council opted into this process, the procurement of the Council's External Auditors was managed by PSAA. This culminated in the Council appointing Mazars LLP as the Council's External Auditors for a 5 year period covering the audits from 2018/19 to 2022/23.
- 2.4 The Council has recently been contacted by PSAA regarding the potential to again Opt-in to the national exercise to procure External Auditors from 1st April 2023. The closing date to give notice to PSAA of the Council's acceptance of the invitation is Friday 11 March 2022, and it is full Council that must make the decision as to whether to accept the offer.

3.0 Options for Local Appointment of External Auditors

- 3.1 There are three broad options open to the Council under the Local Audit and Accountability Act 2014 (the Act):
- 3.2 **Option 1: To Make a Stand Alone Appointment**
In order to make a stand-alone appointment the Council will need to set up an Auditor Panel. 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, this excludes 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 which firm of accountants to award a contract for the Council's external audit. A new independent auditor panel established by the Council will be responsible for selecting the auditor.

Advantages/Benefit

Setting up an auditor panel allows the Council to take maximum advantage of the new local appointment regime and have some local input to the decision.

Disadvantages/Risks

Recruitment and servicing of the Auditor Panel, running the bidding exercise and negotiating the contract was estimated by the LGA to cost in the order of £15,000 plus ongoing expenses and allowances during the last exercise.

The audit firms responding to the bidding process are likely to come from the same pool of firms as the national procurement.

The Council will not be able to take advantage of reduced fees that may be available through joint or national procurement contracts.

The assessment of bids and decision on awarding contracts will be taken by a majority of independent appointees and not by elected members.

3.3 Option 2: Set up a Joint Auditor Panel/Local Joint Procurement Arrangements

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 (members). Further legal advice will 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.

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.

There is greater opportunity for negotiating some economies of scale by being able to offer a larger combined contract value to the firms.

Disadvantages/Risks

The decision making body will be further removed from local input, with potentially no input from elected members where a wholly independent auditor panel is used or possibly only one elected member representing each Council, depending on the constitution agreed with the other bodies involved.

The choice of auditor could be complicated where individual Councils have independence issues. An independence issue occurs where the auditor has recently or is currently carrying out work such as consultancy or advisory work for the Council. Where this occurs some auditors may be prevented from being appointed by the terms of their professional standards. There is a risk that if the joint auditor panel choose a firm that is conflicted for this Council then the Council may still need to make a separate appointment which would require the set-up of its own independent Auditor Panel at a late stage in the process, and with all the attendant costs and loss of economies possible through joint procurement.

There is also a risk that the Council cannot find another authority in order to join up with, as within the last exercise 98% of eligible bodies made the choice to opt-in for the five year period that commenced on 1st April 2018.

3.4 **Option 3: Opt-in to a sector led body**

In response to the consultation on the new arrangement the LGA successfully lobbied for Councils to be able to 'opt-in' to a Sector Led Body (SLB) appointed by the Secretary of State under the Act. An SLB would have the ability to negotiate contracts with the firms nationally, maximising the opportunities for the most economic and efficient approach to procurement of external audit on behalf of the whole sector. The government have confirmed that Public Sector Audit Appointments Limited (PSAA), the transitional body set up by the LGA, has been specified as an appointing person under the provisions of the Local Audit and Accountability Act 2014 (the 2014 Act) and the Local Audit (Appointing Person) Regulations 2015. This means that PSAA will make auditor appointments to relevant principal local government bodies that choose to opt into the national appointment arrangements being developed, for audits of the accounts from 2023/24.

Advantages/Benefits

The costs of setting up the appointment arrangements and negotiating fees would be shared across all opt-in authorities.

By offering large contract values the firms would be able to offer better rates and lower fees than are likely to result from local negotiation.

Any conflicts at individual authorities would be managed by the SLB who would have a number of contracted firms to call upon.

The appointment process would not be ceded to locally appointed independent members but instead to a separate body set up to act in the collective interests of the 'opt-in' authorities.

Disadvantages/Risks

Individual elected members will have less opportunity for direct involvement in the appointment process other than through the LGA and/or stakeholder representative groups.

4.0 The Way Forward

4.1 The Council have until 31 December 2022 to make an appointment. In practical terms this means one of the options outlined in this report will need to be in place by spring 2022 in order that the contract negotiation process can be carried out during 2022.

4.2 The Local Audit (Appointing Person) Regulations 2015 require that a principal authority may only make the decision to opt into the appointing person arrangement by the members of the authority meeting as a whole.

5.0 Legal Implications

- 5.1 Section 7 of the Local Audit and Accountability Act 2014 (the Act) requires a relevant authority 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 authority 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 authority is a local authority operating executive arrangements, the function of appointing a local auditor to audit its accounts is not the responsibility of an executive of the authority under those arrangements.
- 5.2 Section 12 makes provision for the failure to appoint a local auditor: the authority must immediately inform the Secretary of State, who may direct the authority to appoint the auditor named in the direction or appoint a local auditor on behalf of the authority.
- 5.3 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.

6.0 Financial Implications

- 6.1 The fee for the current financial year is £58,280 as per the Audit Strategy Memorandum as presented to the Audit and Accounts Committee on 28 July 2021.
- 6.2 There was an acknowledgement within the Redmond Review (for which a summary report was presented to the Audit and Accounts Committee on 25 November 2021) that:

"the current fee structure for local audit be revised to ensure that adequate resources are deployed to meet the full extent of local audit requirements"

With this comment in mind, it is likely therefore that there will be an increase in the cost during the next 5 year period.

- 6.3 The cost of establishing a local or joint Auditor Panel outlined in options 1 and 2 above would need to be estimated and included in the Council's budget for 2022/23. This will include the cost of recruiting independent appointees (members), servicing the Panel, running a bidding and tender evaluation process, letting a contract and paying members fees and allowances.
- 6.4 Opting-in to a national SLB provides maximum opportunity to limit the extent of any increases in audit fees by entering in to a large scale collective procurement arrangement and would remove the majority of the costs of establishing an auditor panel.

7.0 RECOMMENDATION

That the Committee approves the report above and recommends to Council to opt into the National Appointment Arrangements with Public Sector Audit Appointments Limited (PSAA).

Background Papers

Nil.

For further information please contact Nick Wilson on 01636 655317.

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