

Report To: Full Council

Date: 21 February 2022

Report Title: Arrangements for Appointing External Auditors

Report of: Chief Finance Officer

Ward(s): All

Purpose of report: For Full Council to agree a procurement route for the appointment of the Council's External Audit arrangements post for the 2023/24 financial year onwards.

Officer Recommendations:

- a. That the Council approves the Audit and Standards Committee's recommendation to accept the Public Sector Audit Appointments' (PSAA's) opt-in invitation into the sector-led option for the appointment of external auditors from 1st April 2023; and
- b. That delegated authority be given to the Section 151 Officer to complete and submit the 'opt in' form (Appendix B) to PSAA by the deadline of the 11 March 2022.

Reasons for recommendations: The Council has a statutory responsibility to appoint an external auditor to audit its accounts.

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1. Introduction

- 1.1 The current auditor appointment arrangements cover the period up to and including the audit of the 2022/23 accounts. The Council opted into the 'appointing person' national auditor appointment arrangements established by Public Sector Audit Appointments (PSAA) for the period covering the accounts 2018/19 to 2022/23.
- 1.2 All local government bodies need to make important decisions about appointing their external auditors, and have options to arrange their own procurement, make the appointment themselves, or in conjunction with others, or they can join and take advantage of the national collective scheme administered by PSAA.
- 1.3 The Council has recently been contacted by PSAA regarding the potential to again Opt-in to the national exercise to procure External Auditors from 1 April 2023. The closing date to give notice to PSAA of the Council's acceptance of the invitation is Friday, 11 March 2022, and the full Council must make the decision as to whether to accept the offer.

2. Appointment of External Auditor from 2023/24 - Options

- 2.1 The Council current External Audit provider was appointed under the PSAA procurement contract. Current scale fees are based on rates negotiated by PSAA and reflect market share offered in framework contracts. If the Council wishes to remain in the PSAA framework and allow PSAA to continue to manage the appointment of the external auditors, it can do so.
- 2.2 There are three ways for a principal local government body to appoint its auditor for the five financial years from 2023/24, namely:
- **Option 1** - Undertake an individual auditor procurement and appointment exercise.
 - **Option 2** - Undertake a joint audit procurement and appointing exercise with other bodies, those in the same locality for example, or
 - **Option 3** - Join PSAA's sector led national scheme.
- 2.3 Under both Option 1 and Option 2, the Council would need to establish an Auditor Panel to advise it on:
- Selecting and appointing an auditor.
 - Whether to adopt a policy on obtaining non-audit services from the auditor.
 - Maintaining an independent relationship with its auditor; and
 - The outcome of any investigation into an auditor's resignation or removal from office.
- 2.4 Members of the Auditor Panel would need to be wholly or by majority independent members, and an independent member must chair the Panel. Under Option 2 the Council could set up an Auditor Panel with one or more other authorities or ask another authority's Auditor Panel to carry out its functions.
- 2.5 Options 1 and 2 provide greater scope for the audit contract to be tailored but would incur higher costs from setting up and administering the Auditor Panel either in isolation or jointly and the staff time involved in the procurement exercise.
- 2.6 The preferred option (supported by the LGA) is Option 3. The benefits of opting into the sector led national scheme are that it:
- reduces the financial and administrative burden on the Council as there would, for example, be no requirement for an Auditor Panel.
 - will enhance the procurement exercise by offering a high volume of work likely to be of greater interest to the main accountancy firms and therefore lead to more competitive audit fees. Audit fees, as is currently the case, will be linked to size, quality, complexity, and risk associated with each local council.
- 2.7 All of the above options require a local auditor to be appointed not later than 31 December in the financial year preceding the financial year of the accounts to be audited. So, for the audit of the accounts of the 2023/24 financial year, there must be a local auditor appointed by 31 December 2022.

2.8 PSAA sent an invite to “opt-in” (September 2021) to the Chair of Audit and Standard Committee, the Chief Executive, and the Section 151 Officer, requesting a decision on/before Friday 11th March 2022. Details relating to the PSAA’s invitation are attached as **Appendix B1 and B2** to this Report.

3. Audit and Standards Committee Conclusion

3.1 The Audit and Standards Committee considered the available options regarding the appointment of auditors at its meeting on 12 January 2022. The Committee supported officers’ recommendation (Appendix A) to opt into the PSAA arrangement and to seek Council approval for this decision.

3.2 Committee also acknowledged that concerns over external audit delay and timeliness should continue to be raised with PSAA and requested assurance as to how the risk of capacity, standards and quality would be managed through the procurement and contract management process. Further updates will be provided to Audit and Standards Committee on these matters as the process develops.

4. Financial Appraisal

4.1 The proposed external audit fees will not be known until the procurement process has been completed, as the costs will depend on proposals from the audit firms. Given the widespread prevalence of fee variations, market uncertainty and the revision to an 80% quality weighting within the procurement, it is almost certain that the fee payable by the Council will rise.

4.2 Opting-in to a national scheme provides a strong opportunity to ensure fees are as low as possible, whilst 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 for 2023/24.

5. Risk Management Implications

5.1 It is the Council’s policy to proactively identify and manage significant risks which may prevent delivery of business objectives. It is not possible to eliminate or manage all risks all the time and risks will remain which have not been identified. However, it is the officer’s opinion based on the information available, that the significant risks associated with this decision / project have been identified, assessed and that controls will be put in place to manage them effectively.

5.2 There is no immediate risk to the Council, however, early consideration by the Council of its preferred approach will enable detailed planning to take place so as to achieve successful transition to the new arrangement in a timely and efficient manner.

6. Equality Analysis

6.1 This is a routine report for which detailed Equality Analysis is not required to be undertaken.

7. Legal Implications

- 7.1 The Local Audit and Accountability Act 2014 (Part 3) gives powers to appoint auditors. In July 2016, the Secretary of State for Housing Communities and Local Government specified PSAA as an appointing person for principal local government and police bodies for audits from 2018/19, under the provisions of the Local Audit and Accountability Act 2014 and the Local Audit (Appointing Person) Regulations 2015. The implications arising therefrom in relation to the audit of the council's accounts are set out in the report.

8. Appendices:

- Appendix A - Audit and Standards Committee referral minute from the 12 January 2022 meeting.
- Appendix B1 - Invitation to opt into the national scheme for auditor appointments from April 2023.
- Appendix B2 - Appointing Period 2023/24 to 2027/28 - Form of notice of acceptance of the invitation to opt in.