

AUDIT COMMITTEE

27 JANUARY 2022

REPORT OF ASSISTANT DIRECTOR (FINANCE & IT)

A.2 AUDIT COMMITTEE – TABLE OF OUTSTANDING ISSUES AND APPOINTMENT OF EXTERNAL AUDITOR FROM 2023/24

(Report prepared by Richard Barrett and Karen Townshend)

PART 1 – KEY INFORMATION

PURPOSE OF THE REPORT

To present to the Committee:

- The progress on outstanding actions identified by the Committee along with general updates on other issues that fall within the responsibilities of the Committee; and
- the proposal to opt in to the Public Sector Audit Appointments (PSAA) arrangements for appointing External Auditors from 2023/24.

EXECUTIVE SUMMARY

- A Table of Outstanding Issues is maintained and reported to each meeting of the Committee. This approach enables the Committee to effectively monitor progress on issues and items that form part of its governance responsibilities.
- Updates are set out against general items, external audit recommendations and the Annual Governance statement within **Appendix A, B, and C** respectively.
- To date there are no significant issues arising from the above, with work remaining in progress or updates provided elsewhere on the agenda where appropriate.
- The Local Audit and Accountability Act 2014 requires the Council to either opt in to an appointing person regime or to establish an auditor panel and conduct their own procurement exercise. The current period covered by the appointing person regime expires in 2022/23 and the Council now needs to consider whether to opt in again for the next five year period starting in 2023/24. Following a review, it is proposed to recommend to Full Council Continue that the Council continues to opt in to the appointing person regime for a further five year period.

RECOMMENDATION(S)

That the Committee:

- a) notes and considers the progress against the actions set out in Appendices A to C; and
- b) recommends to Full Council that this Council opts in to the appointing person arrangements made by Public Sector Audit Appointments (PSAA) for the appointment of external auditors for a five year period commencing from 2023/24.

PART 2 – IMPLICATIONS OF THE DECISION

DELIVERING PRIORITIES

The existence of sound governance, internal control and financial management practices and procedures are essential to the delivery of Corporate priorities supported by effective management and forward planning within this overall framework.

FINANCE, OTHER RESOURCES AND RISK

Finance and other resources

There are no significant financial implications associated with monitoring of the agreed actions or responses. If additional resources are required then appropriate steps will be taken including any necessary reporting requirements.

In respect of appointment of External Auditors via the PSAA appointing person regime, until the associated procurement exercise is completed it is not possible to state what additional resource may be required for audit fees from 2023/24. However, based on the national experience over the past four years and the condition of the market, there is a risk that prices will increase, which will need to be considered as part of the long term financial forecast.

If the Council does not opt in to the PSAA arrangements, then additional resource may be needed to establish an auditor panel and to conduct a local procurement process and the potential for economies of scale would potentially be lower. The same market conditions would also likely apply and there is no evidence to indicate that taking this alternative route would result in lower costs.

Risk

The Table of Outstanding Issues is in itself a response to potential risk exposure with further activity highlighted to address matters raised by the Audit Committee.

In terms of the appointment of External Auditors, the main risk is associated with value for money in terms of cost, which includes the Council's capacity if it decided not to opt in to the appointing person regime and carry out its own appointment process via an independent panel.

LEGAL

There are no direct legal implications associated with this report.

The proposals relating to the appointment of an External Auditor are compliant with the Local Audit and Accountability Act 2014. The regulations require that the decision to opt-in to the PSAA appointing person regime must be made by Full Council.

The PSAA were specified by the Secretary of State as an appointing person under regulation 3 of the Local Audit (Appointing Person) Regulations 2015.

OTHER IMPLICATIONS

Consideration has been given to the implications of the proposed decision in respect of the following and any significant issues are set out below.

Crime and Disorder / Equality and Diversity / Health Inequalities / Area or Ward affected / Consultation/Public Engagement.

This report does not have a direct impact although such issues could feature in future

recommendations and actions. Any actions that may have an impact will be considered and appropriate steps taken to address any issues that may arise.

PART 3 – SUPPORTING INFORMATION

TABLE OF OUTSTANDING ISSUES

The Table of Outstanding Issues has been reviewed and updated since it was last considered by the Committee in September 2021.

There are currently 3 main elements to this report as follows:

- 1) **Appendix A** – Provides updates against general items raised by the Committee.
- 2) **Appendix B**- Provides updates against recommendations made by the Council's External Auditor.
- 3) **Appendix C** – Provides updates against the 2020/21 Annual Governance Statement Action Plan.

In terms of items 1) and 2) above, there are no significant issues to raise, with actions remaining in progress. In terms of item 3), there continues to be a significant impact from COVID 19 in terms of progressing the actions as quickly as originally anticipated. However, activity remains in progress against all actions and work will continue during 2021/22, as required.

In consultation with the Chair of the Committee, the review of the Corporate Risk Register and the Anti-Fraud and Corruption Strategy, which were originally included within the work programme for January 22, will now be presented to the March 22 meeting of the Committee.

Other issues

The Statement of Accounts 2020/21 has been published and is currently subject to review by the Council's External Auditor. Although it is required to be audited and republished by the end of September, at the time of finalising this report, it remains subject to the conclusion of the work of the External Auditor. At the time of this Committee, the associated report of the External Auditor is yet to be received as they continue their necessary audit work. A further update will be provided directly at the meeting of the Committee.

During a remote inspection conducted in 2021 by the Investigatory Powers Commissioner's Office of the Council's Covert Surveillance Policy and Procedure Manual, it was identified that under paragraph 4.47 of the Home Office Covert Surveillance and Property Interference Code of Practice, that Elected Members are provided with quarterly performance reports which cover RIPA (Regulation of Investigatory Powers Act 2000) activity. Historically this was reported in the Performance Report but this was temporarily suspended due to COVID-19 and a change of reporting priorities.

A quarterly update will now be provided to this Committee. During the aforementioned inspection it was highlighted that the above policy be reviewed, which is currently being undertaken and nears completion alongside a review of the Use of Social Media in Investigations Policy and Procedure and Social Media Guidance for Members. This review has identified a change of personnel and training requirement for the Authorised Officers which shall be addressed by the next quarter.

This Authority has not conducted any RIPA activity for some time and it is rare that it will be required to do so.

Redmond Review

At its meeting in September 2021, the Committee were appraised of the Council's response, prepared with the Chair, in relation to the below technical consultation.

The latest position is that The Ministry of Housing, Communities and Local Government are now undertaking a technical consultation on a broad range of implementation proposals along with responding to an earlier consultation on the appropriate methodology for distributing £15m to support effected local bodies as well as changes to the appointing persons fee setting regulations that aim to provide the PSAA with additional flexibilities.

The broad range of implementation proposals include:

- A new system leader for the local audit framework
- Proposals to strengthen audit committee arrangements within councils
- Measures to address ongoing capacity issues on the pipeline of local auditors
- Action to further consider local audit functions for smaller bodies

In respect of the distribution methodology for the £15m made available by the Government to primarily support the anticipated rise in audit fees, this will be based each body's scale fee as a proportion of the total fee scale that each body currently pays as part of the current External Audit contracts. The Government also highlighted that while they understood that individual circumstances may vary, it is important that the methodology pursued follows a simple process which allows for efficient payment to local bodies. The actual financial impact compared with the funding receivable under these new arrangements will be considered as part of the future detailed budget setting and financial forecast processes.

In respect of the PSAA fee setting regulations, the government committed to consult on proposals to provide the appointing person with greater flexibility to ensure the costs to audit firms of additional work are met and to reduce the need for time consuming case by case consideration of fee variation requests. The majority of respondents to the associated consultation conducted earlier in the year agreed with the Government's proposals which are summarised as follows:

- extend the regulatory deadline by which scale fees need to be set to enable the appointing person to take into account more up-to-date information;
- enable the appointing person to consult and agree standardised fee variations to be applied to all or certain groups of principal bodies;
- provide clarification on enabling some fee variations for additional elements of work to be approved during the audit; and
- expressly enable the appointing person to appoint auditors for the period that it considers to be the most appropriate, up to the maximum length of the appointing period subject to consultation with the relevant bodies.

The above proposals build on the success of the PSAA regime and provide practical flexibilities and interventions to strengthen the stability of the local audit market and address some of the factors that can result in issues with timeliness.

At the time of writing, there is no further update from the Redmond Review. Upon update this will be relayed to the Committee at the earliest opportunity.

EXTERNAL AUDITOR APPOINTMENT

Following the closure of the Audit Commission in 2015, the Council considered options for the appointment of its External Auditors in February 2017 and agreed to opt-in to the appointing person arrangements made by Public Sector Audit Appointments (PSAA) for the appointment of external auditors from 2018/19 for a period of five years up to and including the audit of the 2022/23 accounts.

This arrangement will terminate on 31 March 2023 and the Council is now being invited by the PSAA to consider continuing with the existing opt-in approach for the re-appointment of its External Auditors for a five year period from 2023/24.

The PSAA have published an associated prospectus as part of their invitation process with a summary of the advantages of a national opt-in scheme as follows:

- 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;
- management of 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;
- consultation with authorities on auditor appointments, giving the Council the opportunity to influence which auditor is appointed;
- consultation 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.

In terms of the associated procurement process, PSAA have confirmed that they will:

- seek to encourage realistic fee levels and to benefit from the economies of scale associated with procuring on behalf of a significant number of bodies;
- continue to pool scheme costs and charge fees to opted-in bodies in accordance with the published fee scale as amended following consultations with scheme members and other interested parties (pooling means that everyone within the scheme will benefit from the prices secured via a competitive procurement process – a key benefit of the national collective scheme);
- continue to minimise its own costs, around 4% of scheme costs, and as a not-for-profit company will return any surplus funds to scheme members.

As an alternative approach to the opt-in arrangements above, the Council may choose to

appoint its own external auditor. However, this 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; and
- manage the contract for its duration, overseen by the Auditor Panel.

It could be argued that making a local appointment allows the Council to take maximum advantage of the local appointment regime, but it does introduce a number of challenges such as:

- Recruiting and servicing a Local Auditor Panel;
- running the tender exercise and negotiating the contract;
- missing the potential economies of scale that sector-led procurement via the opt-in process be expected to deliver; and
- demonstrating quality and independence requirements.

In respect of the third bullet point above, there are currently only nine audit providers eligible to audit local authorities and other relevant bodies under local audit legislation. This means that a local procurement exercise would seek tenders from the same firms as the national procurement exercise, subject to the need to manage any local independence issues.

In summary and as set out when the last five year appointing period was considered back in 2017, the main advantages of opting in to the PSAA's appointing person option remain and include:

- Timely auditor appointments
- Managing the independence of auditors
- Securing competitive prices
- Saving on procurement time / costs
- Saving time and effort needed to implement and support auditor panels
- A stronger ability to focus on audit quality
- The scheme operating on a not for profit basis with any surplus funds distributed to member bodies.

Based on the above review and its relative success over the past five years, it is proposed to opt-in to the PSAA appointing person regime for a further five-year period commencing 2023/24.

If the Council does not accept the PSAA's invitation to opt-in by 11 March 2022 then it will not be able to do so until the following year. This would require the local appointment process to be implemented over the next 12 months, ahead of the 2023/24 year that the first year of the appointment period would cover.

BACKGROUND PAPERS FOR THE DECISION

PSAA Scheme Prospectus

APPENDICES

Appendix A – Table of Outstanding Issues (January 2022) – General.

Appendix B – Table of Outstanding Issues (January 2022) – External Audit Recommendations.

Appendix C - Table of Outstanding Issues – (January 2022) - Update against 2020/21 Annual Governance Statement Actions