

AUDIT COMMITTEE

27 JANUARY 2022

REPORT OF ASSISTANT DIRECTOR (FINANCE & IT)

A.3 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

[EXTRACT] PURPOSE OF THE REPORT

To present to the Committee:

- the proposal to opt in to the Public Sector Audit Appointments (PSAA) arrangements for appointing External Auditors from 2023/24.

[EXTRACT] EXECUTIVE SUMMARY

- 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.

[EXTRACT] RECOMMENDATION(S)

That the Committee:

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.

[EXTRACT] FINANCE, OTHER RESOURCES AND RISK

Finance and other resources

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

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

[EXTRACT] 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