

AUDIT AND GOVERNANCE COMMITTEE

DATE	29/09/2021
REPORT OF	Sharon Wroot - Executive Director for Environment, Economy and Resources
SUBJECT	External Audit Appointment Process
STATUS	Open

CONTRIBUTION TO OUR AIM

The Council has two clear strategic priorities – Stronger Economy and Stronger Communities. In order to demonstrate accountability for the funds utilised in delivering these priority areas, the Council is required to prepare a set of financial statements annually. Legislation requires that these financial statements are subject to an independent external audit.

EXECUTIVE SUMMARY

The Council will be required to reprocure an external audit provider at the end of the current 5-year contract on 31 March 2023. There are various options open to the Council but it is proposed that the Council continue to procure services via the PSAA framework route.

RECOMMENDATIONS

That the Audit and Governance Committee recommend to Full Council that it opts into the arrangements allowing the PSAA to appoint the Council's external auditor.

REASONS FOR DECISION

The Local Audit and Accountability Act 2014 and the Local Audit (Appointing Person) Regulations 2015 ("the Regulations") make provision about the accounts of local and certain other public authorities and the auditing of those accounts. The Regulations make provision for the appointment of a local auditor by a person specified by the Secretary of State ("an appointing person") to audit the accounts of those authorities that choose to opt into such arrangements. Regulation 19 provides that the decision to opt into such arrangements is to be exercised by the Full Council or authority.

1. BACKGROUND AND ISSUES

- 1.1 The Local Audit and Accountability Act 2014 established arrangements for the appointment of external auditors and the setting of audit fees for all local government bodies in England.
- 1.2 In July 2016, the Secretary of State specified PSAA ('Public Sector Audit Appointments') 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.
- 1.3 In relation to appointing external auditors, local bodies 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 for each appointing period.

- 1.4 The Council's current external auditor is Mazars. This appointment was made under a framework contract let by PSAA. PSAA negotiate contracts with audit firms nationally, maximising the opportunities for the most economic and efficient approach to procurement of external audit on behalf of the whole sector.
- 1.5 Prior to the end of the current contract on 31 March 2023 the Council will need to reprocure external audit services. The Regulations require the appointing person to set the duration of each appointing period; the maximum duration is five years
- 1.6 A decision opt in to the PSAA Framework arrangement means that the external audit appointment process will not be down to locally appointed independent members.
- 1.7 The Council have until December 2022 to make an external audit appointment. In practical terms this means a decision by spring 2022 in order that the contract negotiation process can be carried out during 2022. However the Council are required to indicate its commissioning intentions, that is whether to continue the PSAA Framework arrangement, by the end of December 2021.

2. RISKS AND OPPORTUNITIES

There are no significant risks to the Council. However early consideration is preferable to enable detailed planning to take place.

3. OTHER OPTIONS CONSIDERED

3.1 In addition to signing up to the PSAA Framework approach, there are two other options available to the Council:

3.2 Alternative Option 1 - Stand-alone appointment

In order to make a stand-alone appointment the Council would need to establish an Auditor Panel. The members of the panel would need to be mainly independent members as defined by the Act. This means that elected members would not have a majority input to assessing bids and choosing which organisation to award a contract for the Council's external audit. Recruitment and servicing of the Auditor Panel, running the tendering exercise and negotiating the contract is estimated to cost in the order of £15,000 plus on-going expenses and allowances. The Council will not be able to take advantage of reduced fees that may be available through joint or national procurement contracts.

3.3 Alternative 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 would require to be constituted of wholly or a majority of independent appointees. The costs of setting up the panel, running the tendering exercise and negotiating the contract would 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. 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 consultancy or advisory work for the Council.

4. REPUTATION AND COMMUNICATIONS CONSIDERATIONS

There are no direct implications arising from this report.

5. FINANCIAL CONSIDERATIONS

External fees could increase when the current contracts end in 2022/23. The Council has benefitted from economies of scale achieved as part of the national procurement process that led to the appointment of our current external auditor Mazars. Opting-in to a national sector led body provides maximum opportunity to limit the extent of any increases by entering into a large scale collective procurement arrangement and will remove the costs of establishing an auditor panel.

6. CLIMATE CHANGE AND ENVIRONMENTAL IMPLICATIONS

No direct implications

7. FINANCIAL IMPLICATIONS

There are no significant financial implications arising from the report. However the recommended approach outlined will help to deliver best value for money.

8. LEGAL IMPLICATIONS

- 9.1 Section 7 of the Local Audit and Accountability Act 2014 require the Authority to appoint a local auditor to audit its accounts for a financial year not later than 31 December in the preceding year.
- 9.2 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.
- 9.3 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.
- 9.4 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 gives the Secretary of State the ability to enable a Sector Led Body to become the appointing person.
- 9.5 The Local Audit and Accountability Act 2014 and Regulations stipulate other criteria that have to be followed in appointing a local auditor and also the nature of the local audit.
- 9.6 It should be noted that the Council will opt in for a period of 5 years.

9. HUMAN RESOURCES IMPLICATIONS

There are no direct HR implications arising from this report.

10. WARD IMPLICATIONS

All wards affected

11. BACKGROUND PAPERS

None

12. CONTACT OFFICER(S)

Guy Lonsdale, Head of Finance (Deputy S151 Officer).

SHARON WROOT
EXECUTIVE DIRECTOR (ENVIRONMENT, ECONOMY AND RESOURCES)