



# Committee report

Committee	<b>AUDIT COMMITTEE</b>
Date	<b>6 DECEMBER 2021</b>
Title	<b>FUTURE EXTERNAL AUDIT ARRANGEMENTS FROM 2023/24</b>
Report of	<b>DIRECTOR OF FINANCE AND SECTION 151 OFFICER</b>

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## EXECUTIVE SUMMARY

1. This report sets out proposals for appointing the external auditor to the Council/Authority for the accounts for the five-year period from 2023/24.
2. The committee is asked to recommend to Full Council that the Council accepts Public Sector Audit Appointments' (PSAA) invitation to opt into the sector-led option for the appointment of external auditors to principal local government and police bodies for five financial years from 1 April 2023.

## RECOMMENDATION

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| <ol style="list-style-type: none"><li>3. Option 1 - The committee recommends to Full Council that the Council accepts Public Sector Audit Appointments' (PSAA) invitation to opt into the sector-led option for the appointment of external auditors to principal local government and police bodies for five financial years from 1 April 2023</li></ol> |
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## BACKGROUND

4. The current auditor appointment arrangements cover the period up to and including the audit of the 2022/23 accounts. The Council/Authority opted into the 'appointing person' national auditor appointment arrangements established by Public Sector Audit Appointments (PSAA) for the period covering the accounts for 2018/19 to 2022/23.
5. PSAA is now undertaking a procurement for the next appointing period, covering audits for 2023/24 to 2027/28. During Autumn 2021 all local government bodies need to make important decisions about their external audit arrangements from 2023/24. They 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.

6. If the Council wishes to take advantage of the national auditor appointment arrangements, it is required under the local audit regulations to make the decision at Full Council. The opt-in period starts on 22 September 2021 and closes on 11 March 2022. To opt into the national scheme from 2023/24, the Council/Authority needs to return completed opt-in documents to PSAA by 11 March 2022.

### STRATEGIC CONTEXT

7. The council's external audit arrangements supports the achievement of the council's commitments and key priorities as identified within the Corporate Plan 2021-2025.

### FINANCIAL / BUDGET IMPLICATIONS

8. There is a risk that current external audit fee levels could increase when the current contracts end. It is clear that the scope of audit has increased, requiring more audit work. There are also concerns about capacity and sustainability in the local audit market.
9. Opting into a national scheme provides maximum opportunity to ensure fees are as realistic as possible, while ensuring the quality of audit is maintained, by entering into a large scale collective procurement arrangement.
10. 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 from 2023/24.

### IMPACT ON YOUNG PEOPLE AND FUTURE GENERATIONS

11. There are no implications arising from this report

### CLIMATE, ENVIRONMENT & UNESCO BIOSPHERE IMPACT

12. There are no implications arising from this report

### LEGAL IMPLICATIONS

13. The Section 151 Officer is required by the Local Government Act 1972 and by the Accounts and Audit Regulations 2015 to ensure that the Council's budgeting, financial management, and accounting practices meet the relevant statutory and professional requirements. Councillors must have regard to and be aware of the wider duties placed on the Council by various statutes governing the conduct of its financial affairs.
14. Section 7 of the Local Audit and Accountability Act 2014 requires a relevant Council/Authority to appoint a local auditor to audit its accounts for a financial year not later than 31 December in the preceding year.
15. Section 12 makes provision for the failure to appoint a local auditor. The Council/Authority must immediately inform the Secretary of State, who may direct the Council/Authority to appoint the auditor named in the direction or appoint a local auditor on behalf of the Council/Authority.

16. 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. In July 2016 the Secretary of State specified PSAA as the appointing person.

## EQUALITY AND DIVERSITY

17. The council as a public body is required to meet its statutory obligations under the Equality Act 2010 to have due regard to eliminate unlawful discrimination, promote equal opportunities between people from different groups and to foster good relations between people who share a protected characteristic and people who do not share it. The protected characteristics are: age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation.
18. There are no direct equality and diversity implications arising from this report.

## OPTIONS

19. The options available to the committee are:-
1. The committee recommends to Full Council that the Council accepts Public Sector Audit Appointments' (PSAA) invitation to opt into the sector-led option for the appointment of external auditors to principal local government and police bodies for five financial years from 1 April 2023
  2. The committee recommends to Full Council that the Council does not opt into the sector led option and commences the process to establish an independent auditor panel to make a stand-alone appointment
  3. The committee recommends to Full Council that the Council does not opt into the sector led option and commences the process to join with other authorities to establish a joint auditor panel

## RISK MANAGEMENT

20. The principal risks are that the Council/Authority:
- fails to appoint an auditor in accordance with the requirements and timing specified in local audit legislation; or
  - does not achieve value for money in the appointment process.

## EVALUATION

21. The sector-wide procurement conducted by PSAA will produce better outcomes and will be less burdensome for the Council than a procurement undertaken locally because:
- collective procurement reduces costs for the sector and for individual authorities compared to a multiplicity of smaller local procurements;

- if it does not use the national appointment arrangements, the Council will need to establish its own auditor panel with an independent chair and independent members to oversee a local auditor procurement and ongoing management of an audit contract;
  - it is the best opportunity to secure the appointment of a qualified, registered auditor - there are only nine accredited local audit firms, and a local procurement would be drawing from the same limited supply of auditor resources as PSAA's national procurement; and
  - supporting the sector-led body offers the best way of ensuring there is a continuing and sustainable public audit market into the medium and long term
22. If the Council/Authority did not opt in there would be a need to establish an independent auditor panel to make a stand-alone appointment. The auditor panel would need to be set up by the Council/Authority itself, and 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, excluding 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 to which audit firm to award a contract for the Council/Authority's external audit.
23. Alternatively, the Act enables the Council/Authority 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. Further legal advice would be required on the exact constitution of such a panel having regard to the obligations of each Council/Authority under the Act and the Council/Authority would need to liaise with other local authorities to assess the appetite for such an arrangement.
24. These would be more resource-intensive processes to implement for the council, and without the bulk buying power of the sector-led procurement would be likely to result in a more costly service. It would also be more difficult to manage quality and independence requirements through a local appointment process. The council is unable to influence the scope of the audit and the regulatory regime inhibits the council's ability to affect quality.
25. The Council/Authority and its auditor panel would need to maintain ongoing oversight of the contract. Local contract management cannot, however, influence the scope or delivery of an audit.
26. The national offer provides the appointment of an independent auditor with limited administrative cost to the council. By joining the scheme, the council would be acting with other councils to optimise the opportunity to influence the market that a national procurement provides.
27. The recommended approach is therefore to opt in to the national auditor appointment scheme.

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