

FUTURE APPOINTMENT OF EXTERNAL AUDITORS

Audit Committee - 25 January 2022

Report of: Deputy Chief Executive and Chief Officer - Finance and Trading

Status: For Decision

Also considered by:

- Council 22 February 2022

Key Decision: No

Executive Summary:

This report sets out the need for Full Council to make a decision to either, opt into the national framework for the procurement of external audit as supported by the Local Government Association (LGA) or to go it alone and run a separate procurement exercise. All other local authorities in Kent are expected to opt into the national framework.

The Council spent £53,065 on external audit fees for the 2019/20 accounts, procured by Public Sector Audit Appointments Ltd (PSAA), the body nominated by the Government to run the national arrangements.

The council is currently part of the 98% of principal authorities that previously opted-in the national scheme.

The decision relates to the procurement of external audit from the financial year 2023/24 to 2027/28, the practical deadline for this decision is 11 March 2022.

Portfolio Holder: Cllr. Matthew Dickins

Contact Officer(s): Adrian Rowbotham, Ext. 7153

Recommendation to Audit Committee:

That the Audit Committee proposes to Full Council that the Council opt into the sector-led option for the appointment of external auditors for five financial years from 1 April 2023.

Recommendation to Council:

That the Council accepts Public Sector Audit Appointments' 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.

Introduction and Background

- 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 for 2018/19 to 2022/23.
- 2 Grant Thornton are the Council's current external auditors.
- 3 PSAA is now undertaking a procurement for the next appointing period, covering audits for 2023/24 to 2027/28. 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.
- 4 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 started on 22 September 2021 and closes on 11 March 2022. To opt into the national scheme from 2023/24, the Council needs to return completed opt-in documents to PSAA by 11 March 2022.

Options for the appointment of an External Auditor

Option 1: To make a stand-alone appointment

- 5 In order to make a stand-alone appointment the Council would need to set up an Auditor Panel. The Members of the panel must be wholly or a majority independent Members as defined by the Act. Independent Members for this purpose are independent appointees; this excludes current and former elected Members (or officers) and their close family and friends. This means that elected Members would not have a majority input into assessing bids and recommending which firm of accountants to award a contract for the Council's external audit. The role of an Auditor Panel would be to advise the Council on:
 - The selection and appointment of a local auditor.
 - The maintenance of an independent relationship with the local auditor appointed to audit its account.
 - Any proposal by the Council to enter into a liability limitation agreement.
 - Whether to adopt a policy on purchasing non-audit services from the local auditor.

- The outcome of any investigation of an auditor's resignation from office, if this occurs, or on any proposal to remove a local auditor from office.

Option 2: Set up local joint procurement arrangements

- 6 The Act enables the Council to join with other authorities to establish a joint auditor panel. Again, this would need to be constituted of wholly or a majority of independent appointees (Members). Further legal advice would be required on the exact constitution of such a panel having regard to the obligations of each Council under the Act.

Option 3: Opt into a sector-led body (recommended option)

- 7 Councils are able to 'opt-in' to a Sector Led Body appointed by the Secretary of State under the Act.
- 8 The Secretary of State has confirmed PSAA in the role of the appointing person for eligible principal bodies for the period commencing April 2023. This means that PSAA can make auditor appointments for audits of the accounts from 2023/24 of authorities that choose to opt into its arrangements. Before an authority opts into these arrangements it must formally accept an invitation to become an opted in authority. This decision would be a matter for Full Council.
- 9 PSAA will have the ability to negotiate contracts with the firms nationally, maximising the opportunities for the most economic and efficient approach to procurement of external audit on behalf of the whole sector.
- 10 If the Council was to decide on this option then there is no requirement to establish an Auditor Panel.
- 11 The Local Government Association (LGA) are supportive of this option.

Key Implications

Financial

The external audit fees for the 2019/20 accounts were £53,065. The revised baseline fee for the 2020/21 accounts is £42,230 but the final fee is not yet known.

The level of external audit fees levels may increase when the current contract ends. Options 2 and 3 would allow the Council to take advantage of economies of scale through a larger joint procurement exercise.

The cost of establishing a local or joint Auditor Panel outlined in options 1 and 2 above are not known at this stage but are likely to include recruiting independent appointees (members), servicing the Panel, running a bidding and tender evaluation process, letting a contract and paying members' fees and allowances.

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 would remove the costs of establishing an auditor panel. 98% of authorities have opted into the current scheme.

Legal Implications and Risk Assessment Statement

Section 7 of the Local Audit and Accountability Act 2014 (the Act) requires a relevant authority to appoint a local auditor to audit its accounts for a financial year not later than 31 December in the preceding year. 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. Section 8 provides that where a relevant authority is a local authority operating executive arrangements, the function of appointing a local auditor to audit its accounts is not the responsibility of an executive of the authority under those arrangements.

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.

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.

Section 19 of the Local Audit (Appointing Person) Regulations 2015 specifies that the decision to accept an invitation to become an opted in authority is a matter for Full Council.

Equality Assessment

The decisions recommended through this paper have a remote or low relevance to the substance of the Equality Act. There is no perceived impact on end users.

Net Zero Implications

The decisions recommended through this paper have a remote or low relevance to the council's ambition to be Net Zero by 2030. There is no perceived impact regarding either an increase or decrease in carbon emissions in the district, or supporting the resilience of the natural environment.

Conclusions

The sector-wide procurement conducted by PSAA (option 3) is likely to 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.
- 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.

Appendices

Appendix A - Invitation to opt into the national scheme for auditor appointments from April 2023

Background Papers

None

Adrian Rowbotham

Deputy Chief Executive and Chief Officer - Finance & Trading