

TEWKESBURY BOROUGH COUNCIL

Report to:	Audit and Governance Committee
Date of Meeting:	15 December 2021
Subject:	Appointment of External Auditor
Report of:	Head of Finance and Asset Management
Corporate Lead:	Head of Finance and Asset Management
Lead Member:	Finance and Asset Management
Number of Appendices:	None

Executive Summary:

The Local Audit and Accountability Act 2014 ('the Act') requires that a local auditor is appointed no later than 31 December in the financial year preceding the financial year of the accounts to be audited. This report sets out the proposals for appointing the external auditor to the Council for the 2023/24 accounts and beyond, noting that the current appointment applies up to and including the 2022/23 accounts.

Regulations made under the Act allow authorities to opt in for their external auditor to be appointed by an 'appointing person'. Public Sector Audit Appointments Ltd ('PSAA') has been specified by the Secretary of State as an 'appointing person' (or 'sector led body'). PSAA has now formally invited the Council to opt-in, along with all other authorities, to the appointment scheme for the financial years 2023/24 to 2027/28, so that they can enter into contracts with appropriately qualified audit firms and appoint a suitable firm to be the Council's external auditor from April 2023.

Recommendation:

To RECOMMEND TO COUNCIL that the Public Sector Audit Appointments (PSAA) invitation to 'opt-in' to the sector led national scheme for the appointment of external auditors for the five financial years commencing 1 April 2023 be accepted.

Reasons for Recommendation:

Whilst the Council has until December 2022 to appoint the external auditors for the 2023/24 accounts, PSAA has formally invited the Council to opt-in to the national scheme. If the Council is to take advantage of this national scheme for appointing external auditors then it needs to take the decision to enable it to accept the invitation by early March 2022.

Regulation 19 of the Local Audit (Appointing Person) Regulations 2015 requires that a decision to opt in must be made by Full Council (authority meeting as a whole). To comply with this regulation Audit and Governance Committee is asked to make the recommendation above to Council.

Resource Implications:

The PSAA scale fee for the 2020/21 audit is £34,589; however, Grant Thornton has submitted a proposed total fee of £55,589 to reflect changes in work required to address professional and regulatory requirements and scope associated with risk.

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. In 2019 the Ministry of Housing, Communities and Local Government (as was) accepted that audit fees had become insufficient to reflect the increased challenges in auditing local authorities. In response to the Redmond Review the Government committed to review and reform regulations to provide the appointing person with greater flexibility to ensure the costs to audit firms of additional work are met and reduce the need for time consuming case-by-base consideration. A consultation on changes to the Local Audit (Appointing Person) Regulations 2015 took place earlier this year. The Government also announced £15 million nationally in additional funding in 2021/22 to support affected local bodies to meet the anticipated rise in audit fees in 2021/22. The Council's share is not yet known or whether the additional funding will be ongoing.

The proposed fees for the subsequent years cannot be known until the procurement process has been completed, as the costs will depend on proposals from the audit firms. However, opting-in to a national scheme will provide maximum opportunity to ensure fees are as low as possible, whilst ensuring the quality of audit is maintained by entering into a large scale collective procurement arrangement.

If the national scheme is not used some additional resource may be needed to establish an auditor panel and conduct a local procurement.

Legal Implications:

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 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.

The Local Audit (Appointing Person) Regulations 2015 (SI 192) gives the Secretary of State the ability to enable a SLB to become the appointing person and confirms the decision to opt-in must be made by the authority meeting as a whole (i.e. Council).

Risk Management Implications:

As set out in the report, use of PSAA minimises the risks inherent in undertaking our own procurement.

Performance Management Follow-up:

Head of Finance and Asset Management to act as lead for the Council in liaising with PSAA to ensure the appropriate appointment takes place in the required timescale.

Environmental Implications:

None

1.0 INTRODUCTION/BACKGROUND

1.1 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.

1.2 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.

1.3 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 Council. The opt-in period starts on 22 September 2021 and closes on 11 March 2022. To opt-in to the national scheme from 2023/24, the Council needs to return completed opt-in documents to PSAA by 11 March 2022.

2.0 PROCUREMENT OF EXTERNAL AUDITORS FOR THE PERIOD 2023/24 TO 2027/28

2.1 Under the Local Government Audit & Accountability Act 2014 ("the Act"), the Council is required to appoint an auditor to audit its accounts for each financial year. The Council has three options:

- To appoint its own auditor, which requires it to follow the procedure set out in the Act.
- To act jointly with other authorities to procure an auditor following the procedures in the Act.
- To opt-in to the national auditor appointment scheme administered by a body designated by the Secretary of State as the 'appointing person'. The body currently designated for this role is Public Sector Audit Appointments Limited (PSAA).

2.2 Whilst all three options have advantages and disadvantages, the option to opt-in to a national appointment scheme has significant benefits over and above the other options. It was the route agreed by Council for the current contract and by 98% of all eligible bodies. The following paragraphs give more detail on this option and the use of PSAA.

2.3 PSAA is an independent, not-for-profit company limited by guarantee incorporated by the Local Government Association. It was specified as an 'appointing person' in 2016 by the Secretary of State under regulation 3 of the Local Audit (Appointing Person) Regulations 2015. Acting in accordance with this role, PSAA is responsible for appointing an auditor and setting scales of fees for relevant principal authorities that have chosen to opt into its national scheme. PSAA costs are around 4% of the scheme with any surplus distributed back to scheme members. PSAA will make auditor appointments for authorities that choose to opt-in to this second national appointment scheme for audits of the accounts for financial years 2023/24 to 2027/28.

- 2.4** There are pressures on the local audit market arising from additional work and recruitment and retention challenges. PSAA will seek to encourage market sustainability in its procurement. Firms will be able to bid for a variety of differently sized contracts so that they can match their available resources and risk appetite to the contract for which they bid. They will be required to meet appropriate quality standards and to reflect realistic market prices in their tenders, informed by the scale fees and the supporting information provided about each audit. Where regulatory changes are in train which affect the amount of audit work suppliers must undertake, firms will be informed as to which developments should be priced into their bids.
- 2.5** The scope of the audit will still be specified nationally with the National Audit Office responsible for writing the Code of Audit Practice which all firms appointed to carry out the Council's audit must follow. Auditors are regulated by the Financial Reporting Council (FRC), which will be replaced by a new body with wider powers, the Audit, Reporting and Governance Authority (ARGA) during the course of the next audit contract. Councils therefore have very limited influence over the nature of the audit services they are procuring, the nature and quality of which are determined or overseen by third parties.
- 2.6** The sector led, collaborative, national scheme from 2023 will build on the range of benefits already available for members and include:
- transparent and independent auditor appointment via a third party;
 - the best opportunity to secure the appointment of a qualified, registered auditor;
 - appointment, if possible, of the same auditors to bodies involved in significant collaboration/joint working initiatives, if the parties believe that it will enhance efficiency;
 - ongoing management of any independence issues which may arise;
 - access to a specialist PSAA team with significant experience of working within the context of the relevant regulations to appoint auditors, managing contracts with audit firms, and setting and determining audit fees;
 - a value for money offer based on minimising PSAA costs and distribution of any surpluses to scheme members - in 2019 £3.5million was returned to relevant bodies and more recently a further distribution of £5.6m was announced in August 2021;
 - collective efficiency savings for the sector through undertaking one major procurement as opposed to a multiplicity of smaller procurements;
 - avoids the necessity for local bodies to establish an auditor panel and undertake an auditor procurement, enabling time and resources to be deployed on other pressing priorities;
 - updates from PSAA to Section 151 officers and Audit Committee Chairs on a range of local audit related matters to inform and support effective auditor-audited body relationships; and
 - concerted efforts to work with other stakeholders to develop a more sustainable local audit market.

2.7 A decision to become an opted-in authority must be taken in accordance with the Regulations, that is by the members of an authority meeting as a whole except where the authority is a corporation sole, such as a Police and Crime Commissioner, in which case this decision can be taken by the holder of that office.

2.8 The Audit and Governance Committee is requested to recommend to Council that Tewkesbury Borough Council opt-in to the national scheme. The Council has until 11 March 2022 to formally opt-in to the scheme.

3.0 OTHER OPTIONS CONSIDERED

3.1 The remaining two options open to the Council under the Act are not recommended as the preferred option, due to their associated disadvantages and costs.

3.2 Alternative option 1: To make a stand-alone appointment

In order to make a stand-alone appointment the Council will need to set up an auditor panel. The panel membership 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 families and friends. This means that elected Members will not have a majority input to assessing bids and choosing which firm of accountants to award a contract for the Council's external audit. A new independent auditor panel established by the Council will be responsible for selecting the auditor.

Advantages/benefit:

a. Setting up an auditor panel allows the Council to take maximum advantage of the local appointment regime and have local input to the decision.

Disadvantages/risks:

a. Recruitment and servicing of the auditor panel, running the bidding exercise and negotiating the contract are estimated by the LGA to cost in the order of £15,000 plus ongoing expenses and allowances.

b. The Council will not be able to take advantage of reduced fees that may be available through joint or national procurement contracts and is therefore likely to end up paying significantly higher fees.

c. The assessment of bids and decision on awarding contracts will be taken by independent appointees and not solely by elected Members.

3.3 Alternative option 2: Local joint procurement arrangements

The Act enables the Council 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 will be required on the exact constitution of such a panel having regard to the obligations of each Council under the Act and the Council needs to liaise with other local authorities to assess the appetite for such an arrangement.

Advantages/benefits:

a. The costs of setting up the panel, running the bidding exercise and negotiating the contract will be shared across a number of authorities.

b. There is greater opportunity for negotiating some economies of scale by being able to offer a larger combined contract value to the firms.

Disadvantages/risks:

a. The decision-making body will be further removed from local input, with potentially no input from elected Members where a wholly independent auditor panel is used, or possibly only one elected Member representing each Council, depending on the constitution agreed with the other bodies involved.

b. The choice of auditor could be complicated where individual Councils have independence issues. An independence issue occurs where the auditor has recently carried out, or is currently carrying out, work such as consultancy or advisory work for the Council. Where this occurs some auditors may be prevented from being appointed by the terms of their professional standards. There is a risk that if the joint auditor panel choose a firm that is conflicted for this Council then the Council may still need to make a separate appointment with all the attendant costs and loss of economies possible through joint procurement.

c. Even if the Council joins with one or more other local authorities, it will still not be able to offer the scale of appointment that would be available on a nationwide process. It would therefore be likely to incur higher fees than the preferred option detailed at Paragraph 2.3.

4.0 CONSULTATION

4.1 The Lead Member for Finance and Asset Management has been consulted on the requirement to appoint external auditors and the options available under the regulations.

5.0 RELEVANT COUNCIL POLICIES/STRATEGIES

5.1 None

6.0 RELEVANT GOVERNMENT POLICIES

6.1 None

7.0 RESOURCE IMPLICATIONS (Human/Property)

7.1 None

8.0 SUSTAINABILITY IMPLICATIONS (Social/Community Safety/Cultural/ Economic/ Environment)

8.1 None

9.0 IMPACT UPON (Value For Money/Equalities/E-Government/Human Rights/Health And Safety)

9.1 The route of appointment recommended offers the Council the best value in the process of appointing its external auditors and is likely to result in the best value ongoing cost of providing an external audit service.

10.0 RELATED DECISIONS AND ANY OTHER RELEVANT FACTS

10.1 None

Background Papers: None

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Appendices: None