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## **Audit and Governance Committee**

**2 February 2022**

Report of the Director of Governance & Monitoring Officer and Chief Finance Officer

### **Appointment of External Auditors**

#### **Summary**

1. The Council's current external auditor is Mazars, under a contract managed by Public Sector Audit Appointments Ltd (PSAA). This contract expires at the end of the 2022/23 financial year. The purpose of this report is to provide the Committee with an overview of the process for appointing an external auditor to the Council for the next five year period from 2023/24.
2. Given the issues being experienced nationally with the audit market that, in part, led to the Redmond Review, the considerable amount of time and effort involved in procuring individually and the additional independence of the national process it is the view of officers that the Council should again opt in to the PSAA process.

#### **Recommendations**

3. Members are asked to note that full Council will be asked to:
  - a. accept the 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.

#### Reason

The Local Audit (Appointing Person) Regulations 2015 ('the Regulations') require that a decision to opt in must be made by a meeting of the Council (meeting as a whole). The Council then needs to formally respond to PSAA's invitation in the form specified by PSAA.

## **Background**

4. The current auditor appointment arrangements cover the period up to and including the audit of the 2022/23 accounts. Along with 98% of all local authorities, the Council opted into the 'appointing person' national auditor appointment arrangements established by 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. In order to join the national scheme, the Council has to formally accept the invitation to participate by Friday 11 March 2022. The decision to accept the invitation must be made by Full Council.

## **Analysis and options**

6. There are two main options available to the Council when appointing new auditors.
  - a. We can continue to take advantage of the national collective scheme administered by PSAA
  - b. We can arrange our own procurement and make the appointment ourselves or in conjunction with other bodies such as other local authorities

### Procurement through PSAA

7. The sector-wide procurement conducted by PSAA has the following advantages:
  - a. It is a transparent and independent appointment via a third party
  - b. A collective procurement reduces costs for the sector and for individual authorities compared to a multiplicity of smaller local procurements
  - c. Ongoing management of any independence issues as and when they arise
  - d. It is the best opportunity to secure the appointment of a qualified, registered auditor - there are only nine accredited audit firms, and a local procurement would be drawing from the same limited supply of auditor resources as PSAA's national procurement
  - e. Supporting the sector-led body offers the best way of to ensuring there is a continuing and sustainable public audit market into the medium and long term.

- f. It avoids the need to establish an auditor panel with an independent chair and independent members to oversee a local auditor procurement and ongoing management of an audit contract
- 8. A potential disadvantage of procuring through the PSAA is that individual elected members will have less opportunity to be directly involved in the appointment process.
- 9. 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 needs to return completed opt-in documents to PSAA by 11 March 2022.

#### Procure individually

- 10. To procure our own external auditors individually and independently of the PSAA legislation requires us to set up an Auditor Panel. The panel must consist of a majority of independent members and must be chaired by an Independent member. Independent members for this purpose are independent appointees, this excludes current and former elected members and officers and their close families and friends. This means that elected members will not have a majority input in assessing bids and choosing which firm to award the contract to. An independent auditor panel would make that decision.
- 11. Individual procurement has the following advantage:
  - a. It is a transparent appointment and allows for some local input to the decision
- 12. There are also a number of disadvantages from an individual procurement and these include:
  - a. There would be a cost in recruiting an Audit Panel, running the procurement exercise and negotiating the contract. LGA estimate this would be in the region of at least £15k
  - b. We would not be able to take advantage of the economies of scale and reduced fees that could be available through a national exercise
  - c. The assessment of bids and decision on awarding contracts would not be taken solely by elected members of the council

- d. The external audit market is very challenging, with firms unable to recruit staff. Some audited bodies, both in the public and private sector, have found that they have had only one bidder for their audit. Therefore there is a risk that no one would bid for the contract.
13. Given the issues being experienced nationally with the audit market that, in part, led to the Redmond Review, the considerable amount of time and effort involved in procuring individually and the additional independence of the national process it is the view of officers that the Council should again opt in to the PSAA process.

### **Corporate Priorities**

14. The appointment of the External Auditors ensures that the Council's financial statements are true and fair and that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This ensures the Council's service requirements are met and contributes to the achievement of Corporate Priorities.

### **Implications**

#### **Financial**

15. The current External Audit Fees are likely to increase when the contract ends. Should the Council wish to consider appointing a local Auditor Panel, the costs of establishing such a Panel would need to be estimated and included in the Council's budget for 2022/23. This would include the costs of recruiting independent appointees, servicing the Panel, running a bidding and tender evaluation process, letting a contract and paying independent member fees and allowances.
16. By opting in to the PSAA process, this provides maximum opportunity to limit the extent of any increases in audit fee levels by entering into a large scale collective procurement arrangement that would remove the costs associated with establishing an auditor panel.
17. 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 in to a large scale collective procurement arrangement

**Human Resources (HR)**

18. There are none directly associated with this report.

**Equalities**

19. There are none directly associated with this report.

**Legal**

20. There are none directly associated with this report.

**Crime and Disorder, Information Technology and Property**

21. There are none directly associated with this report.

**Risk Management**

22. The Council will fail to comply with legislative and best practice requirements to provide for a proper audit of the Council if it does not consider this report.

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**Report Approved**  **Date** 13 January 2022

**Specialist Implications Officer(s):**  
Janie Berry, Director of Governance & Monitoring Officer  
Debbie Mitchell, Chief Finance Officer

**Wards Affected:** *List wards or tick box to indicate all* **All**

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