

Audit & Governance Committee

Date of Meeting: 25 November 2021

Report Title: Arrangements for the Appointment of External Auditors

Report Of: Alex Thompson, Director of Finance & Customer Services

Report Reference No: AG/10/21-22

Ward(s) Affected: Not applicable

1. Report Summary

- 1.1. This report sets out proposals for appointing the Council's external auditor for the five-year period from 2023/24.
- 1.2. The available options are:
 - A. Establish a standalone Auditor Panel to make the appointment on behalf of the Council;
 - B. Explore the establishment of local joint procurement arrangements with neighbouring authorities; or
 - C. Opt-in to the national Sector Led Body, Public Sector Audit Appointments Ltd (PSAA).
- 1.3. The report recommends Option C.
- 1.4. In order to opt into the national Sector Led body, a decision will be required at a meeting of the full Council in time to submit a formal acceptance to PSAA by the required date of 11 March 2022.

2. Recommendation/s

That Members of the Audit & Governance Committee:

- 2.1. Recommend to Council to accept the invitation from PSAA to 'opt in' to the sector led option for the appointment of external auditors for five financial years commencing 1 April 2023.

3. Reasons for Recommendation/s

- 3.1. The Local Audit and Accountability Act 2014 (the Act) at Section 7 states that a “relevant authority must appoint a local auditor to audit its accounts for a financial year not later than 31 December in the preceding financial year.” The current auditor appointment arrangements cover the period up to and including the audit of the 2022/23 accounts.
- 3.2. In 2017 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.
- 3.3. PSAA is now undertaking a procurement for the next appointing period, covering audits for 2023/24 to 2027/28. The closing date to opt-in to the PSAA arrangement is 11 March 2022. This enables procurement and award of contracts by the statutory deadline of 31 December 2022.
- 3.4. This report sets out the options open to the Council and the basis of officers’ recommendation to the Audit & Governance Committee to opt into the national arrangement with PSAA.

4. Other Options Considered

- 4.1. If the Council did not opt in there would be a need to establish an independent auditor panel. In order to make a stand-alone appointment the auditor panel would need to be set up by the Council itself. 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; 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 audit firm to award a contract for the Council’s external audit.
- 4.2. Alternatively 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 would be required on the exact constitution of such a panel having regard to the obligations of each Council under the Act and the Council would need to liaise with other local authorities to assess the appetite for such an arrangement.
- 4.3. Neither of these options is recommended as both these options would be more resource intensive processes to implement 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.

5. Background

- 5.1. There is a requirement under the Local Audit and Accountability Act 2014 for all local government and NHS bodies in England to locally appoint their external auditors.
- 5.2. A review of options was presented to the Audit & Governance Committee in December 2016 and to Council in March 2017 to support the decision to opt-in to the PSAA arrangements. The basis for that decision has not fundamentally changed in the intervening period.
- 5.3. The PSAA is again inviting the Council to opt in for the next appointing period, covering audits for 2023/24 to 2027/28, along with all other authorities, so that PSAA can enter into a number of contracts with appropriately qualified audit firms and appoint a suitable firm to be the Council's auditor.
- 5.4. The principal benefits from such an approach are as follows:
 - PSAA will ensure the appointment of a suitably qualified and registered auditor and expects to be able to manage the appointments to allow for appropriate groupings and clusters of audits where bodies work together;
 - PSAA will monitor contract delivery and ensure compliance with contractual, audit quality and independence requirements;
 - Any auditor conflicts at individual authorities would be managed by PSAA who would have a number of contracted firms to call upon;
 - It is expected that the large-scale contracts procured through PSAA will bring economies of scale and attract keener prices from the market than a smaller scale competition;
 - The overall procurement costs would be lower than an individual smaller scale local procurement;
 - The overhead costs for managing the contracts will be minimised through a smaller number of large contracts across the sector;
 - There will be no need for the Council to establish alternative appointment processes locally, including the need to set up and manage an 'auditor panel';
 - A sustainable market for audit provision in the sector will be easier to ensure for the future.

6. Implications of the Recommendations

6.1. Legal Implications

6.1.1. The arrangements for local auditor appointment set out in the Local Audit and Accountability Act 2014 will apply for audit of the accounts of principal local authority bodies. Auditor appointments must be made for 2023/24 audits by 31 December 2022, as required by Section 7 of the Act. Appointments may be made by the audited body itself, by groups of audited bodies, or by a specified appointing person.

6.1.2. In accordance with Regulation 19 of the Local Audit (Appointing Person) Regulations 2015, the decision on opt-in must be taken by Council (“full authority”).

6.2. Finance Implications

6.2.1. The audit fees will be met from within the revenue budget. Current external audit fees levels are likely to increase when the current contracts end in 2023, regardless of the procurement option.

6.2.2. Opting-in to a national scheme provides 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.

6.3. Policy Implications

6.3.1. There are no policy implications identified.

6.4. Equality Implications

6.4.1. There are no equality implications identified.

6.5. Human Resources Implications

6.5.1. There are no human resources implications identified.

6.6. Risk Management Implications

6.6.1. The principal risks are that the Council fails to appoint an auditor in accordance with the new frameworks or does not achieve value for money in the appointment process. These risks are considered best mitigated by opting into the sector led approach through PSAA.

6.7. Rural Communities Implications

6.7.1. There are no direct implications for rural communities.

6.8. Implications for Children & Young People / Cared for Children

6.8.1. There are no direct implications for children and young people.

6.9. Public Health Implications

6.9.1. There are no direct implications for public health.

6.10 Climate Change Implications

6.10.1. There are no direct implications for climate change.

7. Ward Members Affected

7.2. Not applicable.

8. Access to Information

8.2. The background papers relating to this report can be inspected by contacting the report writer.

9. Contact Information

9.2. Any questions relating to this report should be directed to the following officer:

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