

REPORT TITLE: INVITATION TO BECOME AN OPTED-IN AUTHORITY - THE LOCAL AUDIT AND ACCOUNTABILITY ACT 2014 AND THE LOCAL AUDIT (APPOINTING PERSON) REGULATIONS 2015 (RECOMMENDATION TO JAN 2022 COUNCIL)

16 DECEMBER 2021

REPORT OF CABINET MEMBER: Cllr Neil Cutler, Deputy Leader and Cabinet Member for Finance and Service Quality

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WARD(S): ALL

#### PURPOSE

This report sets out the proposals for appointing the external auditor to the Council for the 2023/24 to the 2027/28 accounts, as the current arrangements only cover up to and including 2022/23 audit.

It sets out the potential benefits from continuing to opt-in to the scheme as well as the necessary arrangements to be made locally if Council decide not to.

#### RECOMMENDATIONS:

1. That the Audit Committee recommends to Full Council that it accepts the Public Sector Audit Appointments (PSAA) invitation to 'opt-in' to the sector led option for the appointment of external auditors for five consecutive financial years commencing 1 April 2023.

## IMPLICATIONS:

### 1 COUNCIL PLAN OUTCOME

- 1.1 *Your Services, Your Voice* - The preparation of the annual accounts is fundamental to open and transparent accountability for public finances. Ensuring strong financial reporting and transparent stewardship of public funds underpins the council's ability to deliver all its outcomes but in particular the priority to ensure stable council finances

### 2 FINANCIAL IMPLICATIONS

- 2.1 Opting into a national scheme provides the 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.
- 2.2 If the PSAA scheme is not used some additional resource may be needed to establish an independent auditor panel and conduct local procurement. Until a procurement exercise is completed it is not possible to state what, if any, additional resource maybe required for audit fees for 2023/24 to 2027/28.

### 3 LEGAL AND PROCUREMENT IMPLICATIONS

- 3.1 Section 7 of the Local Audit and Accountability Act 2014 requires a relevant council to appoint an auditor to audit its accounts for a financial year not later than 31 December in the preceding year (i.e. by 31 Dec 2022 for the audit of the 2023/24 financial year).
- 3.2 If the council fails to appoint an auditor for a financial year, section 12 of the Local Audit and Accountability Act 2014 states that the council must immediately inform the Secretary of State. The Secretary of State may direct the council to appoint an auditor named in the direction or appoint an auditor on behalf of the council.
- 3.3 The Public Sector Audit Appointments Committee formally invited all eligible bodies to join the national auditor appointment arrangements for the audit years 2023/2024 to 2027/2028 in its role as a specified appointing person, in accordance with the Local Audit and Accountability Act 2014 and the Local Audit (Appointing Person) Regulations 2015.
- 3.4 The decision requested in this report to become an opted-in authority is not an executive decision and must be taken in accordance with the Local Audit (Appointing Person) Regulations 2015, by Full Council.

### 4 WORKFORCE IMPLICATIONS

- 4.1 If the PSAA scheme is not used some additional resource may be needed to establish an independent auditor panel and conduct local procurement

### 5 PROPERTY AND ASSET IMPLICATIONS

5.1 None

6 CONSULTATION AND COMMUNICATION

6.1 None

7 ENVIRONMENTAL CONSIDERATIONS

7.1 None

8 EQUALITY IMPACT ASSESSEMENT

8.1 None arising from the content of the report. However, officers have regard to the considerations as set out in the Equalities Act 2010 when deciding whether an Equality Impact Assessment will be required following any specific recommendations or future decisions.

9 DATA PROTECTION IMPACT ASSESSMENT

9.1 Not required

10 RISK MANAGEMENT

<b>Risk</b>	<b>Mitigation</b>	<b>Opportunities</b>
<p><b>Financial / VfM</b> Fees charged by the Auditor will be considerably higher than currently.</p> <p>Management of the contract with the audit firm is done by PSAA and the Council has little say in the effectiveness or price of the contract.</p> <p>Not enough public sector organisations join the PSAA so that it is unable to deliver the efficiencies envisaged.</p>	<p>Opting-in to the sector-led approach is likely to lead to economies of scale and continue to driving down the price as a member of a larger grouping of public sector organisations.</p> <p>Continued communication with and pressure on PSAA for thorough review of fee variations.</p> <p>Continued review of the fees ahead of the opting-in decision for the next appointing period.</p>	
<p><b>Legal</b> The council fails to appoint an auditor in accordance with the new frameworks or does not achieve value for money in the appointment process.</p>	<p>Opting into the sector led approach through the PSAA provides resilience in the appointment in accordance with legislation.</p>	

## 11 SUPPORTING INFORMATION:

- 11.1 This report sets out the proposals for appointing the external auditor to the Council for the 2023/24 accounts and beyond, as the current arrangements only cover up to and including the 2022/23 audit.
- 11.2 In November 2016 the then Audit Committee at Winchester recommended to Full Council (AUD178) that PSAA's invitation to opt-in to the sector-led scheme was accepted and this was approved by Council in January 2017. PSAA proceeded to conduct a national procurement exercise on behalf of 510 opted-in bodies and appointed EY as the Council's external auditors for the five financial years from 2018/19 to 2022/23.
- 11.3 Continuing to participate in the sector-wide procurement conducted by PSAA will produce better outcomes and will be less burdensome for the Council than any procurement undertaken locally. More specifically:
- i. The audit costs are likely to be lower than if the council sought to appoint locally as, despite audit fees being expected to rise, national large-scale contracts are expected to drive keener prices from the audit firms.
  - ii. Without the national appointment, the Council would need to establish a separate independent auditor panel, which could be difficult, costly and time-consuming.
  - iii. PSAA can ensure the appointed auditor meets and maintains the required quality standards and can manage any potential conflicts of interest much more easily than the Council.
  - iv. PSAA are experts in independently assessing proposed fee variations, authorising billing only when satisfied that proposals are justified and in line with statutory regulations.
- 11.4 If the Council is to take advantage of the national scheme for appointing auditors to be operated by PSAA from 1 April 2023, the PSAA's invitation needs to be accepted 11 March 2022. PSAA will conduct their procurement process from March 2022 and look to award contracts by August 2022. Auditors will then be appointed to individual opted-in bodies by 31 Dec 2022.

## 12 OTHER OPTIONS CONSIDERED AND REJECTED

- 12.1 The alternative to opting-in to the PSAA scheme is for the council to procure and manage its own audit contract.
- 12.2 The council would have to establish its own auditor panel, with a majority of independent members, to advise on:

- i. the selection and appointment of the auditor
  - ii. devise a policy on obtaining non-audit services from the auditor
  - iii. maintaining an independent relationship with its auditor
- 12.3 As well as being independent, members of the panel would have to be suitably experienced in local authority finance; accountancy (public sector or commercial); audit processes and regulation (public or private sector, external/local audit or internal audit); and the role and responsibilities (statutory duties) of a local public auditor in local government.
- 12.4 Once a panel had been established, the council would have to undertake its own full procurement exercise in line with the Public Contracts Regulations to appoint an auditor prior to 31 December 2022. This would potentially require significant officer resource during 2022.
- 12.5 It should also be noted that the register of persons eligible for appointment as local auditors includes partners in only 8 firms (none of whom are 'local'):-
- i. BDO LLP
  - ii. Cardens Accountants LLP
  - iii. Deloitte LLP
  - iv. Ernst & Young LLP
  - v. Grant Thornton UK LLP
  - vi. KPMG LLP
  - vii. Mazars LLP
  - viii. PricewaterhouseCoopers LLP
- 12.6 Some typical services contract levers such as penalties for late delivery cannot be applied to an audit services contract, as fees calculated on the basis of a specified outcome (e.g. specific date completions) are classified as contingent fees, not allowed under the FRC's Ethical Standard

#### BACKGROUND DOCUMENTS:-

##### Previous Committee Reports:-

AG053 - Appointment of Auditors through Public Sector Audit Appointments (PSAA)

##### Other Background Documents:-

APPENDICES: None.

