

Full Council 1ST December 2021

Report Title	Future of External Audit
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1. Purpose of Report

- 1.1. The Council's governance arrangements require the Audit and Governance Committee approve the recommendation to opt into the national sector-led arrangements and nominates Public Section Audit Appointments Limited (PSAA), to appoint external auditors on our behalf. Full Council are required to ratify this recommendation.

2. Executive Summary

- 2.1. This report asks Full Council to consider the options for appointing the external auditor and to endorse a recommendation to opt into the national sector-led arrangements. This is the recommended option forwarded by the Audit and Governance Committee, which met on 8th November 2021.

3. Recommendations

- 3.1. It is recommended that Council;
- a) endorses the opt into the national sector-led arrangements and nominates Public Sector Audit Appointments Limited (PSAA), to appoint the external auditor on its behalf.
- 3.2. Reason for Recommendations –
- It is important that the Council has appropriate external audit arrangements in place. Opting into the sector led approach is the preferred option.

4. Report Background

- 4.1. In July 2016, the Secretary of State specified PSAA as an appointing person for principal local government and police bodies for audits from 2018/19, under the provisions of the Local Audit and Accountability Act 2014 and the Local Audit (Appointing Person) Regulations 2015.

4.2. The options to consider are:

- undertake an individual auditor procurement and appointment exercise;
- undertake a joint audit procurement and appointing exercise with other bodies, those in the same locality for example, or
- join PSAA's sector led national scheme.

4.3. The Council is now faced with a similar decision and if it wishes to opt into the national scheme, it must do so by 11th March 2022. All the above options require a local auditor to be appointed not later than 31 December in the financial year preceding the financial year of the accounts to be audited. So, for the audit of the accounts of the 2023/24 financial year, there must be a local auditor appointed by 31 December 2022. The alternative options are explored in detail in Section 5.

4.4. **External audit – what does the Council want?**

4.5. In thinking about how the external auditor might be appointed officers have set out what the Council wants from its external audit service which one might consider when considering future appointment arrangements:

- **Value for money** – the Council wants a good quality service for a competitive fee. As a new Unitary Authority, one of the key benefits of the current national arrangements is that firms bid for a block of work rather than individual audits and this has been one of the main factors in reducing fees. However, based on the outcome of the Redmond Review and pressures on external auditors, it is unlikely that further savings can be made whichever option is chosen.
- **High quality audit** – the Council values its audit opinion as it is one assessment of how it is carrying out its public stewardship role. The Council would want to maintain high quality as a means of reassuring residents that they can have confidence in this opinion.
- **Independence** – the Council believes that the auditor must be independent and be seen to be independent. Whilst auditors are required to be independent under their own professional standards, the current arrangement whereby auditors have been appointed by a third party does add an extra layer of assurance e.g., the Section 151 Officer cannot simply terminate the contract of the auditor.
- **Minimal administration and procurement cost** – the Council does not appoint its own auditor and hence does not incur any direct cost. It would be looking to keep the cost of any new process to a minimum.

4.6. Full Council might think there are other factors that should be considered, and these should be borne in mind in respect to any decision

5. Issues and Choices

5.1. Option 1. Opt into national arrangements

5.2. The Council could continue to opt into the sector lead procurement of the external audit service. Using Public Sector Audit Appointments as the Appointing Person has many benefits.

- PSAA has considerable expertise and experience in the role of appointing person. The Government have appointed PSAA for a second five-year period – MHCLG’s Spring statement refers to its “strong technical expertise and the proactive work...done to help to identify improvements”;
- It has a dedicated team who are very familiar at working within the context of the relevant regulations to appoint auditors, manage contracts with audit firms, and set and determine audit fees • PSAA is a not-for-profit organisation whose costs are around 4% of the scheme with any surplus distributed back to scheme members – so it provides value for public money;
- It conducts local audit related research to raise awareness and successfully lobbies for change to address challenges, e.g., imminent legislation changes to allow for a more streamlined and flexible fees setting regime which will increase the accuracy scale fee on a timelier basis;
- It provides a transparent and independent auditor appointment to bodies spending public money;
- It avoids the need to undertake an auditor procurement and ongoing contract management activities (such as fee variation management), saving local time and effort;
- It has delivered cost reduction in the audit market;
- It provides the best opportunity to secure the appointment of a qualified, registered auditor - there are currently only eight suppliers accredited to undertake local audit - a local procurement would be “fishing in the same pool” of suppliers as PSAA’s procurement;
- It avoids the necessity (as required by the Act) to establish an Auditor Panel with an independent chair to oversee the procurement and running of the contract. The Panel must have a minimum of three members of whom the majority are independent of the organisation;
- It gives Free access to our Local Audit Quality Forum and other webinar events on relevant topics, whereas bodies making local arrangements can participate for a small fee.

5.3. This option would meet the Council’s criteria above and is the preferred option. If the Council chooses not to join the sector lead route, there are two possible alternatives:

5.4. Option 2. Undertake own procurement

5.4.1. The Council could form its own auditor panel (see above) and undertake its own procurement arrangements. However, it should note that the specification of a local audit is fixed. It is determined by the requirements of the:

- NAO's Code of Audit Practice which sets the scope of the audit;
- the Code of Practice on Local Authority Accounting published by CIPFA which sets the format of the financial statements.
- HM Treasury in respect of the arrangements for Whole of Government Accounts; and
- FRC who regulate the work of auditor in the application of International Auditing Standards.

5.4.2. This approach also raises the question as to whether there is an available and willing source of independent members across Northamptonshire to appoint to the auditor panel, recognising that there will need to be a majority of independent members, including the chair on the panel. The panel will have limited responsibilities and in reality, will meet infrequently, and the role may not be seen as attractive. This option would require work, is likely to increase cost and offers little benefit.

5.5. Option 3. Joint procurement

5.5.1. The Council could seek to form a joint auditor panel and a joint procurement arrangement with neighbouring authorities (this could be within Northamptonshire or elsewhere) so that there is a single auditor panel and single external audit contract for the entire area (however defined). This would aim to take advantage of better purchasing power and provide a more attractive offer for the external auditor bidders. This is particularly important as local authority audit is a specialised activity. However, there has been no appetite for such an arrangement as most are intending to opt into the sector led arrangements.

5.5.2. There would still be some additional bureaucracy associated with creation and management of a joint auditor panel, although it would avoid the need for each body to source its own independent members. This approach would require delegations from (or feasibly to) this Council from other Councils to form a lead authority for the appointment of the panel and for future governance and procurement purposes. There would also need to be joint arrangements in place to introduce and manage an allowance scheme for the panel. Whilst more attractive than option 2, it is only viable if the Council can find other Councils going down this route.

5.6. Summary

5.6.1. Option 1 effectively replicates existing arrangements for the Council, as existed within the sovereign authorities. Options 2 and 3 will require officer time to introduce these arrangements. There will be costs associated with advertising and then interviewing for the independent members and running a procurement exercise. Subsequently there could be the cost of an allowance scheme.

Officers believe the existing national collective scheme that PSAA runs is the preferable route.

- 5.6.2. To assist Members in their deliberations PSAA have produced a set of FAQs available on the link below.

<https://www.psa.co.uk/contact-us/frequently-asked-questions>

6. Resources and Financial

- 6.1.1. The current estimated audit fees for 2021/22 audit are £256k (main fee). It is assumed that the fees to be set by PSAA will be similar, but this will not be known until the outcome of the procurement exercise. There is a risk that fees will increase but this risk is believed to be greater under options 2 and 3.

6.2. Legal

- 6.2.1. The authorities to whom the invitation is issued must then individually decide whether to accept the invitation. The decision to accept the invitation may only be accepted by Full Council as stated in Regulation 19 of the Local Authority (Appointing Person) Regulations 2015.

6.3. Risk

- 6.3.1. Should the Council undertake its own procurement, then additional costs would be incurred through the procurement exercise, setting up a panel including payments to members and dealing with contracts etc. It is difficult to estimate costs, but these could be significant.

6.4. Consultation

- 6.4.1. None specific to this report.

6.5. Consideration by Audit & Governance

That the Audit and Governance Committee endorsed to opt into the national sector-led arrangements and nominated Public Sector Audit Appointments Limited (PSAA), to appoint the external auditor on its behalf.

6.6. Climate Impact

- 6.6.1. None specific to this report.

6.7. Community Impact

- 6.7.1. None specific to this report.

7. Background Papers

- 7.1. Invitation to opt into the National Scheme for Audit Appointments.