

TITLE	Procurement of External Audit
FOR CONSIDERATION BY	Audit Committee on 30 November 2021
WARD	None Specific
LEAD OFFICER	Deputy Chief Executive - Graham Ebers

OUTCOME / BENEFITS TO THE COMMUNITY

This report sets out proposals for appointing the external auditor to the Council for the accounts for the five-year period from 2023/24.

RECOMMENDATION

The Audit Committee is requested to consider and recommend to Council on 20 January 2022 its preferred approach of the options set out below:-

1. Using the Sector Led Body, the PSAA by indicating an option to “opt-in”
2. Establishing a stand-alone Auditor Panel to make the appointment on behalf of the Council.
3. Commencing work on exploring the establishment of local joint procurement arrangements with neighbouring authorities.

The officer recommendation is that option 1 is selected.

Council:

The relevant option chosen by Audit Committee will be inserted here and the Council will be asked to consider and endorse their preferred approach. A further report will be brought to Council on this, including details of any costs that will need to be included in the budgets.

SUMMARY OF REPORT

Under the Local Government Audit & Accountability Act 2014, the Council is required to have appointed an external auditor to audit the accounts. The Council has previously 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. PSAA is specified as the ‘appointing person’ for principal local government under the provisions of the Local Government Audit & Accountability Act 2014 and the Local Audit (Appointing Person) Regulations 2015. PSAA are now inviting Councils to opt in for the period 2023/24 to 2027/28.

The auditor appointed at the end of the procurement process will:

- (a) Undertake the statutory audit of accounts and Best Value assessment of the council in each financial year, in accordance with all relevant codes of practice and guidance. The appointed auditor is also responsible for investigating questions raised by electors and has powers and responsibilities in relation to Public Interest Reports and statutory recommendations.

- (b) Act independently of the council and the main purpose of the procurement legislation is to ensure that the appointed auditor is sufficiently qualified and independent.
- (c) Be registered to undertake local audits by the Financial Reporting Council (FRC) and employ authorised Key Audit Partners to oversee the work. As the report below sets out there is a currently a shortage of registered firms and Key Audit Partners.

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.

The national offer supplied by PSAA provides the appointment of an independent auditor with limited administrative cost to the council. By joining the scheme, the Council would be acting with other councils to optimise the opportunity to influence the market that a national procurement provides. Due to the framework in which the audit of local government accounts is undertaken, the Council has very limited influence over the nature of the audit services being procured, the nature and quality of which are determined or overseen by third parties. Therefore, the recommended approach is to opt in to the national auditor appointment scheme.

To take advantage of the national auditor appointment arrangements, the Council 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.

Background

- 1 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 the requirement for the authority to consult and take account of the advice of its auditor panel on the selection and appointment of a local auditor. Section 8 provides that, where a relevant authority is a local authority operating executive arrangement, the function of appointing a local auditor to audit its accounts is not the responsibility of an executive of the authority.
- 2 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.
- 3 Section 17 gives the Secretary of State the power to make regulations in relation to an 'appointing person' specified by the Secretary of State. This power has been applied in the Local Audit (Appointing Person) Regulations 2015 (SI 192) and this gives the Secretary of State the ability to enable a Sector Led Body to become the appointing person.
- 4 The Secretary of State has enabled PSAA Ltd to be an appointing person for local auditors under a national scheme.
- 5 On the 21st July 2016, Council agreed with the Audit Committee's proposal that Wokingham Borough Council support the Local Government Association (LGA) in setting up a National Sector Led Body to appoint external auditors. This was done and a formal decision from Council to "opt-in" to the Public Sector Audit Appointments Ltd (PSAA) national auditor appointment arrangements was then made.
- 6 The Council elected to remain in the appointment arrangements for a period of five years, commencing 1 April 2018. The Council's current external auditor under this arrangement is Ernst & Young (EY).

Analysis of Issues

7. Existing external fee levels are to increase when the current contracts end.
8. Opting-in to a national Sector Led Body (SLB) provides maximum opportunity to limit the extent of any increases by entering a large-scale collective procurement arrangement and remove the costs of establishing an auditor panel. There will not be a fee to join the sector led arrangements. The audit fees that opted-in bodies will be charged by the sector led body will cover the costs of appointing auditors. The LGA believes that audit fees achieved through block contracts will be lower than the costs that individual authorities would be able to negotiate. In addition, by using the SLB, councils will avoid having to undertake their own procurement and the legal requirement to set up a panel of independent members.

9. PSAA Ltd commit to ensure that fee levels are carefully managed by securing competitive prices from firms and by minimising their own costs. Any surplus funds will be returned to scheme members under the articles of association and memorandum of understanding with the Department for Communities and Local Government and the LGA.
10. PSAA Ltd expect annual operating costs to be lower than current costs because they expect to employ a smaller team to manage the scheme. They are intending to fund an element of the costs of establishing the scheme, including the costs of procuring audit contracts, from local government's share of their current deferred income. This is considered appropriate because the new scheme will be available to all relevant principal local government bodies.
11. Contracts are likely to be awarded at the end of June 2022 and, at this point, the overall cost and therefore the level of fees required will be clear. They will consult on the proposed scale of fees in autumn 2022 and publish the fees applicable for 2023/24 in March 2023.

Proposals

12. That the Council accepts 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. The opt-in period starts on 22 September 2021 and closes on 11 March 2022. The Council is required to return completed opt-in documents to PSAA by 11 March 2022.

Other options considered

13. Two alternative options are available to the Council:
 - (a) To appoint its own auditor, which requires it to follow the procedure set out in the Act.
 - (b) To act jointly with other authorities to procure an auditor following the procedures in the Act.
14. **Option A:** The Council may elect to appoint its own external auditor under the Act, which would require the council to:
 - a) Establish an independent auditor panel to make a stand-alone appointment. The auditor panel would need to be set up by the Council itself, and 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, excluding 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 to which audit firm to award a contract for the Council's external audit.
 - b) Manage the contract for its duration, overseen by the Auditor Panel.
15. **Option B:** The Local Government Audit & Accountability Act 2014 enables the Council to join with other authorities to establish a joint auditor panel. 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.

16. Both option A and B would be resource-intensive processes to implement for the council, 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. The Council is unable to influence the scope of the audit and the regulatory regime inhibits the Council's ability to affect quality. The Council and its auditor panel would also need to maintain ongoing oversight of the contract. Local contract management cannot, however, influence the scope or delivery of an audit. Options A and B are therefore not the recommended approach.

Conclusion

17. The Council will need to take action to implement arrangements for the appointment of external auditors from April 2023. In order that more detailed proposals can be developed, the Council/Committee is asked to consider the preferred approach.
18. The Council has been asked by the PSAA for an indication of the preferred approach in order that it can invest resources in providing appropriate support to councils. The SLB approach offers best value to councils by reducing set-up costs and having the potential to negotiate lowest fees whilst helping to sustain the external audit sector.

FINANCIAL IMPLICATIONS OF THE RECOMMENDATION

The Council faces severe funding pressures, particularly in the face of the COVID-19 crisis. It is therefore imperative that Council resources are focused on the vulnerable and on its highest priorities.

	How much will it Cost/ (Save)	Is there sufficient funding – if not quantify the Shortfall	Revenue or Capital?
Current Financial Year (Year 1)	£0	Yes	Revenue
Next Financial Year (Year 2)	£0	Yes	Revenue
Following Financial Year (Year 3)	See below	To be confirmed	Revenue

Other financial information relevant to the Recommendation/Decision

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.

Opting into a national scheme provides maximum opportunity to ensure fees are as realistic as possible, while 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. Until a procurement exercise is completed it is not possible to state what, if any, additional resource may be required for audit fees from 2023/24.

Cross-Council Implications

Public Sector Equality Duty

Please confirm that due regard to the Public Sector Equality Duty has been taken and if an equalities assessment has been completed or explain why an equalities assessment is not required.
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Reasons for considering the report in Part 2

Not applicable

List of Background Papers

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