

<b>Item No.</b> 2.5	<b>Classification:</b> Open	<b>Date:</b> 23 February 2022	<b>Meeting Name:</b> Council Assembly
<b>Report title:</b>		Appointment of local auditor	
<b>Ward(s) or groups affected:</b>		All	
<b>From:</b>		Strategic Director of Finance and Governance	

## RECOMMENDATION

1. That council assembly approve the invitation to opt into the Public Sector Audit Appointments Ltd (PSAA) sector-led option for the appointment of external auditors for five financial years from 1 April 2023.

## BACKGROUND INFORMATION

2. Under the Local Audit and Accountability Act 2014 (“the 2014 Act”), the council is required to have its accounts audited by an auditor appointed in accordance with the Act. The 2014 Act allows local authorities to either opt in to the appointing regime or to establish an auditor panel (either alone or with other local authorities) and conduct their own procurement exercise.
3. The Public Sector Audit Appointments Ltd (PSAA) is an independent not for profit company limited by guarantee and established in 2014 by the Local Government Association. It is specified as an appointing person under the provisions of the Local Audit and Accountability Act 2014 and regulation 3 of the Local Audit (Appointing Person) Regulations 2015.
4. On 30 November 2018, the council approved the option of opting into the authorised national scheme for appointment of external auditors through the sector-led, PSAA for the appointment of an external auditor for five financial years starting 1 April 2018. Under these arrangements the council is currently audited by Grant Thornton.
5. In accordance with the Local Audit and Accountability Act 2014 and the Local Audit (Appointing Person) Regulations 2015 (the Regulations), PSAA 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 and carry out the procurement of audit services for opted in local government bodies for the audit of accounts from April 2023.
6. The Local Audit (Appointing Person) Regulations 2015 require these appointments to have been made by 31 December in the year preceding the year of audit. As the current five year contract will end on 31 March 2023, the council needs to have appointed an auditor by 31 December 2022. A

decision to become an opted-in authority must be taken in accordance with the Regulations by the members of an authority meeting as a full council.

## **KEY ISSUES FOR CONSIDERATION**

7. Authorities which do not opt in to the appointing person regime will need to carry out a procurement exercise. The main benefit of opting into the PSAA's scheme is that a collective procurement avoids the need to undertake an individual council procurement and secures the appointment of a qualified, registered auditor in a challenging market.
8. PSAA are currently preparing for the second appointing period which will span the five consecutive years, covering the accounts for the financial years 2023-24 to 2027-28. The council needs to consider whether to sign up to the next five years or whether to carry out a procurement process.
9. There have been concerns about the effectiveness of the delivery of external audit by the firms procured through the PSAA contract since its inception. The Society of London Treasurers have taken up these issues collectively with the PSAA. The main concerns are as follow:
  - The PSAA have not managed the contract effectively to ensure that external audit firms meet the statutory deadlines. When evaluating auditor quality a key measure should be the ability to conclude audits in a timely manner. A study by the PSAA found that only 9% of local authority audits were completed before the statutory deadline of 30 September 2021.
  - Lack of capacity of the audit firms to perform field work and carry out internal quality checks causes unnecessary delays.
  - The requirements of the Financial Reporting Council (FRC) are slowing down audit checks, as these are often tailored to private sector firms and are not relevant to local councils, e.g. valuation of local authority assets.
  - That there is currently no agreement on the standards of working papers expected which can create additional work for local council officers, and delay completion. Where there are disputes about standards of working papers, there should be an independent dispute resolution process that allows for these to be concluded quickly.
10. The Strategic Director of Finance and Governance has been in contact with PSAA and received some assurances that there will be improvements in the procurement process. These include changing the evaluation process to place more emphasis on audit firms' capacity and capability. The Strategic Director of Finance and Governance is therefore able to recommend that the council opt in to the appointing person arrangements to be made by PSAA. To become an opted-in authority, the form of acceptance notice has to be completed by 11 March 2022.

11. The audit, governance and standards committee's terms of reference include "To have oversight over the appointment of the external auditor". However, as Regulation 19 of the Local Audit (Appointing Person) Regulations 2015 requires that the decision to opt in must be taken by the council assembly, the audit, governance and standards committee agreed to recommend to council assembly the option of opting in to the authorised national scheme for the appointment of external auditors through the sector-led body, PSAA, subject to assurances by the Strategic Director of Finance and Governance. The meeting of council assembly on 23 February 2022 is the last ordinary meeting of council assembly before the date by which notification has to be sent to PSAA.

## **SUPPLEMENTARY ADVICE FROM OTHER OFFICERS**

### **Director of Law and Governance**

12. The 2014 Act abolished the Audit Commission and put in place a new external audit regime. In general terms the 2014 Act requires that the authority's accounts for a financial year be audited by a "local auditor", and for the appointment of a local auditor not later than 31 December in the preceding year.
13. The 2014 Act prescribes the manner in which a local auditor must be appointed, and offers two routes. An authority wishing to appoint its own local auditor (the first route) must appoint an auditor panel, constituted in accordance with the provisions of the 2014 Act. The auditor panel's role is to advise on the appointment of an auditor and the maintenance of an independent relationship between the authority and the local auditor.
14. The second route for appointing a local auditor under the 2014 Act is through an "appointing person", specified by the Secretary of State in accordance with the 2015 Regulations. Public Sector Audit Appointments, a sector-led body, has been so specified by the Secretary of State. PSAA has extended an invitation to the authority to "opt in" to an arrangement whereby PSAA will appoint a suitably qualified and registered auditor, monitor contract delivery and ensure compliance with contractual, audit quality and independence requirements. The report recommends that the council accept the invitation of PSAA to "opt in" to this regime.
15. The decision to appoint a local auditor directly or to opt in to arrangements made by an appointing person is reserved to council assembly.
16. Council assembly is reminded that the council, in exercising any of its functions, must give due regard to the need to eliminate discrimination, advance equality of opportunity, and foster good relations between people with protected characteristics and those with none (section 149 Equality Act 2010).

## **REASONS FOR URGENCY**

17. The council must sign up to this agreement by 11 March 2022.

## REASONS FOR LATENESS

18. The Strategic Director of Finance and Governance was waiting for assurances to be received by the PSAA on the issues raised in paragraph 9. The response was received on 15 February 2022 so it was not possible for the report to be completed before the agenda was circulated.

## BACKGROUND DOCUMENTS

Background Papers	Held At	Contact
PSAA –appointing period 2023-24 – 2027-28	<a href="https://www.psa.co.uk/about-us/appointing-person-information/appointing-period-2023-24-2027-28/">https://www.psa.co.uk/about-us/appointing-person-information/appointing-period-2023-24-2027-28/</a>	Geraldine Chadwick

## APPENDICES

No	Title
None	

## AUDIT TRAIL

<b>Cabinet Member</b>	Councillor Rebecca Lury, Cabinet Member for Finance, Performance and Democracy	
<b>Lead Officer</b>	Duncan Whitfield, Strategic Director of Finance and Governance	
<b>Report Author</b>	Geraldine Chadwick, Interim Technical Accountant	
<b>Version</b>	Final	
<b>Dated</b>	17 February 2022	
<b>Key Decision?</b>	No	
<b>CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER</b>		
<b>Officer Title</b>	<b>Comments sought</b>	<b>Comments included</b>
Strategic Director of Finance and Governance	N/A	N/A
Director of Law and Governance	Yes	Yes
<b>Cabinet Member</b>	Yes	Yes
<b>Date final report sent to Constitutional Team</b>	17 February 2022	