

REPORT FROM: CHIEF FINANCE OFFICER

TO: COUNCIL

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APPOINTMENT OF EXTERNAL AUDITOR FROM 2023/24

PURPOSE OF REPORT

To consider proposals for appointing the Council's external auditor for the five year period from 2023/24.

RECOMMENDATION

That Council supports the option to opt into the sector-led option through Public Sector Audit Appointments (PSAA) for the appointment of the external audit contract for the period 2023/24 to 2027/28. Option 1 as set out in the Report.

REASONS FOR RECOMMENDATION

To limit the extent of any increases in costs by entering into a large scale collective procurement arrangement and to minimise the procurement risk to the Council.

ISSUE

1. This report summaries the arrangements for appointing the external auditor for Pendle Borough Council. The Council has a statutory responsibility to appoint an External Auditor to audit its accounts.
2. All local government bodies will need to make a decision about their external audit arrangements for the period commencing from the financial year 2023/24.
3. The Local Audit and Accountability Act 2014 brought to a close the Audit Commission and the arrangements for the appointment of external auditors and the setting of audit fees for all local government and NHS bodies in England.
4. As part of the arrangements, the Secretary of State specified the Public Sector Audit Appointments (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.

5. The PSAA is responsible for appointing auditors and setting scales of fees for relevant principal authorities that have chosen to opt into its national sector led scheme, overseeing issues of auditor independence and monitoring compliance by the auditor with the contracts entered into with the audit firms. This appointment comes to an end for the audit of accounts in 2022/23, with a new appointment being needed for the financial year 2023/24.
6. Under the existing arrangements 484 of the 493 eligible bodies opted in to the PSAA scheme; this included Pendle Borough Council. Grant Thornton UK LLP was appointed as the External Auditor for the reporting periods from 2018/19 until 2022/23.
7. In September 2021, the PSAA formally invited all principal local government bodies to opt into the sector led scheme for the second appointing period, which will provide external audit arrangements for the financial year commencing 2023/24.
8. A decision to become an opted-in authority must be taken in accordance with the Regulations that is by the members of an authority meeting as a whole, such as a meeting of the Council.
9. An eligible body that has decided to join the national scheme must inform the PSAA by returning the Form of Acceptance Notice (issued with the opt-in invitation) no later than midnight on Friday 11 March 2022.

Options for the Local Appointment of External Auditors

10. There are three broad options open to the Council under the Local Audit and Accountability Act 2014 (the Act). These are as follows:

Option 1 - Opt-in to a sector led body (PSAA Process)

11. To join a Sector Led Body (SLB) specified by Central Government to act as the Appointing Person on behalf of opted-in authorities. The SLB would have the ability to negotiate contracts with the audit firms nationally, maximising the opportunities for the most economic and efficient approach to the procurement of external audit on behalf of the whole sector. The PSAA has been appointed as the SLB. As noted above, the Councils current External Audit provider was appointed under the PSAA procurement contract.

Option 2 - to make a stand-alone appointment outside of the PSAA process

12. In order to make a stand-alone appointment the Council will need to set up an Auditor Panel consisting of a minimum of three members. The members of the Panel must be wholly or a majority of independent members as defined by the Act; this excludes current and former elected members (or officers) and their close family and friends. It will be the responsibility of this panel to assess and choose the firm of accountants that should act as the Council's External Auditors and local elected members will have limited involvement in that process.

Option 3 - Set up a Joint Auditor Panel / local joint procurement arrangement outside of the PSAA process

13. The Council can join with other authorities to establish a joint auditor panel. Again, this will need to be constituted of wholly or a majority of independent members. Further legal advice will 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.

Options Appraisal

14. The PSAA can ensure the appointed auditor meets and maintains the required quality standards and manage any potential conflicts of interest much more easily than the Council/Authority.
15. The role of the PSAA is to help to ensure there is a vibrant public audit market for the benefit of the whole sector and this Council going forward into the medium and long term.
16. PSAA have considerable expertise and experience in the role of appointing auditors and is the Government appointment. With a dedicated team that is 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.
17. PSAA is a not-for-profit organisation whose costs total around 4% of the national scheme with any surplus distributed back to scheme members, therefore offering value for public money. The PSAA is member of the Department for Levelling Up, Housing and Communities (DLUHC) new Local Audit Liaison Committee, and has regular contact with the DLUHC so is therefore able to give feedback on behalf of the sector.
18. The External Audit market is limited to eight accredited suppliers, five of which took part in the previous current procurement process.
19. Opting out of the PSAA process means that the Council can manage the appointment process itself either on its own or with a joint / local partnership.
20. Setting up an Auditor Panel allows the Council to take maximum advantage of the local appointment regime and have local input to the decision. Although limited, this option provides the ability for some elected member involvement in the process.
21. This would require the recruitment and servicing of the Auditor Panel, running the bidding exercise and negotiating the contract though it is possible that this could be shared across a number of Authorities.
22. The decision making body will be further removed from local input, with potentially no input from elected members where a wholly independent auditor panel is used or possibly only one elected member representing each Council, depending on the constitution agreed with the other bodies involved.
23. The choice of auditor could be complicated where individual Councils have independence issues (i.e. it has a conflict of interest). An independence issue occurs where the Auditor has recently or is currently carrying out work, such as consultancy or advisory work, for an Authority. Where this occurs, some auditors may be prevented from being appointed by the terms of their professional standards to carry out work for one or more of the Authorities in the group. There is a risk therefore that the Joint Auditor Panel may choose a firm that cannot carry out audit work for the one of the Authorities in the joint appointment, giving rise to all the attendant costs and loss of economies.

Financial Implications

24. There have been increases in the cost in recent years which are likely to continue no matter how the new contract is procured. The reasons for this higher cost of audit include:
 - Limited auditor resource. This has come about because many of the former Audit Commission staff have now exited the audit sector.

- The firms are now having to invest in their own internal training programme for a very limited public sector audit market. Higher audit standards. This is due to audit shortcomings that have been identified following the collapse of high-profile companies, the audit testing regime has been enhanced to help ensure greater reliance on audit conclusions.
- Introduction of new auditing and accounting standards, requiring additional audit work in a variety of areas, such as accounting estimates and leases.
- Introduction of the new Code of Practice, covering a wider scope on Value for Money and reporting, increasing the volume of work required by experienced staff.
- Increased risk profile and complexity of local authorities. For example, entering new transactions, investments, and new models of delivery, increasing the time input of senior and experienced staff.

Summary

25. There are problems in the current audit market which have led to delays in the completion of many audits. The Redmond Review reported how local government audit is an unattractive market for audit firms and individual auditors to operate within. The market for this service is very limited and at present, only eight of the larger auditing firms have the accreditation, experience and specialist staff to undertake the work. These firms would be much more likely to bid for work through a larger procurement exercise rather than seek work from one or two isolated councils.

26. It is recommended that Option 1 be pursued as this provides the maximum opportunity to limit the extent of any increases in costs by entering into a large scale collective procurement arrangement.

27. The Council has until March 2022 to formally opt in to the PSAA scheme.

28. The legislation requires that a decision to opt-in must be made by the Council.

IMPLICATIONS

Policy: None arising from the report.

Financial: As set out in the Report

Legal: As set out in the Report

Risk Management: None arising from the report.

Health and Safety: None arising from the report.

Sustainability: None arising from the report.

Community Safety: None arising from the report.

Equality and Diversity: None arising from the report.

APPENDICES

LIST OF BACKGROUND PAPERS

<https://www.psa.co.uk/about-us/appointing-person-information/appointing-period-2023-24-2027-28/>