

Southend-on-Sea Borough Council

Agenda
Item No.

Report of the Executive Director (Finance and
Resources) to

Audit Committee

on 20 October 2021

Report prepared by: Andrew Barnes, Head of Internal Audit

Arrangements for appointment of External Auditor

A Part 1 Public Agenda Item

1. Purpose of Report

- 1.1 This report summarises the arrangements for appointing External Auditors following the closure of the Audit Commission and the end of the current arrangements at the conclusion of the 2022/23 audit.
- 1.2 The Council will need to consider the options available and put in place new arrangements in time to make a further appointment by 31 December 2022, in readiness for the 2023/24 audit.

2. Recommendations

- 2.1 **For the Audit Committee to recommend for a resolution to be made by Full Council that this Council ‘opts-in’ to the Local Government Association (LGA) sector led body Public Sector Audit Appointments Ltd (PSAA) for the independent appointment of the Council’s External Auditor, beginning with the audit for the financial year 2023/24.**

3. Background

- 3.1 The Local Audit and Accountability Act 2014 abolished the Audit Commission and established arrangements for the appointment of external auditors and the setting of audit fees for all local government and NHS bodies in England.
- 3.2 For the previous round of appointments the Council took the decision to opt-in to the Public Sector Audit Appointments Limited (PSAA) appointments process for the five year period from 2018/19. The Council’s current external auditor is Deloitte LLP. The contract is currently managed by(PSAA, the body set up by the LGA with delegated authority from the Secretary of State. Over recent years, the Council has benefited from a reduction in fees in the order of 50% compared with historic levels. This has been due to a combination of factors including new contracts negotiated nationally with the firms of accountants and savings from the closure of the Audit Commission. The Council’s current external audit fee is £159,000 per annum.
- 3.3 The Council is responsible for the appointment of its auditor. There are three options by which this can be achieved, each with varying risks and opportunities, as are outlined at section 4 below.

3.4 The scope of the audit will still be specified nationally, with the National Audit Office (NAO) responsible for writing the Code of Audit Practice which all firms appointed to carry out all Council audits must follow.

4. Options for local appointment of External Auditors

4.1 There are three broad options open to the Council under the Local Audit and Accountability Act 2014 (the Act):

Option 1: Establish a stand-alone Auditor Panel to make the appointment

4.2 To make a stand-alone appointment the Council will need to set up an Auditor Panel. The members of the Panel must be wholly (or a majority) independent members as defined by the Act. Independent members for this purpose are independent appointees; this excludes current and former elected members (or officers) and their close families and friends. This means that elected members will have a limited role in assessing bids and choosing which firm of accountants should be awarded the contract. This new independent Auditor Panel would be responsible for selecting the auditor. The existing Audit Committee could not carry out this role unless it were to meet the criterion of having a majority of independent members.

4.3 **Advantages/benefit** Setting up an Auditor Panel allows the Council to take advantage of the new local appointment regime and have local input to the decision.

4.4 **Disadvantages/risks** Recruitment and servicing of the Auditor Panel, running the bidding exercise and negotiating the contract is estimated by the LGA to cost in the order of £15,000 plus on-going expenses and allowances

4.5 The Council would not be able to take advantage of reduced fees that may be available through joint or national procurement contracts. The assessment of bids and decisions on awarding contracts would be taken by independent appointees and not solely by elected members.

Option 2: Explore the establishment of a Joint Auditor Panel / local joint procurement arrangements

4.6 The Act enables the Council to join with other authorities to establish a joint Auditor Panel. Again this would need to be constituted of a majority of independent appointees (members). 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 will need to liaise with other local authorities to assess the appetite for such an arrangement.

4.7 **Advantages/benefits** The costs of setting up the Panel, running the bidding exercise and negotiating the contract would be shared across a number of authorities. There is greater opportunity for negotiating some economies of scale by being able to offer a larger combined contract to the firms.

4.8 **Disadvantages/risks** The decision making body would 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.

- 4.9 The choice of auditor could be complicated where individual Councils have independence issues. An independence issue occurs where the auditor has recently or is currently carrying out work such as consultancy or advisory work for the Council. Where this occurs, some auditors may be prevented from being appointed by the terms of their professional standards. There is a risk that if the joint Auditor Panel selects a firm that is ineligible for this Council, then the Council may still need to make a separate appointment with all the attendant costs and loss of economies possible through joint procurement.

Option 3: Opt-in to the sector led body

- 4.10 In response to the consultation on the appointment arrangements, the LGA successfully lobbied for Councils to be able to 'opt-in' to a Sector Led Body (SLB) appointed by the Secretary of State under the Act. The SLB has the ability to negotiate contracts with the firms nationally, maximising the opportunities for the most economic and efficient approach to procurement of external audit on behalf of the whole sector.
- 4.11 **Advantages/benefits** The costs of setting up the appointment arrangements are shared across all opt-in authorities. Being offered large contract values, the firms are able to offer better rates and lower fees than are likely to result from local negotiation. Any conflicts at individual authorities would be managed by the SLB who have a number of contracted firms to call upon.
- 4.12 The appointment process is not ceded to locally appointed independent members. Instead the PSAA has been set up to act in the collective interests of all the 'opt-in' authorities.
- 4.13 **Disadvantages/risks** Individual elected members have less opportunity for direct involvement in the appointment process other than through the LGA and stakeholder representative groups. For the PSAA to be placed in the strongest possible negotiating position they need Councils to indicate their intention to opt-in before final contract prices are known.

5 Conclusion

- 5.1 The Council has until December 2022 to appoint an external auditor for the audit of the 2023/24 financial year. In practical terms this means one of the options outlined in this report will need to be in place by Spring 2022 in order that the contract negotiation process can be carried out during 2022.
- 5.2 Based on the analysis of the available options above the optimum option is option 3: opt-in to the sector led body, PSAA, that the LGA are working with. Greatest economies of scale will come from the maximum number of councils acting collectively and opting-in to the PSAA arrangement.
- 5.2 Regulation 19 of the Local Audit (Appointing Person) Regulations 2015 requires that a decision to opt-in must be made by Full Council. To comply with this regulation the Audit Committee is asked to endorse the recommendation to Full Council to make a resolution to opt-in to the appointing persons arrangements with the PSAA.
- 5.3 If the Council opts to join the national procurement arrangement, PSAA need to be formally informed by 11 March 2022.

6. Reasons for Recommendations

6.1 The Council needs to make arrangements to appoint an external auditor ready for when the current appointment expires at the end of the 2022/23 audit. Based on the analysis of the available options above the optimum option is option 3: opt-in to the Sector Led Body. The Committee needs to make a recommendation for a formal resolution to be made by Full Council to opt-in to the Sector Led Body arrangements, to comply with the requirements of the Local Audit (Appointing Person) Regulations 2015.

7. Corporate Implications

7.1 Contribution to the Southend 2050 Road Map

Audit work provides assurance and identifies opportunities for improvements that contribute to the delivery of all Southend 2050 outcomes.

7.2 Financial Implications

The prescribed requirements of what needs to be undertaken by the external auditor is defined by the National Audit Office. The plan and fees proposed reflect the application of these requirements to this Council based upon an assessment of risk which is set out in an annual Audit Plan from the external auditors.

The cost to the Council of external audit for 2020/21 is planned to be £159,000 for the audit work delivered under the NAO's Code of Audit Practice and other assurance services.

Because of challenges in the audit market generally there is a potential for increase in costs forthcoming in future contracts. This is considered to be best mitigated by opting in to the Sector Led Body procurement arrangement.

7.3 Legal Implications

The Council is required to have an external audit of its activities that complies with the requirements of the Code. There are regulations in respect of the appointment of the auditor that need to be followed and following the recommendations in this report will address that.

7.4 People Implications

None.

7.5 Property implications

None.

7.6 Consultation

The proposed approach and recommendations has been discussed and agreed with the Executive Director (Finance and Resources).

7.7 Equalities and Diversity Implications

None.

7.8 Risk Assessment

There is no immediate risk to the Council. However, a decision by the Council on choosing an option would enable the necessary planning to take place to achieve a successful transition to the new arrangement in a timely and efficient manner. If the Council does want to opt-in to the Sector Led Body arrangement the PSAA need to be notified by 11 March 2022.

7.9 Value for Money

Procuring and appointing the external auditor through the Sector Led Body arrangement is expected to provide the best value for money option.

7.10 Community Safety Implications

None.

7.11 Environmental Impact

None.

8. Background Papers

PSAA Prospectus 2023 and beyond