

TELFORD & WREKIN COUNCIL

AUDIT COMMITTEE 28 SEPTEMBER 2021

APPOINTMENT OF EXTERNAL AUDITORS FOR APRIL 2023 ONWARDS

REPORT OF THE CHIEF FINANCIAL OFFICER

1. Purpose of Report

- 1.1. This report summarises the requirements for the Council to appoint external auditors for the appointing period commencing the audit of the financial year 2023/24.
- 1.2. The Audit Committees terms of reference state that the “Committee recommend the appointment of the external auditors to the Council”.
- 1.3. This report:
 - a) sets out the options available for the future appointment of external auditors under the relevant legislation
 - b) seeks the agreement of the Audit Committee for the Council to opt into the Sector Led Body (Public Sector Audit Appointment Ltd - PSAA) procurement route and recommends that the Council approves opting into the PSAA for the procurement of the external auditors

2. Recommendations

2.1 It is recommended that the Audit Committee:

- a) Notes the information and options available as set out in section 4 of the report;**
- b) Agrees that the Council uses option 3, the national Sector Led Body (SLB) appointed by the Government – Public Sector Audit Appointments Ltd to undertake the procurement;**
- c) Recommends to full Council the approval of the proposal to opt into the PSAA for the purpose of appointing External Auditors for the audit of the financial years 2023/24 onwards;**
- d) Recommends to full Council that delegated authority should be granted to the Chief Finance Officer (or their delegated officer) to take all appropriate actions to opt into the PSAA procurement process and engages with the PSAA to inform their specifications and proposed supplier.**
- e) Recommends to full Council that delegated authority should be granted to the Associate Director: Policy & Governance (or their delegated officer) to take all actions needed to enter into all necessary legal documentation required to give effect to this decision.**

Background

- 2.1. The Local Audit and Accountability Act 2014 (“the Act”) brought to a close the Audit Commission and established transitional arrangements for the appointment of external auditors and the setting of external audit fees for all local government and NHS bodies in England.

- 2.2 The Council's current external auditor is Grant Thornton, this appointment having been made through the Public Sector Audit Appointment Ltd (PSAA) procurement route as previously agreed by the Audit Committee.
- 2.3 The current agreement with Grant Thornton ends after the audit of the financial year, 2022/23, has been completed. Therefore the Council will need to appoint new external auditors for the audit of the financial year 2023/24 accounts onwards.
- 2.4 There are three options by which this can be achieved, each with varying risks and opportunities.
- 2.5 In accordance with Regulation 19 of the Local Audit (Appointing Person) Regulations 2015, a principal authority will need to make the decision to opt in to the sector led body at full Council.

3. Options for local appointment of External Auditors

- 3.1. There are three options open to the Council under the Act:

Option 1 - To make a stand-alone appointment

- 3.2. In order 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 of 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 option means that the current Audit Committee/elected members will not have a majority input to assessing bids and choosing which firm of suitably qualified accountants to award a contract for the Council's external audit to. A new independent auditor panel established by the Council would be responsible for selecting/recommending the auditor appointment to the Council. This is because we do not have an existing independent committee suitably constituted to do this.

Advantages/benefit

- 3.3. Setting up an auditor panel allows the Council to take maximum advantage of the new local appointment regime and have local input to the decision.

Disadvantages/risks

- 3.4. Recruitment and servicing of the Auditor Panel, running the bidding exercise and negotiating the contract is estimated by the LGA to cost at least £16,000 plus on going expenses and allowances
- 3.5. The Council will not be able to take advantage of reduced fees that may be available through joint or national procurement contracts and indeed may not attract many bids from the relatively small number of firms that are suitably experienced to provide a high quality specialist local authority audit.
- 3.6. The assessment of bids and decision on awarding contracts will be taken by independent appointees and not solely by elected members. It may be difficult for the Council to find suitably qualified people to perform this role.

Option 2 - Set up a Joint Auditor Panel/local joint procurement arrangements

- 3.7. The Act enables the Council to join with other authorities to establish a joint auditor panel. Again this will need to be constituted of wholly or a majority of independent appointees (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 need to liaise with other local authorities to assess the appetite for such an arrangement which may be unlikely given the very high proportion of authorities that have previously opted for the PSAA procurement route. Authorities contacted by the Council have indicated they will not be following this procurement route and will likely follow the route outlined in option 3 below.

Advantages/benefits

- 3.8. The costs of setting up the panel, running the bidding exercise and negotiating the contract will be shared across a number of authorities.
- 3.9. There is an opportunity for negotiating some economies of scale by being able to offer a larger combined contract value to the firms.

Disadvantages/risks

- 3.10. 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.
- 3.11. 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 choose a firm that is conflicted 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 a sector led body

- 3.12. The Council can decide to 'opt-in' to a Sector Led Body (SLB) which is the Public Sector Audit Appointments Ltd (PSAA) (an independent company limited by guarantee incorporated by the Local Government Association). This is how the Council's current external auditors, Grant Thornton, were appointed.
- 3.13. The PSAA will be able to negotiate contracts with the firms nationally, maximising the opportunities for the most economic and efficient approach to procurement of the specialist external audit service required on behalf of the whole sector. The benefits to members of joining the PSAA are listed in Appendix A.
- 3.14. In accordance with Regulation 19 of the Local Audit (Appointing Person) Regulations 2015, a principal authority will need to make the decision to opt into the PSAA at a full council meeting. The Audit Committee would therefore need to recommend this option for the decision to be made by full council.

Advantages/benefits

- 3.15. The costs of setting up the appointment arrangements and negotiating fees would be shared across all opt-in authorities
- 3.16. By offering large contract values the firms would be able to offer better rates and lower fees than are likely to result from local packages and negotiation

- 3.17. Any conflicts at individual authorities would be managed by the PSAA who would have a number of contracted firms to call upon.
- 3.18. The Council will not need to set up an Auditor Panel and so the process of appointing local independent members would not be required. Instead the PSAA will act in the collective interests of the 'opt-in' authorities.

Disadvantages/risks

- 3.19. Individual elected members will have less opportunity for direct involvement in the appointment process other than through the PSAA and/or stakeholder representative groups.
- 3.20. In order for PSAA to be placed in the strongest possible negotiating position they may need Councils to indicate their intention to opt-in before final contract prices are known.
- 3.21. All options comply with the Councils Contract Procedure Rules.

4. CONCLUSION

- 4.1 Taking into account all of the information contained within this report, it is considered that option 3 above would provide better value for the Council and more certainty that a suitably qualified and experienced external auditor can be appointed within the required timescales.

5. OTHER CONSIDERATIONS

AREA	COMMENTS
Equal Opportunities	Any procurement and ensuing external audit work will comply with equalities and diversity legislation.
Environmental Impact	Any procurement and contracts established will encompass appropriate sustainability issues.
Legal Implications	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. In the event that an authority fails to do so then the Secretary of State has the power to direct an authority to appoint a specified auditor or to make an appointment on behalf of the authority. The sector-led body, PSAA, was nominated to undertake the local auditor selection process on behalf of authorities pursuant to s.17 of the Act with associated Regulations requiring an authority to confirm its auditor appointment at a meeting of its full Council. AL 23/08/2021.
Links with Corporate Priorities	Independent External Auditors contribute to the good governance arrangements of the Council and serving the community in the most cost effective way.
Risks and Opportunities	There is no immediate risk to the Council; however, early consideration by the Council of its preferred approach will enable detailed planning to take place so as to manage the risks and achieve successful transition to the new arrangement in a timely and efficient manner.
Financial Implications	<p>External audit is a statutory requirement for local authorities.</p> <p>It is anticipated that the Sector Led Body option will result in a lower fee than could be negotiated by an individual authority locally, through economies of scale from the large scale contracts negotiated by PSAA Ltd. PSAA consults annually with key stakeholders on the audit fee scales and also agrees any fee variations where there is a change in circumstances and any additional work is required.</p> <p>The external audit fee for 2020/21 has been set at £144,182 which is an increase of £43,000 from the agreed 2019/20 fee and is due to additional work</p>

	<p>required by the auditors to comply with requirements of the new Code of Audit Practice and increased reporting requirements of the Financial Reporting Council.</p> <p>There have been a number of recent independent reviews of the role of external audit commissioned by Government, including the Redmond Review. These focus on improving audit quality and timeliness of the audit opinion and reform is already underway. Within this context, PSAA's intention is to evaluate tenders using an 80% weighting for quality and 20% for price. Actual audit fees will not be known until the procurement process is complete and any increase will be included in the Service & Financial Planning Strategy.</p> <p>Following the findings of the Redmond Review the Government have announced £15m additional funding in 2021/22 to support local bodies meet anticipated rises in fees in 2021/22 (TWC's allocation of this is £0.046m). It is currently unclear whether any additional ongoing funding will be provided.</p> <p>PSAA operates on a not-for-profit basis and any surplus funds are returned to opted-in bodies. The council received re-distributed surpluses in 2017, 2019 and 2021.</p> <p>Following this option the Council will also avoid the costs of running a separate procurement process and the costs associated with having an independent Auditor Panel.</p> <p>PH 23/8/2021</p>
Ward Implications	The work of the external auditor encompasses all Council activities and all Council locations. Therefore all Council Wards could be affected by its operations.

6. BACKGROUND PAPERS

Local Audit and Accountability Act 2014

Local Audit (Appointing Person) Regulations 2015 (SI 192)

PSAA Ltd – Developing the option of a national scheme for local auditor appointments

Report by:

Rob Montgomery, Audit & Governance Lead Manager 383103

Richard Philips, Legal & Democracy SDM 383255

Pauline Harris, Finance SDM 383701

PSAA - Developing the National Scheme for Local Auditor Appointments

Benefits for participating bodies include:

- assured appointment of a qualified, registered, independent auditor
- appointment, if possible, of the same auditors to bodies involved in significant collaboration/ joint working initiatives or combined authorities, if the parties believe that it will enhance efficiency and value for money
- on-going management of independence issues
- securing highly competitive prices from audit firms
- minimising scheme overhead costs
- savings from one major procurement as opposed to a multiplicity of small procurements
- distribution of surpluses to participating bodies
- a scale of fees which reflects size, complexity and audit risk
- a strong focus on audit quality to help develop and maintain the market for the sector
- avoiding the necessity for individual bodies to establish an auditor panel and to undertake an auditor procurement
- enabling time and resources to be deployed on other pressing priorities
- setting the benchmark standard for audit arrangements for the whole of the sector