

11 November 2021

Agenda Item: 6

REPORT OF SERVICE DIRECTOR FOR FINANCE, INFRASTRUCTURE & IMPROVEMENT

DECISION TO OPT INTO THE NATIONAL SCHEME FOR AUDIT APPOINTMENTS MANAGED BY PUBLIC SECTOR AUDIT APPOINTMENT (PSAA) THE 'APPOINTING PERSON'

Purpose of the Report

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

Information

2. Under the Local Government Audit & Accountability Act 2014 ("the Act"), the council is required to appoint an auditor to audit its accounts for each financial year. The council has three options:
 - To appoint its own auditor, which requires it to follow the procedure set out in the Act.
 - To act jointly with other authorities to procure an auditor following the procedures in the Act.
 - To opt-in to the national auditor appointment scheme administered by a body designated by the Secretary of State as the 'appointing person'.
3. Following lobbying by the Local Government Association (LGA) and demonstrable support from across the sector, the then Secretary of State for Communities and Local Government specified PSAA as the appointing person in July 2016. The LGA achieved its objective of establishing a national sector led body to deliver efficient and effective external arrangements for the benefit of all authorities who have opted-in to this arrangement.
4. The overwhelming majority of councils, including Nottinghamshire, and other relevant bodies decided to opt-in to the national scheme for the five-year period from 2018/19 to 2022/23. PSAA completed a procurement of audit services to cover this period starting with the audit of accounts for 2018/19.
5. The procurement in 2017 enabled PSAA to appoint auditors to all councils and other bodies that opted-in following a full consultation on the proposed auditor appointments. As PSAA is

a not-for-profit body it was also able to pass on the reduction in the winning firms' bids by reducing audit fees.

6. The current auditor appointment arrangements cover the period up to and including the audit of the 2022/23 accounts. The Council 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.
7. PSAA is now undertaking a procurement for the next appointing period, covering audits for 2023/24 to 2027/28. During Autumn 2021 all local government bodies need to make important decisions about their external audit arrangements from 2023/24. They have options to arrange their own procurement and make the appointment themselves or in conjunction with other bodies, or they can join and take advantage of the national collective scheme administered by PSAA.
8. It is believed that the sector-wide procurement conducted by PSAA will produce better outcomes and will be less burdensome for the Council than a procurement undertaken locally because:
 - collective procurement reduces costs for the sector and for individual authorities compared to a multiplicity of smaller local procurements,
 - if it does not use the national appointment arrangements, the Council will need to establish its own auditor panel with an independent chair and independent members to oversee a local auditor procurement and ongoing management of an audit contract,
 - it is the best opportunity to secure the appointment of a qualified, registered auditor - there are only nine accredited local audit firms, and a local procurement would be drawing from the same limited supply of auditor resources as PSAA's national procurement, and
 - supporting the sector-led body offers the best way of ensuring there is a continuing and sustainable public audit market into the medium and long term.
9. If the Council wishes to take advantage of the national auditor appointment arrangements, it 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.

Other Options Considered

10. If the Council did not opt-in there would be a need to 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. Consequently, elected members will not have a majority input to assessing bids and choosing to which audit firm to award a contract for the Council external audit.

11. Alternatively, 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. 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.
12. These would be more 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.
13. The Council and its auditor panel would need to maintain ongoing oversight of the contract. Local contract management cannot, however, influence the scope or delivery of an audit.
14. The national offer 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.
15. The alternative of making local arrangements to appoint our auditors by setting up auditor panels, either individually or collectively is not considered to achieve best value for the Council.

Reason for Recommendation

16. To approve the decision to opt-in to the 'appointing person' national auditor appointment arrangements established by Public Sector Audit Appointments (PSAA) for the period covering the accounts for 2023/24 to 2027/28.

Statutory and Policy Implications

17. This report has been compiled after consideration of implications in respect of crime and disorder, data protection and information governance finance, human resources, human rights, the NHS Constitution (public health services), the public sector equality duty, safeguarding of children and adults at risk, service users, smarter working, sustainability and the environment and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

Financial Implications

18. 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.

19. 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.
20. 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.

RECOMMENDATIONS

- 1) That Members recommend to Full Council that it 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.

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Constitutional Comments (HD – 08/10/2021)

21. This matter falls within the remit of the Governance and Ethics Committee under its terms of reference as the Committee with responsibility for advising Full Council on the adequacy of the Council's systems of internal control and overseeing the external auditor's annual audit of the accounts.
22. Section 7 of the Local Audit and Accountability Act 2014 (the Act) requires a relevant Council/Authority to appoint a local auditor to audit its accounts for a financial year not later than 31 December in the preceding year.
23. Section 8 governs the procedure for appointment including that the Council/Authority must consult and take account of the advice of its auditor panel on the selection and appointment of a local auditor. However, this requirement is disapplied where the Authority is an opted in authority, by Schedule 1, Paragraph 4 of the Local Audit (Appointing Person) Regulations 2015 (SI 192) (the 2015 Regulations).
24. By reference to Schedule 3, paragraph 1 of the Act, Section 8 also provides that where a relevant Council/Authority is a local Council/Authority operating executive arrangements, the function of appointing a local auditor to audit its accounts is not the responsibility of an executive of the Council/Authority under those arrangements.
25. Section 12 makes provision for the failure to appoint a local auditor. The Council/Authority must immediately inform the Secretary of State, who may direct the Council/Authority to appoint the auditor named in the direction or appoint a local auditor on behalf of the Council/Authority.

26. 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 exercised in the 2015 Regulations and this gives the Secretary of State the ability to enable a sector-led body to become the appointing person. In July 2016 the Secretary of State specified PSAA as the appointing person.

27. Regulation 19 of the 2015 Regulations also provides that a decision to become an opted in authority may only be taken by the relevant Authority meeting as a whole (i.e. Full Council). As a result, this Committee is recommending that Full Council accepts the invitation to join the sector led opt in arrangements.

Financial Comments (KRP 8/10/2021)

28. As set out in the report, opting in to the PSAA arrangements represents the most cost-effective method of procuring the external audit contract.

Background Papers and Published Documents

Except for previously published documents, which will be available elsewhere, the documents listed here will be available for inspection in accordance with Section 100D of the Local Government Act 1972.

- None

Electoral Division(s) and Member(s) Affected

- All