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| Agenda Item No: | 6 |  |
| Committee: | AUDIT AND RISK MANAGEMENT COMMITTEE | |
| Date: | 14th February 2022 | |
| Report Title: | Future Arrangements for Appointing the Council's External Auditors | |

Cover sheet:

1 Purpose / Summary

This report sets out the options available to the Council regarding the future appointment of an external auditor for 2023/24 to 2027/28 following the end of the current appointment period.

2 Key issues

- The Council's current appointing arrangements have been made through opting into the Public Sector Audit Appointments Ltd (PSAA) for the period 2018/19 - 2022/23.
- A new appointing person arrangement is required, so that the appointment of an external auditor for the accounts of 2023/2024 and later years can be made.
- New appointments for the 2023/2024 accounts must be made under the provisions of the Local Audit and Accountability Act 2014 (the Act), and confirmed by 31 December 2022.
- Councils have two potential options to consider when appointing auditors, including opting into the PSAA arrangement for appointing external auditors. These are set out in the report with the view that the Council should opt into the PSAA arrangement.

3 Recommendations

To recommend to Council:

- That Fenland District Council opt-in to the PSAA sector led auditor appointment arrangements for the Council, subject to receiving a satisfactory invitation to opt into the PSAA's appointing person arrangements; and
- To delegate acceptance of the invitation to the Corporate Director & Chief Finance Officer, as the Council's Section 151 Officer.

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| Wards Affected | All |
| Forward Plan Reference | |
| Portfolio Holder(s) | Cllr Chris Boden, Leader and Portfolio for Finance Cllr Kim French, Chairman of Audit and Risk Management Committee |
| Report Originator(s) | Kathy Woodward, Internal Audit Manager |

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| Contact Officer(s) | Kathy Woodward, Internal Audit Manager Mark Saunders, Chief Accountant Peter Catchpole, Corporate Director and Chief Finance Officer |
| Background Paper(s) | |

1 Background / introduction

- 1.1 The Audit Commission closed in March 2015. Transitional arrangements were managed by the PSAA until the 2017/18 audit. The Council agreed to opt into PSAA's appointing person arrangement for the period 2018/19 – 2022/23.
- 1.2 A new appointing person arrangement is required, so that the appointment of an external auditor for the accounts of 2023/2024 and later years can be made.

2 Options for the Appointing Person Arrangement

- 2.1 New appointments for the 2023/2024 accounts must be made under the provisions of the Local Audit and Accountability Act 2014 (the Act), and confirmed by 31 December 2022. There are two options available to the Council for appointing an auditor:
 - OPTION 1: to undertake an individual auditor procurement and appointment exercise; or
 - OPTION 2: to join a "sector led body" arrangement where specified appointing person status has been achieved under the relevant Regulations.
- 2.2 For the first option, the legislation requires an Auditor Panel to be established. Requirements include:
 - At least three members, two of which must be independent;
 - A majority of independent members; and
 - An independent chairperson.
- 2.3 Guidance on Auditor Panels has been issued by CIPFA for local government bodies. The guidance includes a table of advantages and disadvantages of the different ways an Auditor Panel could be set up. This table is reproduced at Appendix A for information.
- 2.4 For the second option, the 'sector led body' is Public Sector Audit Appointments Ltd (PSAA).
- 2.5 PSAA is an independent company limited by guarantee incorporated by the Local Government Association in August 2014. In July 2016, the Secretary of State for Communities and Local Government specified PSAA as an appointing person under regulation 3 of the Local Audit (Appointing Person) Regulations 2015. This means that PSAA have been able to make auditor appointments for audits of the accounts from 2018/2019 of principal authorities that choose to opt into its arrangements.
- 2.6 For the period 2018/19 – 2022/23, 498 bodies were listed as opting into PSAA's scheme. Only 11 bodies chose to adopt local arrangements for appointing auditors.
- 2.7 The scheme is an authorised national scheme which will take full responsibility for local auditor appointments and aim to ensure a high quality professional service and value for money.
- 2.8 The PSAA intends that the scheme will save time and resources for Councils and avoid the necessity to establish an auditor panel and manage their own auditor procurement. Assuming a high level of participation, the scheme should be able to attract the best audit suppliers and command competitive prices.
- 2.9 Moreover, the scheme will aim to appoint the same auditors to bodies which are involved in formal collaborations and joint working initiatives.
- 2.10 The Council opted into the PSAA appointing arrangements for the 2018/19 – 2022/23 period. Over the duration of this period, the Council have received rebates from the

PSAA, where they have been able to manage the contract arrangements and challenged the scale of fees charged.

- 2.11 Rebates received from the PSAA amounted to £4,580 in 2019, £7,470 in 2021 and for 2019/20 the additional audit charge proposed by EY to reflect a range of cost pressures faced by EY's public sector audit practice has been reduced by £10,773 following an intervention by PSAA.
- 2.12 Councils have until the 11th March 2022 to formally opt into the PSAA arrangement. The PSAA aim to award contracts to audit firms by June 2022, giving six months to consult on appointments with authorities before 31 December 2022 deadline.
- 2.13 The Local Audit (Appointing Person) Regulations 2015 require that the Council may only make the decision to opt into the appointing person arrangement by the members of the Council meeting as a whole. This report therefore asks Audit and Risk Management Committee to recommend to Council that the PSAA's invitation is accepted.

Appendix A: Configuration of an Audit Panel: Advantages / Disadvantages

| Option | Possible Advantages | Possible Disadvantages |
|---|---|---|
| <p>Setting up own separate and individual Auditor Panel to oversee separate and individual procurement</p> | <ul style="list-style-type: none"> • Full ownership of the process • Fully bespoke contract with the auditor • Tendering process more based on local circumstances (within EU procurement rules) | <ul style="list-style-type: none"> • May experience difficulties in appointing majority independent panel members and independent panel chair • Will need to ensure that panel members are suitable qualified to understand and participate in the panel's functions • Will have to cover panel expenses completely • May not be able to procure at a low cost, eg depending on authority location, risk of limited provider choice and a single authority contract may be less attractive to some providers • Will not achieve economies of scale |
| <p>Set up a panel jointly with other authority / authorities as part of a procurement exercise for joint contract covering more than one authority or multiple separate contracts</p> | <ul style="list-style-type: none"> • Less administration than a sole auditor panel • Will be able to share administration expenses • May be easier to attract suitable panel members <p>If procuring a joint audit contract:</p> <ul style="list-style-type: none"> • May still be a relatively tailored process • May be able to achieve some economies of scale <p>If procuring separate audit</p> | <p>If procuring a joint audit contract:</p> <ul style="list-style-type: none"> • May need to compromise on arrangements or auditor contract • May not end up with first choice of auditor, compared to an individual auditor panel. If a large group of authorities work together and decide to appoint one joint audit contract across all authorities a joint panel may be more likely to advise |

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| | <p>contracts:</p> <ul style="list-style-type: none"> • An opportunity for fully bespoke contracts with the auditor if the group of authorities can agree | <p>appointment of an auditor it considers suitable for all authorities taken together</p> <ul style="list-style-type: none"> • Need to agree appointment of members across multiple authorities and set up a joint decision making process |
| <p>Use existing committee or sub-committee</p> | <ul style="list-style-type: none"> • Existing administrative structure in place • Existing (sub) committee should already have better basic understanding of the authority's objectives and requirements | <ul style="list-style-type: none"> • Possible need to appoint new (sub) committee members to comply with independence regulations |
| <p>Use another authority's panel</p> | <ul style="list-style-type: none"> • Will not have to set up an auditor panel • Possible more independent options for the authority using the host authority's panel | <ul style="list-style-type: none"> • The panel may not understand the specific needs of the authority • May need a formal arrangement with the other authority • May be difficult to find an authority willing to enter into such an arrangement • May be more difficult to ensure adequate liaison with authority's own Audit Committee |