

Report to Council

Subject: External Audit Procurement

Date: 17 November 2021

Author: Director of Corporate Resources and Section 151 Officer

Purpose

To request approval for the Council to accept the invitation from Public Sector Audit Appointments Ltd (PSAA) to “opt-in” to their sector-led national scheme to appoint a local auditor to audit the Council’s accounts under the Local Audit and Accountability Act 2014 (referred to below as ‘the Act’) and the Local Audit (Appointing Person) Regulations 2015.

Recommendation

THAT:

- 1) Council agrees to accept the invitation from Public Sector Audit Appointments Ltd to “opt-in” to their sector-led national scheme to appoint a local auditor to audit the Council’s accounts from 2023/24 to 2027/28 under the Local Audit and Accountability Act 2014.**

1 Background

- 1.1 In July 2016, PSAA were specified 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. Acting in accordance with this role PSAA is responsible for appointing an auditor and setting the scales of fees for relevant principal authorities that have chosen to opt into its national scheme. 98% of eligible bodies (including this Council) made the choice to opt-in for the five-year period commencing in April 2018.

- 1.2 PSAA have now been confirmed in the role of appointing person for principal local government and police bodies for audits from 2023/24 and have, once again, invited the Council to “opt in” to the national scheme. The decision to “opt in” must be made by full Council by 11 March 2022.

2 Proposal

- 2.1 It is proposed that full Council opt into the PSAA sector-led national scheme to appoint a local auditor to audit the Council’s accounts from 2023/24 to 2027/28. This considered to be the best option for Gedling to ensure the independent appointment of an appropriately skilled external audit service for the best price, and it is expected that the majority, if not all, of the authorities within Nottinghamshire will adopt this approach.

3 Alternative Options

- 3.1 There are three broad options open to the Council under the Act:
- Option 1: to make a stand-alone appointment;
 - Option 2: to set up a joint Auditor Panel / local joint procurement arrangement;
 - Option 3: to opt-in to the PSAA’s sector-led national scheme.

Stand-Alone Appointment

- 3.2 In order to make a stand-alone appointment the Council would need to set up an Auditor Panel. The members of the Auditor Panel must be wholly or a majority of independent members as defined by the Act. Independent members for this purpose are independent appointees, and this excludes current and former elected members or officers, and their close families and friends.
- 3.3 However, the recruitment and servicing of the Auditor Panel, running the bidding exercise and negotiating the contract is estimated to cost in the region of £15,000 plus ongoing expenses and allowances. The Council will not be able to take advantage of reduced fees that may be available through joint or national procurement contracts. The assessment of bids and decision on awarding contracts will be taken by independent appointees and not solely by elected members to ensure the independence of the auditor appointment.

Joint Auditor Panel

- 3.4 The Act enables the Council to join with other authorities to establish a Joint Auditor Panel. Again this would 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.
- 3.5 The costs of setting up the Joint Auditor Panel, running the bidding exercise and negotiating the contracts, would be shared across a number of authorities and there would be greater opportunity for negotiating some economies of scale by being able to offer a larger combined contract value to the firms.
- 3.6 However, the decision making body would be further removed from local input, with potentially no input from elected members where a wholly independent Joint Auditor Panel is used or possibly only one elected member representing each Council, depending on the constitution agreed with the other bodies involved. The choice of auditor could be complicated where individual Councils have independence issues i.e. 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 also 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 stand-alone appointment. Finally, this option would require other bodies to participate. As set out in 1.1, 98% of eligible bodies are presently “opted-in” to the sector-led national scheme.

PSAA Sector-Led National Scheme

- 3.7 The PSAA sector-led national scheme has the ability to negotiate contracts with the audit firms nationally and thus maximise the opportunities for the most economic and efficient approach to procurement of external audit on behalf of the whole sector.
- 3.8 The costs of setting up the appointment arrangements and negotiating fees are shared across all opted-in authorities and by offering large contract values the audit firms would be able to offer better rates and lower fees than are likely to result from local negotiation. Any conflicts at individual authorities are managed by the PSAA who have a number of contracted firms to call upon and the appointment process is not ceded to locally appointed, independent members. Further benefits from this approach are set out in Appendix A.

- 3.9 In the event that the Council agrees to “opt in” to this approach, the PSAA will appoint the local auditor on the Council’s behalf and will set the scale of fees for the audit of the accounts for each financial year. Any opt in will apply for the five financial years beginning on 1 April 2023.

4 Financial Implications

- 4.1 The Council’s revenue budget includes provision for the external audit fee. This would be amended as necessary depending upon the outcome of the procurement exercise to be undertaken by the PSAA.
- 4.2 Opting-in to a PSAA sector-led national scheme provides maximum opportunity to limit the extent of any fee increases by entering into a large scale collective procurement arrangement and would remove the costs of establishing an Auditor Panel.

5 Legal Implications

- 5.1 It is a statutory requirement for the annual accounts of local authorities such as this Council to be audited as set out in the Local Audit and Accountability Act 2014 (the Act). This relates to both the Council’s accounting records and Statement of Accounts.
- 5.2 As set out in the attached appendix, the PSAA will undertake a major procurement exercise on behalf of those authorities that “opt-in” to the sector-led national scheme to appoint external auditors and subsequently manage the contracts set up on behalf of participating authorities.
- 5.3 The authority for the PSAA to fulfil this duty has been confirmed by the Secretary of State at the Department for Levelling Up, Housing and Communities.

6 Equalities Implications

- 6.1 There are no equalities implications arising directly from this report.

7 Carbon Reduction/Environmental Sustainability Implications

- 7.1 There are no direct carbon reduction/environmental sustainability implications arising from this report.

8 Appendices

- 8.1 A – Letter from PSAA dated 22 September 2021 including information on the sector-led national scheme.

9 Background Papers

9.1 None.

Statutory Officer approval

Approved by Chief Financial Officer
Date: 8 November 2021

Approved by Monitoring Officer
Date: 8 November 2021