

Audit Committee Meeting	
Meeting Date	24 November 2021
Report Title	Reappointment of External Auditor – option to opt into national scheme
Cabinet Member	Cllr Roger Truelove, Leader Cabinet Member for Finance Cllr Simon Clark Chairman Audit Committee
SMT Lead	Lisa Fillery, Director of Resources
Head of Service	Phil Wilson, Head of Finance and Procurement
Lead Officer	Phil Wilson, Head of Finance and Procurement
Key Decision	Yes
Classification	Open
Recommendations	1. Recommend to Full Council that the invitation from Public Sector Audit Appointments to opt in to the national scheme to reappointment external audit is accepted.

1. Purpose of Report and Executive Summary

- 1.1 This report sets out proposals for appointing the external auditor to the Council for the accounts for the five-year period from 2023/24. 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 Public Sector Audit Appointments (PSAA) by 11 March 2022.

2. Background

- 2.1 In 2017, following changes to the process for appointing external auditors for local authorities, this Council opted into the ‘appointing person’ national auditor appointment arrangements established by PSAA. This was approved by Council at its meeting on 25 January 2017. The current auditor appointment arrangements cover the period from 2018/19 up to and including the audit of the 2022/23 accounts, with Grant Thornton being the Council’s appointed external auditors.
- 2.2 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 who will be undertaking a procurement for the next appointing period, covering audits for 2023/24 to 2027/28. These options are reviewed in more detail below.

- 2.3 The Council has received an invitation from PSAA to opt in for the second appointing period, for 2023/24 to 2027/28, along with all other eligible authorities. Based on the level of opt-ins it will enter into contracts with appropriately qualified audit firms and appoint a suitable firm to be the Council's auditor. Details relating to PSAA's invitation are provided in Appendix 1 to this report.

The Appointed Auditor

- 2.4 The auditor appointed at the end of the procurement process will undertake the statutory audit of accounts and Best Value assessment of the Council in each financial year, in accordance with all relevant codes of practice and guidance. The appointed auditor is also responsible for investigating questions raised by electors and has powers and responsibilities in relation to Public Interest Reports and statutory recommendations.
- 2.5 The auditor must act independently of the council and the main purpose of the procurement legislation is to ensure that the appointed auditor is sufficiently qualified and independent.
- 2.6 The auditor must be registered to undertake local audits by the Financial Reporting Council (FRC) employ authorised Key Audit Partners to oversee the work. As the report below sets out there is a currently a shortage of registered firms and Key Audit Partners.
- 2.7 Auditors are currently regulated by the FRC, which will be replaced by a new body with wider powers, the Audit, Reporting and Governance Authority (ARGA) during the course of the next audit contract.
- 2.8 Councils therefore have very limited influence over the nature of the audit services they are procuring, the nature and quality of which are determined or overseen by third parties.
- 2.9 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;

Option	Commentary
<p>1. To appoint its own auditor, which requires it to follow the procedure set out in the Act.</p>	<p>The Council would 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. This means that elected members will not have a majority input to assessing bids and choosing to which audit firm to award a contract for the Council's external audit.</p> <p>The Council would also need to resource the tender and ongoing management of the external auditor contract, overseen by the Auditor Panel.</p> <p>This option is likely to result in a more costly service as the Council would be without the bulk buying power of the sector led national scheme option.</p>
<p>2. To act jointly with other authorities to procure an auditor following the procedures in the Act.</p>	<p>As with option 1 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/Authority under the Act and the Council/Authority would need to liaise with other local authorities to assess the appetite for such an arrangement.</p> <p>This approach would spread the cost of the initial procurement exercise, but the differing nature of each authority's audit would likely necessitate some individual management of the external audit contract. It also requires willing partners.</p>
<p>3. To opt in to the national auditor appointment scheme administered by a body designated by the Secretary of State as the 'appointing person'. The body currently designated for this role is Public Sector Audit Appointments Limited (PSAA).</p>	<p>This option would be to opt in to a sector-led body that will negotiate contracts and make the appointment on behalf of all councils who participate, removing the need for an independent Auditor Panel.</p> <p>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 and limit the administrative costs to the Council.</p>

3. Proposals

- 3.1 Based on the experience of the existing audit appointment arrangements and the current state of the local audit market, it is recommended that the Council opts in to the national auditor appointment scheme. The reasons to support the recommendation are as follows:
- without the national appointment, the Council would need to set up a separate independent auditor panel, which is likely to be difficult to resource, costly, and time-consuming;
 - the audit costs arising from a broader collaborative procurement should be lower than a more local approach as national large-scale contracts can drive keener prices from the audit firms and spread costs incurred in bidding; and
 - PSAA can ensure the appointed auditor meets and keeps to quality standards and can manage any conflicts of interest.
- 3.2 Audit fees have increased over the past few years in response to the increased compliance and regulatory regime and so all options are expected to result in an increased cost of local audit fees.
- 3.3 Regulation 19 of the Local Audit (Appointing Person) Regulations 2015 requires that a decision to opt in must be made by a meeting of the Council (meeting as a whole), except where the authority is a corporation sole.
- 3.4 The Council then needs to respond formally to PSAA's invitation in the form specified by PSAA by the close of the opt-in period (11 March 2022).
- 3.5 PSAA will commence the formal procurement process in early February 2022. It expects to award contracts in August 2022 and will then consult with authorities on the appointment of auditors so that it can make appointments by the statutory deadline of 31 December 2022.

4. Alternative Options

- 4.1 Other options have been considered above.

5. Consultation Undertaken or Proposed

- 5.1 Consultation has taken place with other Kent councils, the Chair of the Audit Committee and the Leader/Cabinet Member for Finance & Procurement.

6. Implications

Issue	Implications
Corporate Plan	Meets the statutory duty to appoint external auditors
Financial, Resource and Property	<p>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.</p> <p>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.</p> <p>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.</p>
Legal, Statutory and Procurement	<p>Section 7 of the Local Audit and Accountability Act 2014 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.</p> <p>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. Section 8 provides that where a relevant Council is a local Council 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.</p> <p>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.</p> <p>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 Local Audit (Appointing Person) Regulations 2015 (SI 192) 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.</p>
Crime and Disorder	Not applicable

Issue	Implications
Environment and Climate/Ecological Emergency	Not applicable
Health and Wellbeing	Not applicable
Safeguarding of Children, Young People and Vulnerable Adults	Not applicable
Risk Management and Health and Safety	<p>The principal risks are that the Council:</p> <ul style="list-style-type: none"> • fails to appoint an auditor in accordance with the requirements and timing specified in local audit legislation; or • does not achieve value for money in the appointment process. <p>These risks are considered best mitigated by opting into the sector-led approach through PSAA.</p>
Equality and Diversity	Not applicable
Privacy and Data Protection	External auditors have access to all information and data held by the council, transfer of information is actioned in secure manner.

7. Appendices

7.1 The following documents are to be published with this report and form part of the report:

- Appendix I: Letter of invitation from PSAA
- Appendix II : Supplementary information on the local audit market