



# Carlisle City Council

## Report to Audit Committee

Meeting Date: 10 December 2021  
Portfolio: Finance, Governance and Resources  
Key Decision: Not Applicable:  
Within Policy and  
Budget Framework YES  
Public / Private Public

Title: LOCAL AUDIT AND ACCOUNTABILITY ACT 2014 –  
APPOINTMENT OF EXTERNAL AUDITORS  
Report of: Corporate Director of Finance & Resources  
Report Number: RD63/21

### **Purpose / Summary:**

This report summarises the arrangements for the appointment of external auditors for the five-year period 2023/24 to 2027/28.

### **Recommendations:**

Members are requested to consider the options set out in the report and it is proposed that the Audit Committee recommends to Council that:

- The Council opts into the sector led procurement of local authority external auditors and accepts the PSAA invitation for the five-year period from 2023/24 to 2027/28; and that
- Delegation is provided to the Corporate Director of Finance & Resource in consultation with the Chair of the Audit Committee to complete the Formal Notice of Acceptance on behalf of the Council.

### **Tracking**

Audit Committee:	<b>10 December 2021</b>
Overview and Scrutiny:	<b>Not applicable</b>
Council:	<b>4 January 2022</b>

## **1. BACKGROUND**

- 1.1 Under the Local Audit and Accountability Act 2014 the Council is required to appoint an auditor to audit its accounts for each financial year.
- 1.2 The current auditor appointment arrangements cover the period up to and including the audit of the 2022/23 accounts. Members are reminded that the Council opted into the “appointing person” national arrangements established by the Public Sector Audit Appointments (PSAA) for the period covering the accounts for 2018/19 to 2022/23, with Grant Thornton being the appointed body.
- 1.3 PSAA is now undertaking a procurement for the next appointing period, covering audits for 2023/24 to 2027/28. During 2021/22 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.
- 1.4 If the Council wishes to take advantage of the national auditor appointment arrangements, and as the City Council operates an Executive arrangement, it is full Council that must appoint the local auditor, not the Executive. The function of appointing the auditor cannot be delegated to a committee, sub-committee or an officer of the authority or to any other authority. The notice of acceptance of the invitation to opt in must be completed and returned by 11 March 2022.
- 1.5 Given that the Council is going through Local Government Reorganisation, any newly established local government bodies have the right to opt into the PSAA’s scheme under Regulation 10 of the Appointing Person Regulations 2015; and it is suggested that current eligible bodies confirm their acceptance to opt in to avoid the requirement to have to make local arrangements should reorganisation be delayed. The Regulations also set out that a local government body that ceases to exist is automatically removed from the scheme.
- 1.6 The three main options available to Councils consist of the following:
  - To appoint its own auditor, by the setting up of an Independent Auditor Panel;
  - To act jointly with other authorities to procure an auditor following the procedures in the Act;

- To opt into 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).

1.7 These options are set out in more detail below.

## **2. OPTIONS AVAILABLE FOR THE LOCAL APPPOINTMENT OF EXTERNAL AUDITORS**

### **2.1 Independent Auditor Panel**

This would be required in order to make a stand-alone appointment. The members of the panel must be wholly or a majority 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 means that elected members will not have a majority input to assessing bids and choosing which firm of accountants to award a contract for the Council's external audit. A new independent auditor panel established by the Council will be responsible for selecting the auditor.

#### *Advantages/benefit*

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*

Recruitment and servicing of the Auditor Panel, running the bidding exercise and negotiating the contract is estimated by the LGA to cost in the order of £15,000 plus on going 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.

### **2.2 Joint Independent Auditor Panel**

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.

From discussions at Cumbria Chief Finance Officers' Group, there is no appetite for a collaborative approach throughout Cumbria (especially given the LGR process underway), with all Cumbrian Council's likely to support a sector-led approach.

#### *Advantages/benefits*

The costs of setting up the panel, running the bidding exercise and negotiating the contract will be shared across a number of authorities.

There is greater opportunity for negotiating some economies of scale by being able to offer a larger combined contract value to the firms.

#### *Disadvantages/risks*

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 possible 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. 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.

### 2.3 Opting- in to the national auditor appointment scheme

PSAA is specified as the 'appointing person' for principal local government under the provisions of the Act and the Local Audit (Appointing Person) Regulations 2015. PSAA let five-year audit services contracts in 2017 for the first appointing period, covering audits of the accounts from 2018/19 to 2022/23. It is now undertaking the work needed to invite eligible bodies to opt in for the next appointing period, from the 2023/24 audit onwards, and to complete a procurement for audit services. PSAA is a not-for-profit organisation whose costs are around 4% of the scheme with any surplus distributed back to scheme members.

In summary the national opt-in scheme provides the following:

- the appointment of a suitably qualified audit firm to conduct audits for each of the five financial years commencing 1 April 2023;
- appointing the same auditor to other opted-in bodies that are involved in formal collaboration or joint working initiatives to the extent this is possible with other constraints;
- managing the procurement process to ensure both quality and price criteria are satisfied. PSAA has sought views from the sector to help inform its detailed procurement strategy;
- ensuring suitable independence of the auditors from the bodies they audit and managing any potential conflicts as they arise during the appointment period;
- minimising the scheme management costs and returning any surpluses to scheme members;
- consulting with authorities on auditor appointments, giving the Council the opportunity to influence which auditor is appointed;
- consulting with authorities on the scale of audit fees and ensuring these reflect scale, complexity, and audit risk; and
- ongoing contract and performance management of the contracts once these have been let.

### 3. **CONCLUSION AND REASONS FOR RECOMMENATIONS**

- 3.1 The Council has until March 2022 to respond to the invitation if it wishes to opt into the national appointment scheme so that appointments can be made by the statutory deadline of 31 December 2022. In practical terms this means one of the options outlined in the report will need to be in place by spring 2022 in order that the contract negotiation process can be carried out during 2022.
- 3.2 Members are therefore requested to consider the options set out in the report but based upon the national scheme providing an appointment with limited administrative costs being incurred by the Council; ensuring that there is a continuing and sustainable public audit market into the medium and long term; and by acting with other councils to optimise the opportunity to influence the audit market, it is proposed that the Audit Committee recommends to Council that:
- The Council opts into the sector led procurement of local authority external auditors for the five-year period from 2023/24 to 2027/28; and that

- Delegation is provided to the Corporate Director of Finance and Resources following consultation with the Chair of the Audit Committee to complete the Formal Notice of Acceptance on behalf of the Council.

#### **4. RISKS**

- 4.1 The risks are that the Council fails to appoint an auditor in accordance with requirements of the Local Audit and Accountability Act and associated regulations or does not achieve value for money in the appointment process. These risks can be mitigated through opting into the collective procurement process with PSAA.

#### **5. CONTRIBUTION TO THE CARLISLE PLAN PRIORITIES**

- 5.1 To ensure that the Council has the necessary governance arrangements in place to comply with statutory requirements.

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**Appendices  
attached to report:**

**Note: in compliance with section 100d of the Local Government (Access to Information) Act 1985 the report has been prepared in part from the following papers:**

**The Local Audit and Accountability Act 2014  
Local Government Association website**

#### **CORPORATE IMPLICATIONS:**

**Legal** –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. Section 8 governs the procedure for appointment including a requirement that the authority consult and take account of the advice of its auditor panel on the selection and appointment of a local auditor. Section 8 further provides that, where a relevant authority is a local authority operating executive arrangement, the function of appointing a local auditor to audit its accounts is not to be the responsibility of an executive of the authority under those arrangements;

If the authority fails to appoint a local auditor, section 12 provides that it must immediately inform the Secretary of State, who may direct the authority to appoint the auditor named in the direction or appoint a local auditor on behalf of the authority.

Section 17 gives the Secretary of State 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 2015/192) and this gives the Secretary of State the ability to enable a Sector Led Body to become the appointing person.

Following the decision by the DCLG to specify PSAA Ltd as an appointing person, PSAA has formally issued invites to opt-in. PSAA will let the contract, ensuring compliance with OJEU and then make the necessary appointments of individual firms to opted-in authorities.

**Property Services** – not applicable

**Finance** – Over recent years local authorities have benefited from reduction in fees in the order of 50% compared with historic levels. However, current external fees are likely to increase once the current contract ends as it has become clear that the scope of audit work has broadened, requiring more audit days and increased fees. The Council's current external audit fees are £42,300 for 2021/22.

There are also concerns about capacity and sustainability in the local external audit market so opting into the national scheme (a large-scale collective procurement arrangement) provides maximum opportunity to ensure fees are realistic as possible, whilst ensuring that the quality of audit is maintained. It also removes the cost of establishing an auditor panel.

Until the procurement process is completed, it is not possible to estimate the level of audit fees for 2023/24 onwards.

**Equality** – There are no explicit equality implications arising from this report.

**Information Governance** - None