

Audit and Standards Committee

4 November 2021

Appointment of External Auditors

Recommendation

That the Audit and Standards Committee recommends to full Council that Warwickshire County Council opt-in to the sector-led body procurement, conducted by Public Sector Audit Appointments Limited, for the appointment of the Authority's external auditors from April 2023.

1. Purpose of the Report

- 1.1. Under the Local Government Audit and Accountability Act 2014 the Council is required to appoint an auditor to audit its accounts each financial year. Our current auditor appointment covers the period up to and including the audit of the 2022/23 accounts.
- 1.2. This report sets out proposals for appointing the external auditor to the Authority for the accounts for the five-year period from 2023/24. It concludes with a recommendation to opt-in to a sector-led approach and outlines the next steps for the Authority in implementing the agreed approach.
- 1.3. The decision on the appointment of the auditor is one that cannot be delegated by full Council but is being brought to Audit and Standards for their prior review and consideration.

2. Background and Summary

- 2.1. The current auditor appointment arrangements were agreed by full Council in 2016 and cover the 5 years up to and including the audit of the 2022/23 accounts. To make the appointment the Authority opted into the 'appointing person' national auditor appointment arrangements established by Public Sector Audit Appointments Limited (PSAA).
- 2.2. Under the Local Government Audit and Accountability Act 2014, the Council is required to appoint an auditor to audit its accounts for each financial year. Our

statutory requirement is to have an auditor appointment in place by 31 December of the year preceding the start of the contract i.e. by 31 December 2022. The time needed to run an effective procurement process means that the Authority needs to decide how it wishes to undertake the process. Our options are:

- To arrange our own procurement and make the appointment ourselves;
- To arrange procurement in conjunction with other bodies; or
- Once again take advantage of the national collective scheme administered by PSAA.

2.3. The report concludes that the sector-wide procurement conducted by PSAA will produce better outcomes and will be less burdensome for the Authority 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 Authority 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.

2.4. If the Authority decides to take advantage of the national auditor appointment arrangements and opt into the national scheme, the opt-in period closes on 11 March 2022.

3. The Appointed Auditor

- 3.1. The auditor appointed at the end of the procurement process will undertake the statutory audit of accounts and value for money 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.
- 3.2. 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.
- 3.3. The auditor must be registered to undertake local audits by the Financial Reporting Council (FRC) and employ authorised Key Audit Partners to oversee the work. There is currently a shortage of registered firms (9) and Key Audit Partners.
- 3.4. The scope of a local audit is fixed. It is determined by the Code of Audit Practice (currently published by the National Audit Office), the format of the financial statements (specified by the Chartered Institute of Public Finance and Accountancy) and the application of auditing standards is currently regulated by the FRC.
- 3.5. These factors apply to all local audits. 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.

4. Options for Appointing the Auditor

- 4.1. The Authority has three options for appointing the auditor:
 - **Option 1:** To appoint its own auditor, which requires it to follow the procedure set out in the Act;
 - **Option 2:** To act jointly with other authorities to procure an auditor following the procedures in the Act; and
 - **Option 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).

The remainder of this section considers the advantages/benefits and disadvantages/risks of each of these options.

4.2. Option 1: Appointment by the Authority itself

The Authority may elect to appoint its own external auditor under the Act, which would require the Council to:

- Establish an independent Auditor Panel to make a stand-alone appointment. The Auditor Panel would need to be set up by the Authority, and the members of the panel must be wholly, or have 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 Authority's external audit.
- Manage the contract for its duration, overseen by the Auditor Panel.

Advantages/benefits

- Setting up an Auditor Panel allows the Council to take maximum advantage of the local appointment regime and have some local input to the decision.

Disadvantages/risks

- Recruitment and servicing of the Auditor Panel, running the bidding exercise and negotiating the contract is estimated to cost up to £50,000 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 the awarding of contracts will have limited elected member involvement.
- It would be more difficult to manage quality and independence requirements through a local appointment process.
- The Authority is unable to influence the scope of the audit and the regulatory regime inhibits the ability to affect quality.
- The local procurement exercise would be seeking tenders from the same firms as the national procurement exercise. Local firms cannot be invited to bid.

4.3. Option 2: Set up a Joint Auditor Panel to undertake local joint procurement arrangements

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.

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.
- Greater opportunity for negotiating some economies of scale by being able to offer a larger combined contract.

Disadvantages/risks

- The decision-making body will be further removed from local input, with potentially no or little input from elected members, 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 consultancy or advisory work for a council. Where this occurs, some auditors may be prevented from being appointed by the terms of their professional standards or a council may be excluded from the appointment by the Auditor Panel and need to make their own arrangements.
- The Authority is unable to influence the scope of the audit and the regulatory regime inhibits the ability to affect quality.
- It would be difficult to manage quality and independence requirements through a local appointment process.
- The joint procurement exercise would be seeking tenders from the same firms as the national procurement exercise. Local firms cannot be invited to bid.

4.4. Option 3: The national auditor appointment scheme

PSAA is the sector-led body appointed by the Secretary of State specified as the 'appointing person' for local government under the provisions of the Local Government Audit and Accountability Act 2014 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.

Advantages/benefits

- PSAA will manage the procurement process to ensure both quality and price criteria are satisfied.
- The costs of setting up the appointment arrangements and negotiating fees would be shared across all opt-in authorities.
- The suitable independence of the auditors from the bodies they audit and managing any potential conflicts as they arise during the appointment period will be ensured.
- PSSA would undertake ongoing contract and performance management of the contracts once these have been let.
- By offering large contract values the accredited firms would be able to offer better rates and lower fees than are likely to result from local negotiation.
- Any conflicts at individual authority level would be managed by PSAA that would have a number of contracted firms to call upon.

Disadvantages/risks

- Individual elected members would have less opportunity for direct involvement in the appointment process other than through the LGA and/or stakeholder representative groups.
- In order for PSAA to remain viable and to be placed in the strongest negotiating position they will need councils to indicate their intention to opt-in before final contract prices are known.

4.5. Conclusion

The national offer provides the appointment of an independent auditor with limited administrative cost to the Authority. By joining the scheme, the Authority would be acting with other councils to optimise the opportunity to influence the market that a national procurement provides. The recommended approach is therefore to opt-in to the national auditor appointment scheme.

5. Next Steps

- 5.1. PSAA is now inviting Authorities to opt in for the second appointing period, for 2023/24 to 2027/28. 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 Authority's auditor.
- 5.2. 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 full Council. It is proposed this decision is made by Council on 14 December 2021.
- 5.3. Assuming the recommendation to opt-in to the national auditor appointment scheme is made, the Council will then respond formally to PSAA's invitation by the close of the opt-in period on 11 March 2022.
- 5.4. 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.

6. Risk Management

- 6.1. The principal risks are that the Authority:
 - 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.
- 6.2. These risks are considered best mitigated by opting into the sector-led approach through PSAA.

7. Legal implications

- 7.1. Section 7 of the Local Audit and Accountability Act 2014 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.
- 7.2. Section 8 governs the procedure for appointment including that the 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 Authority is operating executive arrangements (like the County Council) the function of appointing a local auditor to audit its accounts is not the responsibility of an executive of the Authority.

- 7.3. Section 12 makes provision for the failure to appoint a local auditor. The Authority 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.
- 7.4. 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.

8. Financial Implications

- 8.1. The Council's current external audit fees are £116,000 a year for the County Council and £31,000 for the Warwickshire Pension Fund.
- 8.2. There have been significant increases in fees over recent years due to the complexity of the work and the problems with supply/capacity in the market outlined above as well as increases in the scope of audit, requiring more audit work. We expect fees to increase further when the current contracts end. A budget pressure to reflect the forecast increase in audit fees and the additional work associated with preparing the statement of accounts will be included in the 2022/23 Budget refresh report to be presented to Cabinet on 7 December 2021.
- 8.3. The concerns about capacity and sustainability in the local audit market also mean 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.
- 8.4. If the national scheme is not used further additional resource will be needed to establish and maintain an Auditor Panel and conduct a local procurement.

9. Environmental Implications

- 9.1. There are no environmental implications for the Authority arising from this report.

10. Background Papers

- 10.1. None.

Name	Contact Information	
Report Author	Virginia Rennie	vrennie@warwickshire.gov.uk
Assistant Director	Andy Felton	andrewfelton@warwickshire.gov.uk
Strategic Director	Rob Powell	robpowell@warwickshire.gov.uk
Portfolio Holder	Peter Butlin	peterbutlin@warwickshire.gov.uk