

Audit and Governance Committee



Date of meeting: 14 January 2022
Title of Report: **Appointment of External Auditor**
Lead Member: Councillor Nick Kelly (Leader)
Lead Strategic Director: Brendan Arnold (Service Director for Finance)
Author: Paul Looby
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Your Reference: Fin/Audit/2022/23
Key Decision: No
Confidentiality: Part I - Official

Purpose of Report

This report sets out proposals for appointing the Council's external auditor for the statutory accounts for the five-year period from 2023/24.

Recommendations and Reasons

That Audit and Governance Committee:

1. Recommends to Council that Plymouth accepts Public Sector Audit Appointments' (PSAA) invitation to opt into the sector-led option for the appointment of external auditors to principal local government and police bodies for five financial years from 1 April 2023.

The Local Audit (Appointing Persons) Regulations 2015 require the decision to opt in to the national scheme to be made by a meeting of the Council.

Alternative options considered and rejected

The Council could undertake its own appointment process. This has been rejected for the following reasons:

- The risk of being unable to secure competitive bids.
- The limited (and shrinking) number of suppliers that are able to provide an external audit function.
- The additional resources required to undertake a procurement for an external audit contract.
- The requirement to set up an independent audit panel with responsibility for managing the procurement process.

- The likelihood that the PSAA route will return lower costs to the Council because of the volume of work let to specific providers.

Relevance to the Corporate Plan and/or the Plymouth Plan

External Audit provide a key resource to ensure the Council is correctly accounting for its limited resources and commenting on the use of these resources to ensure the Council provides value for money, maximising the benefit to the residents of Plymouth.

Implications for the Medium Term Financial Plan and Resource Implications:

Opting-in to a national scheme provides maximum opportunity to ensure fees are as low as possible, whilst ensuring the quality of audit is maintained by entering in to a large scale collective procurement arrangement.

If the national scheme is not used some additional resources will be needed to establish an auditor panel and to conduct a local procurement.

The final contract price will be built into the MTFP.

Financial Risks

The price for external audit services will be determined as part of the contract award and will be built into the MTFP.

Carbon Footprint (Environmental) Implications:

No impacts directly arising from this report.

Other Implications: e.g. Health and Safety, Risk Management, Child Poverty:

No impacts directly arising from this report.

Appendices

Ref.	Title of Appendix	Exemption Paragraph Number (if applicable) <i>If some/all of the information is confidential, you must indicate why it is not for publication by virtue of Part 1 of Schedule 12A Of the Local Government Act 1972 by ticking the relevant box.</i>						
		1	2	3	4	5	6	7

Background papers:

*Add rows as required to box below

Please list all unpublished, background papers relevant to the decision in the table below. Background papers are unpublished works, relied on to a material extent in preparing the report, which disclose facts or matters on which the report or an important part of the work is based.

Title of any background paper(s)	Exemption Paragraph Number (if applicable)						
	If some/all of the information is confidential, you must indicate why it is not for publication by virtue of Part 1 of Schedule 12A of the Local Government Act 1972 by ticking the relevant box.						
	1	2	3	4	5	6	7

Sign off:

Fin	djn.21. 22.215	Leg	LS/3 7876/ AC/4/ 1/22	Mon Off	Click here to enter text.	HR	Click here to enter text.	Assets	Click here to enter text.	Strat Proc	Click here to enter text.
Originating Senior Leadership Team member: Brendan Arnold											
Please confirm the Strategic Director(s) has agreed the report? Yes											
Date agreed: 13/12/2021											
Cabinet Member approval: Leader after discussion with Cabinet colleagues											
Date approved: 20/12/2021											

I. Introduction and Summary

- I.1 The current auditor appointment arrangements cover the period up to and including the audit of the 2022/23 accounts. Plymouth opted into the 'appointing person' national auditor appointment arrangements established by Public Sector Audit Appointments (PSAA) for the period covering the accounts from 2018/19 to 2022/23.
- I.2 PSAA is now undertaking a procurement for the next appointing period, covering audits for 2023/24 to 2027/28. Plymouth needs to agree its approach for external audit arrangements from 2023/24. The options are:
- Arrange own procurement and make an appointment themselves: or
 - Join the national collective scheme administered by PSAA.
- I.3 The conclusion reached is a sector-wide procurement conducted by PSAA will produce better outcomes and will be less burdensome for the Council/Authority than a procurement undertaken locally because:
- collective procurement reduces costs as opposed to undertaking a local procurement exercise;
 - if the national scheme is not used Plymouth will need to establish its own auditor panel with an independent chair and independent members to oversee a local auditor procurement and the ongoing management of an audit contract;
 - the national scheme 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;
- I.4 If Plymouth wants 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 Audit Committee are asked to consider this report and make a recommendation to Council.
- I.5 If Plymouth want to opt-in to the national scheme, it must do so by 11 March 2022.

2. Procurement of External Audit for the period 2023/24 to 2027/28

- 2.1 Under the Local Government Audit & Accountability Act 2014 ("the Act"), Plymouth City Council is required to appoint an auditor to audit its accounts for each financial year. There are three options;
- To appoint our own auditor, which requires it to follow the procedure set out in the Act.
 - To act jointly with other authorities to procure an auditor following the procedures in the Act.
 - 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).

- 2.2 In order to opt in to the national scheme, a council must make a decision at a meeting of the Full Council.

3. The Appointed Auditor

- 3.1 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. 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) 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.
- 3.4 Councils 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. Independent or Joint Appointment

- 4.1 Plymouth may elect to appoint its own external auditor under the Act, which would mean it must establish an independent auditor panel to make a stand-alone appointment. The auditor panel would need to be set up by the Council, and the members of the panel must have a majority of independent members and manage the contract for its duration, overseen by the Auditor Panel.
- 4.2 Alternatively, the Act enables a council to join with other authorities to establish a joint auditor panel. Discussions with other Devon section 151 officers has indicated there is not sufficient appetite to have a joint procurement with local Councils.
- 4.3 Either approach would be more resource-intensive processes to implement for Plymouth and without the buying power of the sector-led procurement. This could lead to a more costly service.

5. The national auditor appointment scheme

- 5.1 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. Plymouth took part in this process.
- 5.2 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;
- 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;
- 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.

5.3 There are currently nine audit providers eligible to audit local authorities and other relevant bodies under local audit legislation. This means that a local procurement exercise would seek tenders from the same firms as the national procurement exercise, subject to the need to manage any local independence issues.

6. Council Decision

6.1 The Local Audit (Appointing Persons) Regulations 2015 requires that a decision to opt in to the national scheme must be made by a meeting of the Council. The Council then needs to respond formally to PSAA's invitation by 11 March 2022.

6.2 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.