

<p>Non-Executive Report of the:</p> <p>Audit Committee</p> <p>Wednesday, 20 October 2021</p>	 <p>TOWER HAMLETS</p>
<p>Report of: Kevin Bartle, Interim Corporate Director, Resources (s.151 Officer)</p>	<p>Classification: Open (Unrestricted) / Not Exempt</p>
<p>Appointment of External Auditors for 2023-2024 (plus 5 years)</p>	

Originating Officer(s)	Paul Rock
Wards affected	All (All Wards);

Executive Summary

The Council is required to appoint an External Auditor to audit the Statement of Accounts and Value for Money review for 2023-2024 and for the following 5 years, by the end of December 2022 at the latest.

Public Sector Audit Appointments Limited (a not-for-profit, independent company limited by guarantee and incorporated by the Local Government Association) is an 'Appointing Person' for principal local government and police bodies and can appoint external auditors through a national scheme. To join the scheme a decision must be made by the members of the authority meeting as a whole and communicated to Public Sector Audit Appointments (PSAA) by the 11 March 2022. This report recommends that the Council joins the national scheme.

Recommendations:

The Audit Committee is recommended to:

1. Recommend to full Council that the Council opts into the national scheme operated by the PSAA for external audit appointments.

1. REASONS FOR THE DECISIONS

- 1.1 The Council must appoint external auditors to audit its accounts for 2023-2024 and for the next 5 years by the end of December 2021. The appointment must be in accordance with the Local Audit and Accountability Act 2014 and the Local Audit (Appointing Person) Regulations 2015, which require a decision of full Council.

2. **ALTERNATIVE OPTIONS**

- 2.1 There are three ways for a principal local government body to appoint its auditor for the five financial years from 2023/24, the options are:
- A. Undertake an individual auditor procurement and appointment exercise
 - B. Undertake a joint audit procurement and appointing exercise with other bodies
 - C. Join the PSAA's sector led national scheme (recommended in this report)
- 2.2 Both options A and B above require a local auditor to be appointed not later than 31 December in the financial year preceding the financial year of the accounts to be audited. For the audit of the accounts of the 2023/24 financial year, there must be a local auditor appointed by 31 December 2022.
- 2.3 For both options the legislation requires an independent auditor panel to be established. Guidance on auditor panels was issued by CIPFA in 2017 for local government bodies. <http://www.cipfa.org/policy-and-guidance/publications/g/guide-to-auditor-panels-pdf>.
- 2.4 There are advantages and disadvantages to options A and B, and they are set out in summary below:

Option A. Undertake an individual auditor procurement and appointment exercise

Advantages	Disadvantages
<ul style="list-style-type: none">• Full ownership of the process• Fully bespoke contract with the auditor• Tendering process more based on local circumstances (within EU procurement rules)	<ul style="list-style-type: none">• May experience difficulties in appointing a majority of independent panel members and independent panel chair as per the regulations.• Will need to ensure that panel members are suitably qualified to understand and participate in the panel's functions• Will have to cover panel expenses completely• May not be able to procure at a lower cost, for example, depending on local authority location, where there will be a risk of limited provider choice and a single authority contract may be

	<p>less attractive to some providers</p> <ul style="list-style-type: none"> • Will not achieve economies of scale
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Option B. Undertake a joint audit procurement and appointing exercise with other bodies

Advantages	Disadvantages
<ul style="list-style-type: none"> • Less administration than a sole auditor panel • Will be able to share the administration expenses • May be easier to attract suitable panel members <p><i>If procuring a joint audit contract:</i></p> <ul style="list-style-type: none"> • May still be a relatively locally tailored process • May be able to achieve some economies of scale <p><i>If procuring separate audit contracts:</i></p> <ul style="list-style-type: none"> • An opportunity for fully bespoke contracts with the auditor if the group of authorities can agree. 	<p><i>If procuring a joint audit contract:</i></p> <ul style="list-style-type: none"> • May need to compromise on the arrangements or auditor contract • May not end up with first choice of auditor, compared to an individual auditor panel. If a large group of authorities work together and decide to appoint one joint audit contract across all the authorities, a joint panel may be more likely to advise appointment of an auditor it considers suitable for all authorities taken together <p><i>If procuring separate audit contracts:</i></p> <ul style="list-style-type: none"> • Need to agree appointment of members across multiple authorities and set up an appropriate joint decision-making process

2.5 Both options A and B will require significant resources and time to deliver. Very few authorities have previously selected either option A or B. Most local authorities opted into the national scheme in 2018, including all 32 London Boroughs. On this basis neither option A or B are recommended.

3. DETAILS OF THE REPORT

3.1 The Council is required to appoint an external auditor to audit the Statement of Accounts for 2023-2024 and for the following 5 years by the end of December 2022. Any such appointment must be in accordance with the Local Audit and Accountability Act 2014 and the Local Audit (Appointing Person) Regulations 2015.

2.6 There are three ways for a principal local government body to appoint its auditor for the five financial years from 2023/24, the options are:

A. Undertake an individual auditor procurement and appointment exercise.

- B. Undertake a joint audit procurement and appointing exercise with other bodies.
- C. Join the PSAA's sector led national scheme.
- 2.7 Both options A and B above require a local auditor to be appointed not later than 31 December in the financial year preceding the financial year of the accounts to be audited. For the audit of the accounts of the 2023/24 financial year, there must be a local auditor appointed by 31 December 2022.
- 2.8 For both options the legislation requires an independent auditor panel to be established. Guidance on auditor panels was issued by CIPFA in 2017 for local government bodies. <http://www.cipfa.org/policy-and-guidance/publications/g/guide-to-auditor-panels-pdf>.
- 3.2 Both options A and B will require significant resources and time to deliver. Very few authorities have previously selected either option A or B. Most local authorities opted into the national scheme led by the PSAA in 2018, including all 32 London Boroughs. For these reasons neither option A nor B are recommended.
- 3.3 In relation to option A, the LGA incorporated Public Sector Audit Appointments Limited (a not-for-profit, independent company limited by guarantee) to support Local Authorities in appointing external auditors. In July 2016, the Secretary of State for Housing Communities and Local Government specified PSAA as an appointing person for principal local government and police bodies for audits, under the provisions of the Local Audit and Accountability Act 2014 and the Local Audit (Appointing Person) Regulations 2015.
- 3.4 The PSAA operate a national scheme for the appointment of auditors and setting of their fees. PSAA has responsibility for the following:
- Appointing auditors to all relevant authorities
 - Setting scales of fees, and charging fees, for the audit of accounts of relevant authorities and consulting with relevant parties in relation to those scales of fees
 - Ensuring effective management of contracts with audit firms for the delivery of consistent, quality and effective audit services to relevant authorities
 - Ensuring that public money continues to be properly accounted for and protected
 - Being financially responsible having regard to the efficiency of operating costs and transparently safeguarding fees charged to audited bodies, and
 - Leading its people as a good employer, ensuring that it continues to be fit-for-purpose; motivating and supporting its staff; and communicating with them in an open, honest and timely way.

3.5 Benefits of joining the national scheme include the following:

- Collective efficiency savings for the sector through undertaking one major procurement as opposed to a multiplicity of smaller procurements.
- Avoids the necessity for local bodies to establish an auditor panel and undertake an auditor procurement, enabling time and resources to be deployed on other pressing priorities.
- Transparent and independent auditor appointment via a third party.
- On-going management of any independence issues which may arise.
- Updates from PSAA to Section 151 officers and Audit Committee Chairs on a range of local audit related matters to inform and support effective auditor-audited body relationships.
- Access to a specialist PSAA team with significant experience of working within the context of the relevant regulations to appoint auditors, managing contracts with audit firms, and setting and determining audit fees.

3.6 The primary disadvantage to joining the national scheme is the loss of direct input into the selection of the external auditor, although it is worth noting that the number of appropriately qualified and experienced external audit firms is quite small.

3.7 Most of the Local Authorities (over 300) including all 32 London Boroughs opted to join the national scheme operated by the PSAA in 2018, a similar number is anticipated in the future.

3.8 The closing date to opt into the scheme is the 11 March 2022.

Recommendation

3.9 Whilst the Council will not be able to decide which auditor is appointed, overall, we are confident that the national scheme remains the best option for most local authorities. It is the recommendation of the Interim Corporate Director, Resources that the Council opt-in and join the national scheme operated by the PSAA for the appointment of the Council's external auditors from 2023/24.

4. EQUALITIES IMPLICATIONS

4.1 None.

5. OTHER STATUTORY IMPLICATIONS

5.1 This section of the report is used to highlight further specific statutory implications that are either not covered in the main body of the report or are required to be highlighted to ensure decision makers give them proper consideration. Examples of other implications may be:

- Best Value Implications,
- Consultations,
- Environmental (including air quality),
- Risk Management,
- Crime Reduction,
- Safeguarding.
- Data Protection / Privacy Impact Assessment.

5.2 Other than adhering to the Local Audit and Accountability Act 2014, opting into the national scheme provides the best opportunity of securing economies of scale and value for money.

6. COMMENTS OF THE CHIEF FINANCE OFFICER

6.1 Opting into the national scheme is the most efficient and economic method of appointing the Council's external auditors. All 32 London Borough previously opted into the scheme and it is likely all 32 will do so again making a joint procurement (option B) unattractive and unrealistic. The current demands on the Finance Leadership Team, coupled with the requirement to appoint suitably qualified, experienced, independent appointment panel members, make it impractical to pursue a direct procurement and appointment (Option A).

7. COMMENTS OF LEGAL SERVICES

7.1 The Council has the legal power to undertake the actions referred to in this report

7.2 The Council is required to run a competitive process when purchasing Services. This legal duty will be satisfied by the PSAA who are currently running a tender process on behalf of all potential "opt in" authorities. This is permissible under the Public Contracts Regulations 2015

7.3 The results of the tendering process will be released to all participating authorities which will allow the Council to satisfy itself that the procurement regime used by the PSAA satisfied the relevant legal duties. This is important as the Council can rely upon a tender process carried out on its behalf by another body but the Council cannot pass across the statutory responsibility to ensure that the resultant services provider has been properly procured.

7.4 The PSAA will also carry out contract and performance monitoring on the Council's behalf which will assist the Council to demonstrate statutory Best Value in the delivery of the services.

Linked Reports, Appendices and Background Documents

Linked Report

- NONE.

Appendices

- NONE.

Local Government Act, 1972 Section 100D (As amended)

List of “Background Papers” used in the preparation of this report

List any background documents not already in the public domain including officer contact information.

- NONE

Officer contact details for documents:

Paul Rock, Head of Internal Audit