

Cherwell District Council

Council

13 December 2021

Appointment of External Auditors

Report of Director of Finance

This report is public

Purpose of report

This report asks the Council to agree how external auditors will be appointed from the financial year 2023/24.

1.0 Recommendations

The meeting is recommended to:

- 1.1 allow Public Sector Audit Appointments Ltd (PSAA) to appoint external auditors on behalf of the Council.

2.0 Introduction

- 2.1 The process for retendering for external audit in local authorities in England, for contracts due to start from 2023/24, is now underway and shortly the Council will need to decide whether to procure its own external auditor or opt into the national procurement framework. The Council's current external auditor, Ernst & Young, was appointed by PSAA.
- 2.2 The scope of the audit will still be specified nationally, the National Audit Office (NAO) is responsible for writing the Code of Audit Practice which all firms appointed to carry out the Council's audit must follow. Not all accounting firms will be eligible to compete for the work, they will need to demonstrate that they have the required skills and experience and be registered with a Registered Supervising Body approved by the Financial Reporting Council.

3.0 Report Details

- 3.1 The Council must have its accounts audited annually by external auditors. The nature and scope of the audit is determined by codes of practice and guidance and the regulation of the audit market is undertaken by a third party, currently the Financial Reporting Council. Therefore, despite being the client in the contract, a council has little influence over what it is procuring.

- 3.2 Councils find themselves operating in what amounts to a suppliers' market and there is little ability to influence the market without acting collectively. It is generally acknowledged that the supply side of the market needs to be expanded, which includes encouraging bids from challenger firms. PSAA, the body nominated by the Government to run the national arrangements to procure and appoint auditors, has suggested various ways this could be done, but these initiatives are much more likely to be successful if a large number councils sign up to the national scheme.
- 3.3 Appointments of auditors must be made by an independent panel. If the Council were to choose to appoint its auditors separately it would be required to set up an Audit Panel with an independent chair to oversee the procurement and running of the contract. This would require an additional layer of bureaucracy for the Council to manage.

Advantages/benefits of using PSAA to make the appointment

- 3.4 The costs of setting up the appointment arrangements and negotiating fees would be shared across all authorities using PSAA.
- 3.5 By offering large contract values the audit firms will be able to offer better rates and lower fees than are likely to result from local negotiation.
- 3.6 The appointment decision would not be made by a locally appointed independent panel. Instead a separate body set up to act in the collective interests of local authorities would decide.

4.0 Conclusion and Reasons for Recommendations

- 4.1 The continued use of PSAA will allow local government to benefit from its ability to represent local government as a sector. This will allow the Council to receive the benefits of economies of scale in negotiating the price of contracts.

5.0 Consultation

Accounts, Audit and Risk Committee considered how external auditors should be appointed at its meeting on 17 November 2021 and recommended that Council should proceed with the recommended approach.

6.0 Alternative Options and Reasons for Rejection

- 6.1 The following alternative options have been identified and rejected for the reasons as set out below.

Option 1: To make a stand-alone appointment

In order to make a stand-alone appointment the Council will need to set up an Audit Panel. The members of the panel must be wholly independent or have a majority of independent members. 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 would 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 Audit Panel established by the Council will be responsible for selecting the auditor.

It is very unlikely that the Council would be able to negotiate as competitive audit rates as the PSAA from running its own procurement. The appointment of an independent Audit Panel would also create additional costs to the Council. Additional staff time would also be necessary to carry out the procurement process appropriately. The scope of the audit is also very tightly defined and as such the Council would not be able to specify any changes to the audit.

Therefore, there is additional work, cost and bureaucracy that would not result in an improved audit package.

Option 2: Set up a Joint Audit Panel and local joint procurement arrangements

This is similar to option 1 but would involve joining up with other Local Authorities, so is likely to be more complex in arranging a Joint Audit Panel with independent 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 will need to liaise with other local authorities to assess the appetite for such an arrangement.

The Council is not aware of any other local Councils looking to set up a Joint Audit Panel. It is highly unlikely that a joint arrangement would be able to generate the same economies of scale as the national PSAA approach. This approach has all of the disadvantages of making a stand-alone appointment with the added complexities of having to carry out the approach in collaboration with other authorities and as such this option has been discounted.

7.0 Implications

Financial and Resource Implications

- 7.1 The Council must have its accounts audited annually and budget is available to fund this. Entering into a large scale collective procurement arrangement with PSAA is likely to result in the most cost effective approach for the Council.

Comments checked by:

Michael Furness, Assistant Director of Finance, 01295 221845,
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Legal Implications

- 7.2 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 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 and Schedule 3 provide that where a relevant authority is a local authority operating executive arrangements, the function of appointing a local auditor to audit its accounts is not the responsibility of an executive of the authority under those arrangements and that the appointment decision is a matter for full council.

- 7.3 Section 8 further provides that the council must, within 28 days of the date of the appointment, publish a notice that:
- (a) states that it has made the appointment,
 - (b) identifies the local auditor that has been appointed,
 - (c) specifies the period for which the local auditor has been appointed,
 - (d) sets out the advice, or a summary of the advice, of its auditor panel about the selection and appointment of a local auditor, and
 - (e) if it has not followed that advice, sets out the reasons why it has not done so.
- 7.4 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.
- 7.5 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.

Comments checked by:

Christopher Mace, Solicitor, 01295 221808, christopher.mace@cherwell-dc.gov.uk

Risk Implications

- 7.6 There are no risks to the Council directly associated with this report.

Comments checked by:

Louise Tustian, Head of Insight and Corporate Programmes, Tel: 01295 221786, Email: louise.tustian@cherwell-dc.gov.uk

Equalities and Inclusion Implications

- 7.7 There are no equality and inclusion implications associated with this report.

Comments checked by:

Emily Schofield, Acting Head of Strategy, Tel: 07881 311707, Email: Emily.schofield@cherwell-dc.gov.uk

Sustainability Implications

- 7.8 There are no sustainability issues associated with this report.

Comments checked by:

Sarah Gilbert, Climate Action Team Leader, sarah.gilbert@cherwell-dc.gov.uk

8.0 Decision Information

Key Decision N/A

Financial Threshold Met: N/A

Community Impact Threshold Met: N/A

Wards Affected

All

Links to Corporate Plan and Policy Framework

All

Lead Councillor

N/A

Document Information

Appendix number and title

- None

Background papers

None

Report Author and contact details

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