

Cabinet
Council

11th January 2022
18th January 2022

Name of Cabinet Member:

Cabinet Member for Strategic Finance and Resources – Councillor R Brown

Director Approving Submission of the report:

Director of Finance

Ward(s) affected:

None

Title:

External Auditor Appointment from April 2023

Is this a key decision?

No, it is not expected that the impact will be significant.

Executive Summary:

This report sets out the options for appointing the external auditor to the Council for the five years commencing 2023/24 as the current arrangements only cover audits up to and including 2022/23. The report compares these options and seeks approval for its recommended approach. The appointment of the Council's auditors is a matter reserved for full Council.

Recommendations:

The Cabinet is requested to:

- 1) Recommend that Council approves Option 2, as described in this report, which is to accept Public Sector Audit Appointments' (PSAA) invitation to 'opt in' to the sector led option for the appointment of external auditors for the five financial years commencing 1 April 2023

Council is requested to:

- 1) Approve Option 2 to accept Public Sector Audit Appointments' (PSAA) invitation to 'opt in' to the sector led option for the appointment of external auditors for five financial years commencing 1 April 2023.

List of Appendices included:

None

Background papers:

None

Other useful documents

None

Has it been or will it be considered by Scrutiny?

No

Has it been or will it be considered by any other Council Committee, Advisory Panel or other body?

No

Will this report go to Council?

Yes – 18th January 2022

Report title:

External Auditor Appointment from April 2023

1. Context (or background)

- 1.1 This report sets out the options for appointing the external auditor to the Council for the 2023/24 accounts and beyond, as the current nationally regulated arrangements only cover up to and including 2022/23 audits.
- 1.2 The Council's current auditors are Grant Thornton UK LLP working under a 5-year contract let by Public Sector Audit Appointments (PSAA) – a body set up principally to manage this process. The planned audit fees for 2020/21 are £211k.
- 1.3 The PSAA is inviting the Council to opt into the national arrangements for the next 5-year period along with all other authorities, so that the PSAA can enter into a number of contracts with appropriately qualified audit firms and appoint a suitable firm to be the Council's auditor.

2. Options considered and recommended proposal

- 2.1 There are two main options:

Option 1: For the Council to arrange its own procurement and make the appointment itself or in conjunction with other councils.

Option 2: For the Council to join the procurement exercise administered by Public Sector Audit Appointments

Option 1: Stand-Alone or Local Procurement

- 2.2 In order to make a stand-alone appointment, the Council would need to set up an Auditor Panel. The panel must be made up wholly of, or a majority of, independent members as defined by the Local Audit and Accountability Act 2014 (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 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 auditor panel established by the Council would be responsible for selecting the auditor.
- 2.3 Setting up an Auditor Panel would allow the Council to take maximum advantage of the local appointment regime and have local input to the decision. However, this option would involve additional officer time setting up the panel, running the bidding exercise and negotiating the contract. It would also incur some expense for the payment of members of the independent auditor panel. The Council would not be able to take advantage of reduced fees that may be available through joint or national procurement contracts and the assessment of bids and the decision on awarding contracts would be taken by independent appointees and not solely by elected members.
- 2.4 The Act enables the Council to join with other authorities to establish a Joint Auditor Panel. Again, this would need to be constituted wholly of, or a majority of, independent appointees. 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.

- 2.5 The costs of setting up the panel, running the bidding exercise and negotiating the contract would be shared across a number of authorities and there is greater opportunity for negotiating some economies of scale compared with the Council undertaking a stand-alone procurement by being able to offer a larger combined contract value to the firms.
- 2.6 However, the decision-making body would be further removed from local involvement, with potentially no input from elected members where a wholly independent auditor panel was used or possibly only one elected member representing each council, depending on the constitution agreed with the other bodies involved.

Option 2 – Sector Led Body (PSAA) (recommended option)

- 2.7 The government has previously established a national provider, Public Sector Audit Appointments Ltd (PSAA), to make auditor appointments to opted-in local government bodies. The PSAA is an independent company limited by guarantee and incorporated by the Local Government Association in August 2014. The (PSAA) has the ability to negotiate contracts with audit firms nationally, maximising the opportunities for the most economic and efficient approach to procurement of external audit on behalf of the whole sector. The costs of setting up the appointment arrangements and negotiating fees is shared across all opt-in authorities and, by offering large contract values, the firms should be able to offer better rates and lower fees than are likely to result from local negotiation.
- 2.8 Local authority accounts have become far more complicated in recent years than they were historically, and expectations of auditors have also been on a steep upward curve in the last year or two. It will be difficult for any individual authority to define an appropriate specification for the audit of the accounts that individual firms would reasonably be able to respond to. There is a high risk of firms needing to challenge and expand the specification through the contract term (leading to increased prices) and of firms needing to take a risk averse approach to pricing strategy due to the uncertainty of dealing with an individual client.
- 2.9 Any conflicts at individual authorities would be managed by the PSAA who would have a number of contracted firms to call upon. In addition to the economies of scale which could be achieved under the national scheme, other benefits include:
- assured appointment of a qualified, registered, independent auditor;
 - appointment, if possible, of the same auditors to bodies involved in significant collaboration and joint working initiatives or combined authorities;
 - distribution of surpluses to participating authorities;
 - avoiding the necessity for individual authorities to establish an auditor panel and to undertake an auditor procurement.
- 2.10 The local government audit environment has been subject to significant turbulence over recent years marked by reported auditor performance shortcomings in specific instances, financial failings at some councils, a call for reform through the Redmond Review and significant market pressures within audit firms. Many councils including Coventry have had to work through some significant challenges alongside their audit partner with delays to audit closedowns and a larger than normal number of reported adjustments to the accounts. It would be wrong to conclude though that breaking away from the existing appointment framework would offer a solution to these experiences. It is highly likely that the audit market will continue to be difficult and there is no guarantee of obtaining a sufficient quantum of audit capacity to meet demand. In these circumstances, being part of national arrangements for meeting this challenge presents far less risk than being outside these arrangements.

- 2.11 Option 2 is recommended as the Council's preferred option. It should be borne in mind that, with this option, individual elected members will have less opportunity for direct involvement in the appointment and the final fee structure from the PSAA will require councils to indicate their intention to opt-in before final contract prices are known.

3. Results of consultation undertaken

- 3.1 No consultation has been undertaken. This is a matter of governance subject to the decision of whole Council and does not lend itself readily to wider consultation.

4. Timetable for implementing this decision

- 4.1 If the Council is to become part of the national procurement exercise it is required to respond to PSAA by 11th March 2022. The first Audit period that will be covered by the new contracts will start on 1st April 2023

5. Comments from Director of Finance and Director of Law and Governance

5.1 Financial implications

There is a risk that current external fees levels could increase when the current contracts end. 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 a large scale collective procurement arrangement. If the national scheme is not used some additional resource may be needed to establish an auditor panel and conduct a local procurement. Until a procurement exercise is completed it is not possible to state what, if any, additional resource may be required for audit fees for 2022/23. Re-joining the PSAA administered process provides the best opportunity of securing a streamlined procurement exercise and robust audit process for the Council's accounts

5.2 Legal implications

Section 7 of the Local Audit and Accountability Act 2014 (the Act) requires a relevant Council to appoint a local auditor to audit its accounts for a financial year not later than 31 December in the preceding year.

Section 8 of the Act governs the procedure for appointment including that the Council must consult and take account of the advice of its auditor panel on the selection and appointment of a local auditor.

Section 17 of the Act 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 2015/192) 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 the PSAA as the appointing person.

6. Other implications

Any other specific implications

6.1 How will this contribute to the Council Plan (www.coventry.gov.uk/councilplan/)?

External audit of the Council provides an independent assessment of whether the Council's financial statements have been prepared in accordance with statutory requirements and whether the Council has secured value for money through the efficient and effective use of its resources. This report facilitates a required decision on the process to be followed for future external auditor appointments.

6.2 How is risk being managed?

The Council needs to take a decision on the preferred option for the future appointment of its external auditor. There is no immediate risk to the Council; however, early consideration of the preferred options available will enable detailed planning to take place to achieve successful transition to the new arrangement in a timely and efficient manner.

6.3 What is the impact on the organisation?

Determining the process for external auditor appointment will ensure compliance with statutory requirements and continuity of audit processes.

6.4 Equality Impact Assessment (EIA)

No implications.

6.5 Implications for (or impact on) climate change and the environment

No implications.

6.6 Implications for partner organisations?

External audit of the Council's accounts includes significant analysis of its ownership of external companies and the accounting arrangements of these relationships.

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