

**Classification: Public**

**Key Decision: No**

## **Gravesham Borough Council**

**Report to:** Full Council

**Date:** 7<sup>th</sup> December 2021

**Report of:** Assistant Director (Corporate Services)

**Subject:** Appointment of External Auditors - National Scheme for Auditor Appointments from April 2023

### **Purpose and summary of report:**

To inform members of the options available for the appointment of local auditors appointments and to notify members of the invitation to opt into the national scheme for auditor appointments from April 2023.

This report recommends opting into the national scheme for auditor appointments. Acceptance of the invitation received from Public Sector Audit Appointments (PSAA) to opt into the national scheme for local auditor appointments is a decision for Full Council

### **Recommendation:**

That Council accepts the invitation to opt in to the appointing person arrangements made by the PSAA for the appointment of external auditors as recommended by the Finance and Audit Committee on 10<sup>th</sup> November 2021.

## **1. Background**

- 5.1. In July 2016, the Secretary of State specified Public Sector Audit Appointments (PSAA) as an appointing person for local government and police audits from 2018/19, under the provisions of the Local Audit and Accountability Act 2014 and the Local Audit (Appointing Person) Regulations 2015. This resulted in 98% of eligible bodies opting in to the scheme for a five year period.
- 5.2. At the Full Council Meeting of 6<sup>th</sup> December 2016 the Council accepted the invitation to opt in to the appointing person arrangements by PSAA. These arrangements will come to an end on 31<sup>st</sup> March 2023 and therefore a decision needs to be taken as to how we will appoint external auditors from April 2023.
- 5.3. On 22<sup>nd</sup> September, Gravesham Borough Council was formally invited by PSAA to opt into the national scheme for auditor appointments from April 2023. If the decision is

taken to opt in to this arrangement, this will be for a period of five years and will need approval by Full Council.

- 5.4. Should the council decide to opt into the national scheme, it will need to formally accept this invitation by 11 March 2022. The formal invitation letter is shown at Appendix 3 of this report.

## **2. Current External Audit Arrangements**

- 2.1 The Council's external auditor is currently Grant Thornton LLP, with this appointment made by PSAA. This arrangement is to come to an end in March 2023.
- 2.2 In June 2021 the PSAA invited views and comments from local authorities on current arrangements which have been considered and incorporated these into their updated scheme prospectus and procurement strategy. Links to these documents are found in the Background Papers section of this report.

## **3. Options for local auditor appointments**

- 3.1 There are currently four options available to choose from regarding this procurement. These are:
- Procure external audit provision ourselves
  - Set up a joint panel with another local authority (ies)
  - Opt in to a sector led body
  - Accept the invitation to opt into the scheme of local audit appointments

Details of these options are set out in the paragraphs below:

### **Option 1 – procure external audit provision as a stand-alone appointment**

In order to make a stand-alone appointment the Council will need to set up an Auditor Panel. The members of the panel must be wholly or a majority independent members as defined by the Act. Independent members for this purpose are independent appointees; this excludes current and former elected members (or officers) and their close family and friends. This means that elected members will not have a majority input into assessing bids and choosing which firm of accountants to award a contract for the Council's external audit. The Auditor Panel will be responsible for selecting the auditor.

#### *Advantages/benefit*

Setting up an auditor panel allows the Council to take maximum advantage of the local appointment regime and have local input to the decision.

#### *Disadvantages/risks*

Recruitment and servicing of the Auditor Panel, running the bidding exercise and negotiating the contract will incur costs 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 decision on awarding contracts will be taken by independent appointees and not solely by elected members.

### **Option 2 - Set up a Joint Auditor Panel/local joint procurement arrangements**

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 (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 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.

There is greater opportunity for negotiating some economies of scale by being able to offer a larger combined contract value to the firms.

#### *Disadvantages/risks*

The decision making body will be further removed from local input, with potentially no input from elected members (where a wholly independent auditor panel is used) or possibly only one elected member representing each Council, 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 work such as consultancy or advisory work for the Council. Where this occurs some auditors may be prevented from being appointed by the terms of their professional standards. There is a risk that if the joint auditor panel choose a firm that is conflicted for this Council then the Council may still need to make a separate appointment with all the attendant costs and loss of economies possible through joint procurement.

### **Option 3 – Opt-in to a Sector Led Body (SLB)**

A Sector-Led Body would have the ability to negotiate contracts with the firms nationally, maximising the opportunities for the most economic and efficient approach to procurement of external audit on behalf of the whole sector.

#### *Advantages/benefits*

The costs of setting up the appointment arrangements and negotiating fees would be shared across all opt-in authorities

By offering large contract values the firms would be able to offer better rates and lower fees than are likely to result from local negotiation.

Any conflicts at individual authorities would be managed by the SLB who would have a number of contracted firms to call upon.

The appointment process would not be overseen by locally appointed independent members. Instead a separate body set up to act in the collective interests of the 'opt-in' authorities.

#### *Disadvantages/risks*

Individual elected members will have less opportunity for direct involvement in the appointment process other than through the LGA and/or stakeholder representative groups.

In order for the SLB to be viable and to be placed in the strongest possible negotiating position the SLB will need Councils to indicate their intention to opt-in before final contract prices are known.

#### **Option 4 - Invitation to opt into the national scheme for auditor appointments**

As set out above the council has received a formal invitation to opt into the national scheme for auditor appointments. The letter and supporting information on the national scheme is reproduced at Appendix Two for Member information. Adopting the national scheme will see PSAA make the auditor appointment for the council for a period of five years from 2023/24.

#### **4. Other Kent Authorities**

- 4.1 From recent discussions with other Kent authorities there is an appetite to accept the invitation from PSAA.

#### **5. Recommendation**

- 5.1. It is recommended that Council considers and accepts the invitation received from PSAA as endorsed by the Finance and Audit Committee on 10th November 2021.  
Benefits of doing so are as follows:-

- Avoid the necessity for the council to establish an independent auditor panel and to undertake an auditor procurement;
- Enable the council to share the costs associated with the procurement exercise with other local government bodies;
- Enable the council to secure competitive prices from audit firms through economies of scale;
- Appointment of the same auditors to bodies involved in significant collaboration/joint working initiatives or across regions (for example, across Kent) where the parties believe that it will enhance efficiency and value for money;
- Delivery of an audit service of the required quality for every opted in body and to support the drive towards a more long term competitive, sustainable market for local public audit services.
- Transparency in the appointment of the auditor appointment.

- 5.1 The relevant minute from the Finance and Audit Committee to support this recommendation can be found at Appendix 2.

## 6. Background Papers

[Procurement strategy 2022 – Page 4 – PSAA](#)

[Response to consultations on proposals for arrangements from April 2023 – PSAA](#)

[Summary-of-the-response-to-PSAA-consultations-on-its-proposed-arrangements-for-the-appointing-period-starting-April-2023-FINAL.pdf](#)

IMPLICATIONS	APPENDIX 1
<p><b>Legal</b></p>	<p>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 provides 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.</p> <p>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.</p> <p>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.</p> <p>Regulation 19 of the Local Audit (Appointing Person) Regulations 2015 requires that a decision to opt in must be made by Full Council (authority meeting as a whole).</p>
<p><b>Finance and Value for Money</b></p>	<p>The cost of establishing a local or joint Auditor Panel and conducting a procurement exercise outlined in the alternative options within the report will need to be estimated and included in the Council’s budget for 2022/23. This will include the cost of recruiting independent appointees (members), servicing the Panel, running a bidding and tender evaluation process, letting a contract and paying member fees and allowances.</p> <p>Opting-in to the national Sector Led Body will be a less resource-intensive process, provides maximum opportunity to limit the extent of any increases by entering in to a large scale collective procurement arrangement and would remove the costs of establishing an auditor panel.</p>
<p><b>Risk Assessment</b></p>	<p>There is no immediate risk to the Council, however, early consideration by the Council of its preferred approach will enable detailed planning to take place so as to achieve successful transition to the new arrangement in a timely and efficient manner</p>

<b>Data Protection Impact Assessment</b>	<i>A data protection impact assessment (DPIA) should be carried out at the start of any major project involving the use of personal data or if you are making a significant change to an existing process.</i>
	<p>a. Does the project/change being recommended through this paper involve the processing of <a href="#">personal data</a> or <a href="#">special category data</a> or <a href="#">criminal offence data</a>?</p> <p>A definition of each type of data can be found on the Information Commissioner's Office website via the above links.</p> <p>N/A</p>
	<p>b. If yes to question a, have you completed and attached a DPIA including Data Protection Officer advice?</p> <p>N/A</p>
	<p>c. If no to question b, please seek advice from your nominated DPIA assessor or the Information Governance Team at <a href="mailto:gdpr@medway.gov.uk">gdpr@medway.gov.uk</a>.</p> <p>N/A</p>
<b>Equality Impact Assessment</b>	<p>a. Does the decision being made or recommended through this paper have potential to cause adverse impact or discriminate against different groups in the community? If yes, please explain answer.</p> <p>No decision – paper is for information only.</p>
	<p>b. Does the decision being made or recommended through this paper make a positive contribution to promoting equality? If yes, please explain answer.</p> <p>N/A</p>
	<i>In submitting this report, the Chief Officer doing so is confirming that they have given due regard to the equality impacts of the decision being considered, as noted in the table above</i>
<b>Corporate Plan</b>	Strategic Objective #3 Progress; Sound Financial Management & Successfully Managing Key Business Risks
<b>Climate Change</b>	No direct implications.
<b>Crime and Disorder</b>	No direct implications.
<b>Digital and website implications</b>	No direct implications.
<b>Safeguarding children and vulnerable adults</b>	No direct implications.

## **Extract from Minutes of the Finance and Audit Committee 10 November 2021**

### **133. Procurement of External Audit (PSAA)**

The Assistant Director (Corporate Services) updated the Committee of the options available for the appointment of external auditors from April 2023 and of the invitation to opt into the national scheme for auditor appointments from April 2023.

Following Members comments and questions, the Assistant Director (Corporate Services) highlighted the following:

- Indications at this stage suggest that other Kent Local Authorities will accept the invitation to opt into the national scheme of local audit appointments.
- The recommendation made by this Committee is subject to Full Council approval.

**Resolved** that the Finance & Audit Committee considered the procurement options set out in the report and the invitation to opt into the national scheme for local auditor appointments. The Committee has endorsed a recommendation being made to Full Council on 7 December 2021 to accept the invitation to opt in to the national scheme for auditor appointments from April 2023.