

WEST NORTHAMPTONSHIRE SHADOW AUTHORITY

SHADOW EXECUTIVE COMMITTEE MEETING

24 November 2020

Report Title	External Audit Appointment Arrangements
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List of Appendices

Appendix A – Letter from Public Sector Audit Appointments (PSAA)

1. Purpose of Report

- 1.1. To determine West Northamptonshire's arrangements for appointing an external auditor from 1 April 2021.

2. Executive Summary

- 2.1 There is a statutory requirement for external auditors to be appointed for West Northamptonshire Council by no later than 31 December in the preceding financial year before vesting day.
- 2.2 The organisation responsible for appointing external auditors for local government, the Public Sector Audit Appointments (PSAA), has written to the Shadow Authority, see appendix 1, requesting direction on the approach West Northamptonshire wishes to undertake to appoint its external auditors from 1st April 2021.
- 2.3 The report sets out the options available to the authority and proposes a recommendation to ensure the safe and legal transition of external audit arrangements from the existing sovereign councils to the new council.

3. Recommendations

- 3.1 It is recommended that the Shadow Executive Committee:

- a) Agree to 'opt in' to the Public Sector Audit Appointments (PSAA) process.

(Reason for Recommendations – the option proposed aligns most closely with being a safe and legal authority on vesting day)

4. Report Background

- 4.1 The Local Audit and Accountability Act 2014 (the Act) brought to a close the Audit Commission and established transitional arrangements for the appointment of external auditors and the setting of audit fees for all local government and NHS bodies in England.
- 4.2 The Act also set out the arrangements for the appointment of auditors for subsequent years, with the opportunity for authorities to make their own decisions about how and by whom their auditors are appointed. Regulations made under the Act allow authorities to 'opt in' for their auditor to be appointed by an 'appointing person'.
- 4.3 In July 2016, PSAA were specified by the Secretary of State as an appointing person for principal local government bodies under the Local Audit and Accountability Act 2014 and the Local Audit (Appointing Person) Regulations 2015 (the Regulations). PSAA is an independent, not-for-profit company limited by guarantee and established by the LGA.
- 4.4 This specification requires PSAA to appoint the external auditor to principal local government bodies that choose to 'opt in' to its national appointment arrangements. The Regulations (regulation 10) provide that a newly-established eligible authority may opt in by giving notice to PSAA of the decision to become an opted-in authority. The authority will remain an opted-in authority for the remainder of the applicable five-year compulsory appointing period (2018/19 to 2022/23).
- 4.5 West Northamptonshire Council is eligible to become an opted-in authority from 1 April 2021, for the remaining two years of the appointing period covering the accounts for 2021/22 to 2022/23.
- 4.6 If the new authority decides to opt into the PSAA appointment process it will need to complete a notice and send it to the PSAA. The PSAA will confirm receipt of the completed notice. Once received the PSAA will consult on the proposed auditor appointment.
- 4.7 Opted-in bodies therefore have the opportunity to make representations about the firm proposed, setting out the reasons formally in a response to PSAA. The following may represent acceptable reasons:
- there is an independence issue, of which PSAA had not been informed;
 - there are formal and relevant joint working arrangements, of which PSAA had not been informed; or
 - there is another valid reason, for example a body can demonstrate a history of inadequate service from a particular firm.
- Representations are considered carefully and PSAA makes a formal response in every case, whether accepted or rejected. Where representations are accepted, the PSAA consult on a revised appointment proposal.
- 4.8 Full details on the auditor appointment process are available on the PSAA website.

- 4.9 All of the sovereign councils in West Northamptonshire agreed to 'opt in' to the PSAA appointment process when the new requirements came in. The external auditor appointed by the PSAA to all sovereign councils was Ernst and Young (EY).

5. Issues and Choices

- 5.1 There are three broad options open to the Council under the Local Audit and Accountability Act 2014 (the Act):

5.2 Option 1 - To make 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 families and friends. This means that elected members will not have a majority input to assessing bids and choosing which firm of accountants to award a contract for the Council's external audit.

Advantages/benefit

- Setting up an auditor panel allows the Council to take maximum advantage of the new 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 is estimated by the LGA to cost in the order of £15k 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.
- The timeframe is very challenging to achieve this in advance of vesting day. As such could put at risk being for being safe and legal on vesting day.

5.3 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 will 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.
- The timeframe is very challenging to achieve this in advance of vesting day. As such could put at risk being for being safe and legal on vesting day.

5.4 Option 3 - Opt-in to PSAA auditor appointment process

This is the approach and process set out in paragraphs 4.3 to 4.6 above. The PSAA 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
- The appointment process would not be ceded to locally appointed independent members. Instead a separate body set up to act in the collective interests of the 'opt-in' authorities.
- This approach is the best approach to use to ensure 'safe and legal' by day one of the new authority.

Disadvantages/risks

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

- 5.5 Given the requirement for the West Northamptonshire Council to have an external auditor in place by 31 December the only feasible option to be safe and legal ahead of vesting day is option 3; 'opt in' to the PSAA arrangements.

5.6 Redmond Review

In 2019 the Government announced an independent review be undertaken into public sector audit. This review was led by Sir Tony Redmond. The Redmond Review made a number of recommendations in September 2020. These are currently being considered, and, if agreed, would see changes that impact on the way external audit is delivered in the public sector.

6 Implications (including financial implications)

6.1 Resources and Financial

- 6.1.1 There are no resource or financial implications arising directly from the proposal to opt in to the PSAA scheme.
- 6.1.2 The existing sovereign councils in West Northamptonshire currently pay a scale fee for external audit services.
- 6.1.3 It should be noted some of the sovereign councils are likely to be paying substantially in excess of the scale fee. This is due to two factors, firstly, the national pressures faced by external auditors to deliver their requirements under the local government audit regulations and, secondly, local risks which require an enhanced level of audit work about the scales fee.
- 6.1.4 It is anticipated, everything else being equal, there would be economies of scale generated for West Northamptonshire Council using the PSAA 'opt in' option and the audit scale fee would be less than the other options.
- 6.1.5 It should be noted the Redmond Review is reviewing the audit approach in local government in light of the aforementioned national pressures which may result in an increase in fees and there maybe specific risks for the new council that result in higher audit fees.

6.2 Legal

- 6.2.1 In accordance with the Local Audit and Accountability Act 2014 the council is required to have made arrangements to appoint an external auditor.
- 6.2.2 It should be noted that regulation 19 of the Regulations requires the decision to 'opt in' to be taken by full council. However, under the constitution of West Northamptonshire Shadow Authority this decision is to be taken by Shadow Executive. Transitional provisions recognise the need to make decisions differently during transition to meet the deadlines of establishing a new Council within a constrained time frame.

6.3 Risk

6.3.1 The primary risk is not to appoint an external auditor in accordance with the Regulations. The option recommended mitigates this risk and ensures the council will be safe and legal on vesting day.

6.4 Consultation

6.4.1 There are no consultation issues arising from this report.

6.5 Consideration by Overview and Scrutiny

6.5.1 There are no considerations arising for Overview and Scrutiny arising from this report.

6.6 Climate Impact

6.6.1 There are no climate impacts arising from this report.

6.7 Community Impact

6.7.1 There are no community impacts arising from this report.

7 Background Papers

7.1 Local Audit and Accountability Act 2014

7.2 Local Audit Regulations 2015