

# Audit and Performance Committee Report

<b>Date:</b>	16 February 2022
<b>Classification:</b>	General Release
<b>Title:</b>	Appointment of External Auditors for 2022/23 onwards
<b>Wards Affected:</b>	All
<b>City for All Summary</b>	External auditor requirements for the Council's annual statements of accounts
<b>Financial Summary:</b>	This report recommends the approach to appoint external auditors from 2022/23
<b>Report of:</b>	Gerald Almeroth, Executive Director of Finance and Resources

## 1. Executive Summary

- 1.1 Following consideration of the arrangements for appointing an external auditor from the financial year 2023/24, Audit and Performance Committee is asked to recommend to Full Council the proposal to accept the Public Sector Audit Appointments (PSAA) invitation to use its framework to appoint external auditor for five financial years commencing 1 April 2023.
- 1.2 The PSAA is a company set up by the Local Government Association in 2014. In 2016, the Secretary of State for Housing Communities and Local Government (now Department of Levelling Up, Housing and Communities – DLUHC) specified PSAA as an appointing person for principal local government and police bodies for audits from 2018/19, under the provisions of the Local Audit and Accountability Act 2014 and the Local Audit (Appointing Person) Regulations 2015.
- 1.3 Acting in accordance with this role PSAA is responsible for appointing an auditor and setting scales of fees for relevant principal authorities that have chosen to opt into its national scheme.
- 1.4 It is well documented that the local government audit landscape has become increasingly challenging with an increasing number of authorities failing to achieve the accounts sign-off deadline. For the 2020/21

financial year, only 9% of English authorities signed their accounts by 30 September 2021 deadline. Westminster City Council was within that 9% to make the deadline.

## **2. Recommendations**

- 2.1 That Audit and Performance Committee considers the officers' recommendation to accept the 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 and propose that recommendation to Full Council.
- 2.2 Note that Audit and Performance Committee's recommendation will be included in the Council's annual budget report to Full Council on 2 March 2022.
- 2.3 That Audit and Performance Committee recommend to Full Council to delegate authority to the Executive Director of Finance and Resources to respond to the invitation and take the necessary steps to finalise the appointment itself following the PSAA procurement process.

## **3. Options**

- 3.1 The Audit and Performance Committee report dated 1 December set out the background and current challenging state of the Local Government audit landscape.
- 3.2 The Council has three options to appoint an external auditor from 1 April 2023:
  1. To undertake a procurement process itself and appoint its own external auditor, or
  2. Undertake a joint procurement with other bodies, or
  3. To opt into a national collective scheme that PSAA is developing.
- 3.3 The report of 1 December 2021 considered the benefits and disbenefits of each of these options.

## **4. Conclusion**

- 4.1 The options in Section 3 have been considered within the context that the Council must appoint an external auditor no later than 31 December 2022. Legislation requires an independent auditor panel to make the appointment.
- 4.2 Having considered these options, it is recommended that Audit and Performance Committee propose to Full Council that it opts into the PSAA collective procurement framework for the years 2023/24 to 2027/28. The reasons for this recommendation are that:
  - The reduced external audit market would probably render an individual appointment redundant as the scope of audits are

clearly defined by the Financial Reporting Council (FRC) regardless of the procurement route;

- An individual appointment would require an independent procurement strategy and the Council would need to generate sufficient interest in the market to ensure value for money throughout the procurement process;
- An individual appointment would reduce the economies of scale afforded through the PSAA appointment framework;
- Having engaged with other authorities across London, there is not sufficient appetite to progress a joint exercise given the complexities of jointly arranging an independent procurement panel;
- The PSAA has listened to the feedback on the poor performance of auditors in the current contract and have recognised the need to rebalance the quality vs price aspect of the new contract arrangements and, while the audit fees are likely to increase, value for money through a collective arrangement is most likely to be achieved.

4.3 Regulation 19 of the Local Audit (Appointing Person) Regulations 2015 requires that a decision to opt in to the PSAA national scheme or to appoint auditors directly must be made by a meeting of the Council as a whole. Furthermore, the Council needs to respond formally to PSAA's invitation in the form specified by PSAA by the close of the opt-in period (11 March 2022). It is recommended that authority is delegated to the Executive Director of Finance and Resources to respond to the invitation and take the necessary steps to finalise the appointment itself following the PSAA procurement process.

## **5. Implications**

### **Financial Implications:**

- 5.1. The core audit fee for the Council was £274k in 2014/15 whereas the scale fee quoted in the 2020/21 Audit Plan was £143k.
- 5.2. The proposed fees cannot be fully known until the procurement process has been completed, as the costs will depend on proposals from the audit firms. Given the widespread prevalence of fee variations, market uncertainty and the revision to an 80% quality weighting within the procurement, it is almost certain that the fee payable by the Council will rise.
- 5.3. Opting-in to a national scheme provides a strong opportunity to ensure fees are as low as possible, whilst ensuring the quality of audit is maintained by entering into a large scale collective procurement arrangement.

- 5.4. 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 2023/24.
- 5.5. 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 audit 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 or bid under the proposed arrangements whereby those going through registration or being 'supervised' by an appropriate approved body would be eligible.

### **Legal Implications:**

- 5.6. Section 7 of the Local Audit and Accountability Act 2014 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 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 8 provides that where a relevant Council is a local Council operating executive arrangement, the function of appointing a local auditor to audit its accounts is not the responsibility of an executive of the Council under those arrangements.
- 5.7. Section 12 makes provision for the failure to appoint a local auditor: the Council must immediately inform the Secretary of State, who may direct the Council to appoint the auditor named in the direction or appoint a local auditor on behalf of the Council.
- 5.8. 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. In July 2016 the Secretary of State specified PSAA as the appointing person.

**If you have any queries about this Report or wish to inspect any of the Background Papers, please contact:**

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### **BACKGROUND PAPERS:**

*None*