

TRAFFORD COUNCIL

Report to: Council
Date: 26 January 2022
Report for: Decision
Report of: Director of Finance and Systems

Report Title

Process for the appointment of the External Auditor

Summary

The purpose of this report is to set out proposals for appointing the Council's external auditor for the five-year period from 2023/24.

The Local Audit and Accountability Act 2014 at Section 7 states that a "relevant authority must appoint a local auditor to audit its accounts for a financial year not later than 31 December in the preceding financial year." Therefore, for Trafford Council, the appointment of an auditor must be completed by 31 December 2022 for the audit year 2023/24.

The Accounts and Audit Committee, in liaison with the Director of Finance and Systems, have reviewed a number of options available in terms of recommending to Council a process for the future appointment of the external auditor (to commence for an agreed period from the financial year 2023/24). This report provides background as to the options available and provides the recommendation from the Accounts and Audit Committee in terms of the proposed way forward.

The Accounts and Audit Committee was provided with a report on options available in terms of the process for the future appointment of the external auditor at its meeting on 25 November 2021. The Committee agreed that it should be recommended to Council that the future process for appointing the external auditor, to be completed by December 2022, is undertaken via the use of the Sector Led body, Public Sector Audit Appointments Ltd (Option 3 as described in this report).

Recommendation

It is recommended that Council approves the proposal to opt in to the national arrangement for appointing the External Auditor, managed by Public Sector Appointments Ltd (PSAA), to cover the five-year period from 2023/24 as detailed in Option 3.

Contact person for access to background papers and further information:

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Background Papers:

None

Relationship to Corporate Priorities	The scope of the work of External Audit may cover all of the Council's corporate priorities.
Relationship to GM Policy or Strategy Framework	Trafford Council has liaised with other GM Councils to review options available in considering recommended actions.
Financial	The Local Audit and Accountability Act 2014 states that a "relevant authority must appoint a local auditor to audit its accounts for a financial year not later than 31 December in the preceding financial year." The current auditor appointment arrangements cover the period up to and including the audit of the 2022/23 accounts. A decision therefore needs to be made to consider the appointment covering the audit of the accounts from 2023/24 onwards to ensure the Council meets these statutory requirements. This report sets out recommended steps.
Legal Implications	See Financial Implications
Equality/Diversity Implications	N/A
Sustainability Implications	N/A
Carbon Reduction	N/A
Staffing/E-Government/Asset Management Implications	N/A
Risk Management Implications	N/A
Health and Safety Implications	N/A

1 Background

- 1.1 The Local Audit and Accountability Act 2014 (the Act) at Section 7 states that a “relevant authority must appoint a local auditor to audit its accounts for a financial year not later than 31 December in the preceding financial year.”
- 1.2 In 2017 the Council opted into the ‘appointing person’ national auditor appointment arrangements managed by Public Sector Appointments Ltd (PSAA) and as a result appointed its current auditor for the period covering the accounts for 2018/19 to 2022/23.
- 1.3 During 2021/22 all local government bodies need to make decisions about their external audit arrangements for accounting periods from 2023/24.
- 1.4 At its meeting on 25 November 2021, the Accounts and Audit Committee, in liaison with the Director of Finance and Systems, reviewed a number of options available for the future appointment of the external auditor (to commence for an agreed period from the financial year 2023/24).
- 1.5 This report provides a summary of the options review and provides the recommendation from the Accounts and Audit Committee in terms of the proposed way forward.

2 Options Overview

- 2.1 There is a requirement under the Local Audit and Accountability Act 2014 for all local government and NHS bodies in England to locally appoint their external auditors. There are three options open to the Council under the Act which are:
 - Option 1: Make a stand-alone appointment as Trafford Council
 - Option 2: Establish local joint procurement arrangements
 - Option 3: Opt-in to a sector led body appointed by the Secretary of State under the Act - Public Sector Audit Appointments (PSAA) Limited.
- 2.2 New appointments for auditors need to be made by December 2022 regardless of which option is chosen.

- 2.3 In accordance with Regulation 19 of the Local Audit (Appointing Person) Regulations 2015, the decision on opt-in must be taken by members of the Authority meeting as a whole i.e. approval is therefore being sought at a meeting of the Council.

3 Review of Options

- 3.1 The options above have been reviewed and a summary of each is provided below. The Accounts and Audit Committee, in liaison with the Director of Finance and Systems, having reviewed these options are recommending option 3 to Council as the preferred process for the future appointment of the external auditor.

Option 1: Make a stand-alone appointment as Trafford Council

- 3.2 This option requires the Council to appoint an Auditor Panel, separate in role and membership to the Accounts and Audit Committee, to oversee the required public procurement exercise and subsequent management of the external audit contract. It requires the whole or majority of the membership to be independent of the Council. Independent members for this purpose are independent appointees – for the Council this excludes all 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 to which audit firm to award a contract for the Council's external audit.
- 3.3 This option allows the Council to have local input to the decision; however, recruitment and servicing of the Audit Panel, running the bidding exercise and negotiating the contract is estimated by the Local Government Association (LGA) to cost in the order of £15,000 plus ongoing expenses and allowances throughout the life of the contract.
- 3.4 The option limits the market influence that the Council has through the letting of a standalone contract and it is not guaranteed that audit firms will submit tenders for this work given widely reported capacity issues in the market currently and given the likelihood that they will also be competing as part of the PSAA Arrangement procurement exercise. This presents a potential risk of being unable to make an appointment by the statutory deadline. In addition, the Council could not take advantage of the 'economy of scale' created through joint or national procurement.
- 3.5 This option does enable the Council to determine cost, quality and social value weightings in its procurement process whereas opting into PSAA Arrangement will require us to align with PSSA's scoring and appointment processes.

Option 2: Establish local joint procurement arrangements to procure collaboratively

- 3.6 In 2017 an option was explored to establish Greater Manchester level collaborative procurement arrangements. Whilst affording greater economies of scale, this approach largely presents the same risks and opportunities as the stand-alone option detailed in option 1. It also increases the risk of audit firms being unable to submit a bid as they are at heightened risk of having a conflict of interest when acting for more than one of the local authorities.
- 3.7 The option has been explored more recently and when discussed with Greater Manchester Treasurers, the consensus is that this presents a high level of risk, with relatively low benefits compared to option 3.

Option 3: Opt in to PSAA

- 3.8 In 2017 PSAA led a procurement exercise for 484 of 494 public bodies in respect of the appointment of an external auditor.
- 3.9 On behalf of public bodies who opt to participate going forward, PSAA will undertake a public procurement exercise for the next appointing period, covering audits for 2023/24 to 2027/28 (PSAA Arrangement). Feedback from across Greater Manchester and North West authorities indicates that they will be opting into the PSSA Arrangement, thereby adopting this same approach in 2022 as 2017.
- 3.10 The closing date for public bodies to opt in to the PSAA Arrangement is 11 March 2022. This date will enable the completion of procurement activity and the award of contracts by the statutory deadline of 31 December 2022.
- 3.11 Given challenges and capacity in the current market and the need to maintain a high quality of external audit provision, there is an even stronger case that this option 3 will produce better outcomes and will be less burdensome for the Council, compared to procurement undertaken locally in accordance with options 1 and 2 because:
- collective procurement reduces overall costs for the sector and for individual authorities compared to smaller local procurements and contract management arrangements;
 - there is no requirement to establish a specific Council auditor panel with an independent chair and independent members to oversee a local auditor procurement and ongoing management of an audit contract;
 - supporting the sector-led body offers the best way of ensuring there is a continuing and sustainable public audit market into the medium and long term; and

- it is the best opportunity to secure the appointment of a qualified, registered auditor - there are only nine accredited local audit firms, and a local procurement would be drawing from the same limited supply of auditor resources as PSAA's national procurement.

3.12 Key features of the PSAA approach are:

- contracts let under the PSAA opt-in will run for five years;
- contracts between PSAA and the audit firms will require firms to deliver audits compliant with the National Audit Office (NAO) Code of Audit Practice;
- the number of firms eligible to undertake local public audit is regulated through the Financial Reporting Council and the Recognised Supervisory Bodies (RSBs). Only appropriately accredited firms will be able to bid for appointments;
- PSAA will manage current and potential future conflicts of interest rather than the Council having to re-procure contracts should such conflicts arise;
- opting into the PSAA will remove the need to set up an auditor panel in addition to the Council's Accounts and Audit Committee;
- in addition to working with the LGA, a stakeholder advisory panel with representative organisations for councils, police and fire bodies ensures ongoing influence and engagement with PSAA;
- PSAA is a not-for-profit organisation whose costs are around 4% of the scheme with any surplus distributed back to scheme members;
- scale fees will vary in line with the additional work needed which reflects risk and complexity (scale is set following consultation with opted in bodies);
- PSAA will manage variation requests and approve where appropriate; and
- This approach is supported and endorsed by the LGA.

3.13 One disadvantage of Option 3 is the inability to determine the evaluation criteria that will be used during the procurement exercise to determine the successful audit firm. However, the audit approach is mandated through standards and guidance and there is minimal flexibility in the scope of work requested. The scope of the audit will still be specified nationally by the National Audit Office (NAO) which is responsible for writing the Code of Audit Practice. All firms appointed to carry out the Council audit must follow these requirements.

4 Next Steps

- 4.1 The Council has until December 2022 to make an appointment. In practical terms this means one of the options outlined in this report will need to be in place by Spring 2022 in order that the contract negotiation process can be carried out during 2022.
- 4.2 The Council will then need to take action to implement new arrangements for the appointment of external auditors from April 2023.

5 Other options

The options are set out within the report.

6 Reasons for Recommendation

The Authority is required in accordance with the Local Audit and Accountability Act 2014 to appoint an auditor to audit its accounts. Legislation requires that the decision to appoint the auditor must be taken by the Council and completed in order to meet relevant deadlines in 2022.

Based on the options reviewed, as covered in this report, it is recommended that Council approves the proposal to opt in to the national arrangement for appointing the External Auditor, managed by Public Sector Appointments Ltd (PSAA), to cover the five-year period from 2023/24 as detailed in Option 3.

Finance Officer Clearance MF

Legal Officer Clearance DS

CORPORATE DIRECTOR'S SIGNATURE

G. Bentley