

Chichester District Council

Corporate Governance and Audit Committee

10 January 2022

Appointment of External Auditors 2023/24 to 2027/28

1. Contacts

Report Author

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2. Recommendation

That the Committee makes the following recommendations to Council on 25 January 2022:

2.1 That the Council accepts Public Sector Audit Appointments' invitation to opt into the sector-led option for the appointment of external auditors to principal local government and police bodies for five financial years from 1 April 2023; and,

2.2 Delegate authority to the Director of Corporate Services (S151 Officer) to sign the notice of acceptance of the invitation to opt in.

3 Background

3.1 Under the Local Audit and Accountability Act 2014, the Council has to appoint external auditors to complete audits from 2023/24 to 2027/28 following the end of the current audit contract. To opt into the national scheme the Council needs to return completed opt-in documents to Public Sector Audit Appointments Limited (PSAA) by 11 March 2022.

3.2 Up to this point the Council (along with 98% of all Councils) has chosen to opt-in to sector-led appointment arrangements conducted by Public Sector Audit Appointments Ltd (PSAA) as the 'appointing person' under the Local Audit and Accountability Act 2014 (the 2014 Act).

3.3 PSAA, a not for profit organisation set up by the Local Government Association (LGA) has been appointed as the appointed body for procuring external auditors under a national contract. They have invited the Council to opt-in to sector led procurement of local audit contracts from 2023/24.

3.4 Systemic problems with the framework for public sector external audit have been the subject of a number of recent reports, including the Redmond Review and there has been considerable criticism of how the present arrangements for local audit are operating.

3.5 Whilst they have reduced audit fees, they have not had an entirely positive effect on the local audit market and the quality of audit delivery under the new

arrangements has been far weaker than under the previous Audit Commission regime. The Department for Levelling Up, Housing and Communities (DLUHC) in its capacity as interim system leader for local audit, has recently highlighted that an unprecedented 91% of 2020/21 local audits missed the statutory deadline of 30 September to issue the external auditor's opinion on the Council's financial statements. Chichester District Council was one of these.

3.6 Despite this, the Government's view remains is that PSAA remains the organisation best placed to act as the appointing body for the next round of auditor appointments. It has encouraged Councils to 'think carefully' before opting-out.

4 Future audit arrangements

4.1 For the reasons set out below, the recommendation of the Director of Corporate Services is that, despite misgivings over the quality and timeliness of services delivered under the last national framework, the Council should opt in to contractual process being led by PSAA:

- a) collective procurement reduces costs for the sector and for individual authorities compared to a multiplicity of smaller local procurements;
- b) if it does not use the national appointment arrangements, the Council will need to establish its own (or a joint) auditor panel with an independent chair and independent members to oversee a local auditor procurement and ongoing management of an audit contract;
- c) it is the best opportunity to secure the appointment of a qualified, registered auditor - there are presently a very limited number of accredited local audit firms, and a local procurement would be drawing from the same limited supply of auditor resources as PSAA's national procurement; and,
- d) 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.

4.2 It is therefore recommended that Audit and Governance Committee recommend to Council that the Council opts in to the national contract.

5 Alternatives Considered

5.1 The Council could appoint an auditor itself or jointly with other local Councils. The reasons for rejecting local audit appointment, either solely or as a joint exercise as are set out below.

5.2 It would mean establishing an independent auditor panel which must be wholly, or a majority of, independent members. Independent members cannot be current and former elected members (or officers) and their close families and friends.

5.3 Whilst setting up an auditor panel would allow the Council to take maximum advantage of the local appointment regime and have some local input to the decision, recruitment and servicing of the Auditor Panel, running the bidding exercise and negotiating the contract may increase costs compared to the national

appointment option.

- 5.4 It is not clear that by managing our own procurement we would be able to secure sufficient competitive bids. Auditors can only be appointed from a short list of auditor currently approved to perform local audits. The possibility that firms active in the local area could register with to perform local audits exists but the specialised nature and scope of Local audit is so different to a Companies Act audit that many firms will find the barrier to entry far too high.
- 5.5 One potential gain would be having some control over the Council's auditors. With self-appointment, the Council may be able to secure better commitment to delivery and local tailoring of audit approach from the auditors than has been seen in recent years but potentially at a cost. Alongside this, as the local audit approach is specified centrally, the reality is that there would be little opportunity to tailor audit coverage to local priorities other than at an additional cost to the Council.

6 Resource and Legal Implications

Resource implications

- 6.1 There is a very strong likelihood that current external audit fee levels will increase when the current contracts end. The scope of audit has increased, requiring more audit work alongside the well-publicised concerns about capacity and sustainability in the local audit market.
- 6.2 Opting into a national scheme provides maximum opportunity to ensure fees are as realistic as possible, while ensuring the quality of audit is maintained, by entering into a large scale collective procurement arrangement.
- 6.3 If the national scheme is not used some additional resource would 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 budget may be required for audit fees from 2023/24.

Legal Implications

- 6.4 Section 7 of the 2014 Act requires a relevant Council to appoint a local auditor to audit its accounts for a particular financial year not later than 31 December in the preceding year.
- 6.5 Section 12 of the 2014 Act 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.
- 6.6 It is a legal requirement under the 2014 Act that where a local Council is operating executive arrangements, the function of appointing a local auditor to audit its accounts is not the responsibility of an executive of the Council.

7 Consultation

7.1 Not applicable

8 Community Impact and Corporate Risks

8.1 Not applicable

9 Other Implications

Are there any implications for the following?		
	Yes	No
<p>Crime and Disorder The Council has a duty “to exercise its functions with due regard to the likely effect of the exercise of those functions on, and the need to do all that it reasonably can to prevent, crime and disorder in its area”. Do the proposals in the report have any implications for increasing or reducing crime and disorder?</p>		X
<p>Biodiversity and Climate Change Mitigation Are there any implications for the mitigation of/adaptation to climate change or biodiversity issues? If in doubt, seek advice from the Environmental Strategy Unit (ESU).</p>		X
<p>Human Rights and Equality Impact You should complete an Equality Impact Assessment when developing new services, policies or projects or significantly changing existing ones. For more information, see Equalities FAQs and guidance on the intranet or contact Corporate Policy.</p>		X
<p>Safeguarding and Early Help The Council has a duty to cooperate with others to safeguard children and adults at risk. Do these proposals have any implication for either increasing or reducing the levels of risk to children or adults at risk? The Council has committed to dealing with issues at the earliest opportunity, do these proposals have any implication in reducing or increasing demand on Council services?</p>		X
<p>General Data Protection Regulations (GDPR) Does the subject of the report have significant implications for processing data likely to result in a high risk to the rights and freedoms of individuals? Processing that is likely to result in a high risk includes (but is not limited to):</p> <ul style="list-style-type: none"> • systematic and extensive processing activities and where decisions that have legal effects – or similarly significant effects – on individuals. • large scale processing of special categories of data or personal data relation to criminal convictions or offences. • Any larger scale processing of personal data that affects a large number of individuals; and involves a high risk to rights and freedoms eg based on the sensitivity of the processing activity. • large scale, systematic monitoring of public areas (including by CCTV). <p>Note - If a high risk is identified a Privacy Impact Assessment must be provided to the Data Protection Officer.</p>		X

<p>Health and Wellbeing</p> <p>The Council has made a commitment to 'help our communities be healthy and active'. You should consider both the positive and negative impacts of your proposal on the health and wellbeing of communities and individuals living and working in the district. Is your proposal likely to impact positively or negatively on certain groups and their ability to make healthy choices, for example low income families, carers, older people/children and young people. Are there implications that impact on areas of the district differently? eg the rural areas or those wards where health inequalities exist. If in doubt ask for advice from the Health and Wellbeing team.</p>		X
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10 Appendices

None

11 Background Papers

None