

North Tyneside Council

Report to Council

Date: 17 February 2022

Title: Arrangements for the Appointment of the Local Auditor (External Auditor)

Portfolio(s): Finance and Resources

Cabinet Member(s): Councillor Martin Rankin

Report from Service

Area: Finance

Responsible Officer: Janice Gillespie, Director of Resources (Tel: (0191) 643 5701)

Wards affected: All Wards

PART 1

1.1 Executive Summary:

To seek Council approval to opt-in to the Public Sector Audit Appointments (PSAA) Limited arrangements from 1 April 2023 for the five financial years commencing 2023/24 to 2027/28.

Under the Local Audit and Accountability Act 2014 the Authority is required to appoint an auditor to audit its accounts each financial year. The Authority's current auditor appointment covers the period up to and including the audit of the 2022/23 accounts. This report sets out proposals for appointing the external auditor to the Authority for the accounts for the five-year period from 2023/24.

The original decision taken by Council was based on a value for money position related to the shared participation in the procurement of Newcastle City Council and Northumberland County Council. It was unclear whether the cooperative arrangements for the sector would suitably mature. However, over time, neighbouring Councils have changed their arrangements and the co-operative arrangements have developed to represent value for money. In parallel, it has become clear that some of the external audit companies are struggling with capacity to operate outside the collaborative procurement. This has proven to be a material risk to the timetable for the completion of the Accounts.

1.2 Recommendation(s):

It is recommended that Council:

- (1) agree to accept the invitation to become an opted-in authority to the national scheme for the appointment of local auditors, which is managed by Public Sector Audit Appointments (PSAA) Limited;

- (2) agree that the Section 151 Officer (or Deputy Section 151 Officer) completes the required paperwork in order to make the necessary arrangements; and
- (3) note that the length of the compulsory appointing period covers the audits of the five consecutive financial years commencing 1 April 2023 (2023/24 to 2027/28).

1.3 Forward Plan:

It has not been practicable to give twenty-eight days' notice of this report. However, it is required to be considered without the twenty-eight days' notice being given because the PSAA have recently been very clear that their March deadline is final and will not be flexed to allow consideration at Council's meeting on 17th March – which would have allowed for the usual notice and publication period.

1.4 Council Plan and Policy Framework

The work of the local (external) auditor is based in statute. The external audit responsibilities to audit the published financial statements, and provide a value for money opinion, support all service responsibilities as identified within the 2021-2025 Our North Tyneside Plan.

1.5 Information:

1.5.1 Background

- 1.5.2 The Authority's current provider of external audit services is Ernst & Young who were appointed following the Authority's decision to undertake a collaborative procurement exercise which was jointly undertaken between, North Tyneside Council, Newcastle City Council and Northumberland County Council. The current auditor appointment arrangements were agreed by full Council on 20 July 2017 and cover the 5 years up to and including the audit of the 2022/23 accounts.
- 1.5.3 Under the Local Audit and Accountability Act 2014, the Authority is required to appoint a local auditor to audit its accounts for each financial year. The Authority's statutory requirement is to have an auditor appointment in place by 31 December of the year preceding the start of the contract i.e. by 31 December 2022. The time needed to run an effective procurement process means that the Authority needs to decide how it wishes to undertake the process. The options are for the Authority to:
 - (a) arrange its own procurement and make the appointment;
 - (b) to arrange procurement in conjunction with other bodies; or
 - (c) to take advantage of the national collective scheme administered by PSAA.

For individual or joint procurement processes an independent Auditor Panel would be required in line with legislative requirements. In respect of option c, the Authority will need to 'opt in' to the sector led body arrangement by 11 March 2022 having firstly obtained full Council approval to do so. (A requirement of the Local Audit (Appointing Person) Regulations 2015).

- 1.5.4 The scope of external audit work is specified nationally by the National Audit Office in their Code of Audit Practice. Not all firms are eligible to compete for the work as they need to be registered with a Registered Supervising Body approved by the Financial Reporting Council. It is unlikely that small local firms will meet the eligibility criteria to

undertake the work. Given the complexity of local authority audit work, it is envisaged that contracts would be awarded for a minimum of 4 to 5 years.

1.5.5 For options (a) and (b), the Authority would undertake the procurement exercise either itself (a) or with its chosen partners (b) using an Auditor Panel. This will need to be undertaken in accordance with guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). The membership of the Audit Panel must be wholly or have a majority of independent members. Independent members for this purpose are independent appointees; this excludes current and former elected members (or officers) and their close families and friends. Therefore, elected members would not have a majority input to the selection and appointment process. Independent members of the Audit Committee may be eligible, but this would need to be confirmed. If the Authority decided to join with other authorities to establish a joint Auditor Panel, this would again need to be constituted of wholly or a majority of independent members with legal advice needed on the exact constitution, depending on the authorities involved.

1.5.6 In July 2016, the then Secretary of State for Housing Communities and Local Government specified PSAA Limited 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. PSAA Limited has a responsibility for:

- appointing auditors to all relevant authorities;
- setting scales of fees, and charging fees, for the audit of accounts of relevant authorities and consulting with relevant parties in relation to those scales of fees;
- ensuring effective management of contracts with audit firms for the delivery of consistent, quality and effective audit services to relevant authorities;
- ensuring that public money continues to be properly accounted for and protected;
- being financially responsible having regard to the efficiency of operating costs and transparently safeguarding fees charged to audited bodies; and
- leading its people as a good employer, ensuring that it continues to be fit-for-purpose; motivating and supporting its staff; and communicating with them in an open, honest and timely way.

The PSAA will appoint the external auditors for all opted in bodies for a period of 5 years with an option to extend to for a further two years by mutual agreement.

1.5.7 The invitation to opt into the PSAA national appointment process (option (c)) must be accepted by 11 March 2022 if the Authority wishes to take this route. The PSAA have advised an expected timetable as follows for appointment process:

- 11 March 2022 – Deadline for formal ‘Opt in’ from authorities. (Therefore, full Council approval to ‘opt in’ will be required before this date)
- Spring/Summer 2022 – Process for making individual appointments for opted in LA’s will be published
- August 2022 – Procurement of Audit Services will have been completed
- Autumn 2022 – Consultation with opted in local authorities on proposed auditor appointments
- 31 December 2022 – Confirmation of appointed auditor received.

1.6 Decision options:

The following decision options are available for consideration by Council:

Option 1

To agree the recommendation to accept the invitation to become an opted-in authority to the national scheme for the appointment of local auditors, which is managed by Public Sector Audit Appointments (PSAA) Limited.

Option 2

Not to agree to accept the invitation to become an opted-in authority to the national scheme for the appointment of local auditors, which is managed by Public Sector Audit Appointments (PSAA) Limited. The Authority would therefore need to make other arrangements for the appointment as covered in section 1.5 of this report

Option 1 is the recommended option.

1.7 Reasons for recommended option:

Option 1 is recommended for the following reasons:

Opting into the PSAA arrangement would ensure the following:-

- a fully independent approach to appointment of the external auditors, saving time and resources by avoiding the need to set up independent audit panels and undertaking procurement processes;
- the costs of a procurement and appointing exercise would be shared across participating authorities. A national exercise offering large contract values may also encourage participating firms to offer more realistic prices in what is currently a challenging market. Independence issues would be managed by PSAA Limited who would have a number of contracted firms to call on;
- the PSAA Limited have made a commitment to further enhance arrangements related to monitoring quality of service, delays in audits and auditors staffing issues, contract management and value for money in fee setting;
- the Authority has until end of December in the year before the accounting period to be audited commences and as such has until the end of December 2022 to appoint the External Auditor. Should the Authority decided to arrange its own procurement and undertake the appointment, sufficient time would be required to set up the required Audit Panel and run the procurement process in sufficient time to achieve that time frame; and
- there are concerns about capacity and sustainability in the local audit market which means 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.

1.8 Appendices:

There are no appendices for this report.

1.9 Contact officers:

Janice Gillespie, Director of Resources, tel. (0191) 643 5701

Claire Emmerson, Senior Manager Financial Strategy and Planning, tel. (0191) 643 8109

1.10 Background information:

The following background papers/information have been used in the compilation of this report and are available at the office of the author:

- (1) Local Audit and Accountability Act 2014.
<https://www.legislation.gov.uk/ukpga/2014/2/contents>
- (2) The Local Audit (Appointing Person) Regulations 2015
<https://www.legislation.gov.uk/ukdsi/2015/9780111126134>

PART 2 – COMPLIANCE WITH PRINCIPLES OF DECISION MAKING

2.1 Finance and other resources

2.1.1 The Authority's current external audit fees are £154,100 a year. There have been significant increases in fees over recent years due to the complexity of the work and increases in the scope of audit, requiring more audit work. The Authority anticipate that fees may continue to rise due to changes in the audit regime alongside the issue of supply and capacity in the market.

2.2 Legal

2.2.1 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, subject to the provision of Schedule 3 of the Act 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. Schedule 3 of the 2014 Act provides that where a relevant Authority is operating executive arrangements the function of appointing a local auditor to audit its accounts is not the responsibility of an executive of the Authority.

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.

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.

2.3 Consultation/community engagement

2.3.1 Internal Consultation/Engagement

Internal consultation has taken place between the Cabinet Member for Finance and Resources, Chair of the Audit Committee and the Director of Resources.

2.3.2 External Consultation/Engagement

The authorities who formed part of the collaborative procurement exercise to appoint the current external auditor have been consulted and the Authority understands that those authorities are recommending opting into the PSAA arrangements for 2023/24 to 2027/28.

2.4 Human rights

There are no human rights implications arising from this report.

2.5 Equalities and diversity

There are no equalities and diversity implications arising from this report.

2.6 Risk management

The principal risks are that the Authority:

- Fails to appoint an auditor in accordance with the requirements and timing specified in local audit legislation; or
- Does not achieve value for money in the appointment process.

These risks are considered best mitigated by opting into the sector-led approach through PSAA.

2.7 Crime and disorder

There are no crime and disorder implications arising directly from this report.

2.8 Environment and sustainability

There are no environment and sustainability implications arising directly from this report.

PART 3 - SIGN OFF

- Chief Executive
- Director(s) of Service
- Mayor/Cabinet Member(s)
- Chief Finance Officer
- Monitoring Officer
- Assistant Chief Executive