

Report for: Corporate Committee – 1 February 2021

Title: External Audit Appointment

Report authorised by: Jon Warlow, Director of Finance & S151 Officer

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Ward(s) affected: N/A

Report for Key/

Non Key Decision: Non-Key Decision

1. Describe the issue under consideration

- 1.1 In July 2016, the Secretary of State for Housing Communities and Local Government (MHCLG) specified Public Sector Audit Appointments Limited (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.
- 1.2 In accordance with the Local Audit and Accountability Act 2014 and the Local Audit (Appointing Person) Regulations 2015 (the Regulations), PSAA formally invited all eligible bodies to join the national auditor appointment arrangements for the audit years 2018/19 to 2022/23 in its role as a specified appointing person. Haringey Council, alongside most of London Councils opted in.
- 1.3 As the first appointing period is coming to an end, PSAA has formally invited all bodies to either opt in or out of this arrangement for the second appointing period of 2023/2024 to 2027/2028.
- 1.4 The decision for the Council to appoint its own external auditors itself, or to opt in for the sector led approach, must be made by Full Council and cannot be delegated.
- 1.5 The Corporate Committee's responsibilities in relation to audit include: 'Considering arrangements for the appointment of the external auditor'. This report is provided to advise the committee of the options available to the Council as we approach the end of the current appointing period and recommend a preferred solution.

2. Cabinet Member Introduction

- 2.1 Not applicable.

3. Recommendations

Corporate Committee is asked:

- 3.1 To recommend to Full Council that Haringey Council opts in to the Public Sector Audit Appointments Ltd (PSAA) scheme to enable them to appoint the external auditor for the Council and for the Pension Fund.

4. Reasons for decision

- 4.1 The recommendation is based on the most economically advantageous approach, which will provide an appropriately qualified and suitable external audit function for the Council; and which will achieve economies of scale by opting in to a national procurement process to provide competitive prices for local audit services.
- 4.2 PSAA has a specialist, experienced team who will use their technical expertise and sector knowledge to make transparent and independent auditor appointments for the Councils.
- 4.3 Most London local authorities have indicated willingness to continue with the PSAA arrangement and it will be more beneficial to be part of this large group; to enable a collective reshaping and improvement in audit services.

5. Alternative options considered

- 5.1 There are a number of options which are available to the Council in making the appointment; the choice of which route to take must be made by Full Council and cannot be delegated. The options which are available are as set out below:
 1. To establish a separate and individual auditor panel to advise on the external auditor appointment, with the final decision again being made by Full Council
 2. To work collaboratively with one or more authorities, sharing an auditor panel if they choose
- 5.2 The Chartered Institute of Public Finance and Accountancy (CIPFA) produced non-statutory guidance in September 2015 to advise local authorities of what they need to be aware of in relation to auditor panels. This report summarises the possible advantages and disadvantages of each option

5.3 Analysis of the Auditor Panel options

Ref	Option	Possible Advantages	Possible Disadvantages
1.	Set up own separate and individual panel to oversee separate and individual procurement	<ul style="list-style-type: none"> • Full ownership of the process • Fully bespoke contract with the auditor • Tendering process more based on local circumstances 	<ul style="list-style-type: none"> • May not be able to get bids from suitable firms due to their focus being on PSAA contract. A single authority contract may be less attractive to some providers. • May procure at a very high cost for same reasons as above. • May experience difficulties in appointing majority independent panel members and independent panel chair as per the regulations • Will not achieve economies of scale
2.	Set up a panel jointly with other authority/ authorities as part of a procurement exercise for joint contract covering more than one authority or multiple separate contracts	<ul style="list-style-type: none"> • Less administration than a sole auditor panel • Will be able to share the administration expenses • May be easier to attract suitable independent panel members • If procuring a joint audit contract: <ul style="list-style-type: none"> ○ May still be a relatively locally tailored process ○ May be able to achieve some economies of scale • If procuring separate audit contracts: <ul style="list-style-type: none"> ○ An opportunity for fully bespoke contracts with the auditor if the group of authorities can agree 	<ul style="list-style-type: none"> • If procuring a joint audit contract: <ul style="list-style-type: none"> ○ May need to compromise on the arrangements or auditor contract ○ May not end up with first choice of auditor, compared to an individual auditor panel. If a large group of authorities work together and decide to appoint one joint audit contract across all the authorities, a joint panel may be more likely to advise appointment of an auditor it considers suitable for all authorities taken together • Need to agree appointment of members across multiple authorities and set up an appropriate joint decision-making process

- i. The arrangements for an auditor panel must comply with the requirements of the Act and must have a majority of independent, non-elected members. The auditor panel must also be chaired by an independent non-elected member. The rules about independence are very specific and must comply with The Local Audit (Auditor Panel Independence) Regulations 2014. The panel can be an existing committee or sub-committee of an existing committee provided that the membership criteria are met.
- ii. Once the external auditor is appointed, the auditor panel will continue to have roles in monitoring the auditor's performance, ensuring the auditor's independence and in the event of any relationship problems with members or officers. In the event of a breakdown of the relationship, or poor auditor performance, the Council would be faced with a re-procurement exercise.

5.4 Appointment by the Sector Led Route

- 5.4.1 In July 2016, PSAA was specified as a designated person for the purposes of making external audit appointments. They are the only body to be designated as such.
- 5.4.2 If the Corporate Committee agrees to the recommendation and Full Council decided to opt for this route, the Council would confirm its intention to PSAA to participate in the sector led scheme by **Friday, 11 March 2022**. PSAA would then carry out the procurement (in accordance with the Public Contracts Regulations 2015) on behalf of all councils and NHS trusts that have signed up with them and would then allocate external auditors, probably on a geographic basis as has happened in the past.
- 5.4.3 PSAA would then be the body that would support the external auditor's independence and would be involved if there were relationship problems. Monitoring the work of the external auditor would continue to be undertaken by the Corporate Committee.
- 5.4.4 PSAA would be the contracting authority, so there would be no procurement by the Council. The fees paid for the audit service would include PSAA's costs. It is however a non-profit making organisation and if any surpluses were achieved these would be returned to the scheme members. This year, Haringey Council received a redistribution of surplus of £31,360 and £3,190 for the Council's account and Pension Fund account respectively.
- 5.4.5 This route would be the most straightforward and least resource intensive. It would enable the achievement of more competitive prices because of the volume being procured. In the event of a breakdown of the relationship or poor auditor performance, PSAA would be able to replace the auditor with another that it has contracted with without the cost implications or interruption of service which might be experienced if the Council contracted with a single supplier.
- 5.4.6 Audit fees will continue to be met by each local authority. PSAA will manage the fee levels and pool scheme costs to enable costs to be charged to authorities in accordance with an agreed scale of fees. PSAA will consult with audited bodies on the proposed scale of fees until the initial procurement has been completed and contracts have been let.

6. Background information

- 6.1 Prior to its final abolition in March 2015, external auditors for local authorities were appointed by the Audit Commission. The auditor currently appointed for Haringey Council and for its pension fund is BDO LLP and they remain as the external auditors. The current audit contracts were novated from the Audit Commission to PSAA on 1 April 2015.
- 6.2 The contract was due to expire following conclusion of the audits of 2016/17 accounts, but was extended by PSAA, subject to MHCLG amendment of the transitional provisions to extend the period in which the statutory functions are delegated to PSAA.

- 6.3 In October 2015, the Secretary of State confirmed that the transitional provisions amendment allowing an extension of the contracts for a period of one year for audits of principal local government bodies to include the audit of 2017/18 accounts.
- 6.4 BDO was then appointed as the Council's auditors for the **first appointing period** which spans the five consecutive financial years commencing 1 April 2018. It covers the audits of accounts for the financial years 2018/19 to 2022/23.
- 6.5 The **second appointing period** will span the five consecutive financial years commencing 1 April 2023. It will cover the audits of accounts for the financial years 2023/24 to 2027/28.

7. Contribution to strategic outcomes

- 7.1 External audit makes a significant contribution to ensuring the adequacy and effectiveness of internal control and use of resources throughout the Council, which covers all key Priority areas.

8. Statutory Officers comments (Chief Finance Officer (including procurement), Assistant Director of Corporate Governance, Equalities)

8.1 Finance and Procurement

The External Audit plan of work in relation to the 2020/21 year is currently estimated to cost £242k and appropriate provision was made within the budget for 2020/21 under the current contractual arrangements. The Medium Term Financial Strategy (MTFS) at this stage assumes a similar level of budget will be required in future years.

8.2 Legal

8.2.1 The Head of Legal and Governance (Monitoring Officer) has been consulted in the preparation of the report.

8.2.2 The changes to the arrangements for appointing external auditors, and the range of options available under the framework of the Local Audit and Accountability Act 2014, are set out in the main body of this report.

8.2.3 If an authority fails to appoint an external auditor the Secretary of State has the power to direct the authority to appoint a particular auditor, or appoint one on its behalf.

8.2.4 The Head of Legal and Governance (Monitoring Officer) sees no legal reasons preventing Corporate Committee from agreeing to the recommendations in the report.

8.3 Equality

There are no direct equality implications for the Council's existing policies, priorities and strategies. However, ensuring that the Council has effective external audit arrangements in place will assist in providing assurance to

residents and other stakeholders that the Council manages public money appropriately and in accordance with statutory requirements.

9. Use of Appendices

N/A

10. Local Government (Access to Information) Act 1985

Not applicable.