

**Report for: Council**

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<b>Date of Meeting:</b>	24 <sup>th</sup> February 2022
<b>Subject:</b>	Invitation from Public Sector Audit Appointments to opt-in to external audits from 2023-24 to 2027-28
<b>Responsible Officer:</b>	Dawn Calvert, Director of Finance and Assurance
<b>Exempt:</b>	No
<b>Wards affected:</b>	All
<b>Enclosures:</b>	None

## **Section 1 – Summary and Recommendations**

This report requires the Council to consider the options available for appointing the external auditors for the financial years 2023-24 to 2027-28 including the invitation from the Public Sector Audit Appointments to opt-in to the sector led appointment option.

The formal approval process is a decision made by Members of an authority, meeting as a whole. The closing date for opting in is 11<sup>th</sup> March 2022.

### **Recommendations:**

- Council is recommended to approve a sector led approach and agree that the Council should opt in to appointing external auditors through an appointed person (the PSAA) as set out in option 3
- Authorise the Director of Finance and Assurance to accept by 11<sup>th</sup> March 2022, the PSAA invitation of opting in on behalf of this Authority.

## **Section 2 – Report**

### **Background**

1. The London Borough of Harrow along with the majority of Local Authorities uses Public Sector Audit Appointments (PSAA) for the procurement and appointment of external audit services.
2. The Council's current external auditors are Mazars LLP who were appointed to the London Borough of Harrow through the opt in sector led route of the PSAA.
3. Recent year's audit fee budgets have been set at the scale fees of £116,056 for the audit of the statement of accounts with separate additional fees for the Pension Fund and other grants and returns. Going forward scale fees will be put under pressure as changes are implemented to auditor's work on value for money arrangements and reporting.
4. The PSAA has invited all principal local government bodies to become opted-in authorities for the nomination of external auditors for the financial years 2023-24 to 2027-28.
5. The invitation is made in accordance with the Local Audit and Accountability Act 2014 and the Local Audit (Appointing Person) Regulations 2015 (the Regulations).
6. The length of the compulsory appointing period is for the five consecutive financial years commencing 1<sup>st</sup> April 2023.
7. A decision to become an opted in authority must be made in accordance with the Regulations, that is by Members at a full Council meeting and be made by 11<sup>th</sup> March 2022.
8. By not taking up the invitation from PSAA this Authority would have to procure an individual or joint contract with other authorities for external audit services and then set up an auditor panel.
9. This report was taken to the Governance, Audit, Risk Management and Standards Committee (GARMS) for information on 25<sup>th</sup> January 2022 where the report was noted.

## **Options Available**

10. There are three broad options open to the Council under the Local Audit and Accountability Act 2014 (the Act) which are set out below, each considered with their benefits and risks:

### **Option 1: Make a stand-alone appointment**

11. An Auditor Panel will need to be set up if a stand-alone appointment is made by the Council. The members of the panel must be wholly or be a majority of independent members as defined by the Act. Independent members for this purpose are independent appointees, this excludes 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 which firm of accountants to award a contract for the Council's external audit. A new independent auditor panel would need to be established by the Council, in addition to the GARMS Committee. The Panel would be responsible for selecting the auditor and recommending their appointment to Full Council.

#### **Advantages / benefits**

12. Setting up an auditor panel allows the Council to take full advantage of the new local appointment regime and have local input to the decision.

#### **Disadvantages / risks**

13. Recruitment and servicing of the Auditor Panel, running the bidding exercise and negotiating the contract has been estimated in the past by the Local Government Association to cost in excess of £15,000 plus on-going expenses and allowances. The Council would not be able to take advantage of reduced fees that may be available through joint or national procurement contracts. The assessment of bids and decision on awarding contracts will be taken by independent appointees and not solely by elected Members.

### **Option 2: Set up a Joint Auditor Panel / local joint procurement arrangements**

14. The Act enables the Council to join with other authorities to establish a joint auditor panel. Again, this will need to be constituted of wholly or a majority of independent appointees (non-elected Members). Further legal advice would be required on the exact constitution of such a panel having regard to the obligations of each Council under the Act and the Council would need to liaise with other local authorities to assess the appetite for such an arrangement.

#### **Advantages / benefits**

15. The costs of setting up the panel, running the bidding exercise and negotiating the contract will be shared across a number of authorities. There is greater opportunity for negotiating some economies of scale by being able to offer a larger combined contract value to the firms.

### **Disadvantages / risks**

16. The decision-making body will be further removed from local input, with potentially no input from elected Members where a wholly independent auditor panel is used or possible only one elected Member representing each Council, depending on the constitution agreed with the other bodies involved. The choice of auditor could be complicated where individual Councils have independence issues. An independence issue occurs where the auditor has recently or is currently carrying out work such as consultancy or advisory work for the Council. Where this occurs, some auditors may be prevented from being appointed by the terms of their professional standards.
17. There is a risk that if the joint auditor panel choose a firm that is conflicted for this Council then the Council may still need to make a separate appointment with all the attendant costs and loss of economies possible through joint procurement.

### **Option 3: Opt-in to a sector led body (using Public Sector Audit Appointments (PSAA))**

18. To follow a sector led approach by which an 'appointing person' operates a nationwide, EU compliant procurement and appoints on the Council's behalf, maximising the opportunities for the most economic and efficient approach to procurement of external audit services on behalf of the whole sector. The PSAA continues to be the appointing person.

### **Advantages / benefits**

19. The costs of setting up the appointment arrangements and negotiating fees would be shared across all opt-in authorities. By offering large contract values the firms would be able to offer better rates and lower fees than are likely to result from local negotiation. Any conflicts at individual authorities would be managed by the sector led body who would have a number of contracted firms to call upon.
20. Opting into the appointing person scheme removes the need to set up a separate independent auditor panel, comprising a majority of independent (non-elected) Members.
21. The PSAA has a specialist experienced team with technical expertise and extensive public sector knowledge when making auditor appointments. This provides the advantage of meeting all relevant regulations to appoint auditors, managing contracts with audit firms and setting and determining audit fees.
22. This option provides a transparent and independent external auditor appointment via a third party

### **Disadvantages / risks**

23. Individual elected Members will have less opportunity for direct involvement in the appointment process other than through the Local

Government Association and / or stakeholder representative groups. In order for the sector led body to be viable and to be placed in the strongest possible negotiating position the sector led body will need Councils to opt-in before final contract prices are known.

### **Preferred option**

24. Officers recommend the third Option, the sector led approach (using Public Sector Audit Appointments), as the most appropriate option for the Council to follow for the reasons set out above.

## **Legal Implications**

The appointment of the external auditor is required under the provisions of the Local Audit and Accountability Act 2014 and the requirements of the Local Audit (Appointing Person) Regulations 2015.

## **Financial Implications**

The Council does not make any direct payments to the PSAA for joining the national scheme. Other references to financial implications are contained within the main body of the report.

## **Risk Management Implications**

Risks included on corporate or directorate risk register? **No**

Separate risk register in place? **No**

The relevant risks are summarised below.

The following key risks should be taken onto account when agreeing the recommendations in this report:

<b>Risk Description</b>	<b>Mitigations</b>	<b>RAG Status</b>
Increased costs / lack of value for money caused by opting to appoint our own auditors (cost of administration of process plus potential higher external audit fees).	<ul style="list-style-type: none"> <li>▪ By opting into the PSAA scheme</li> <li>▪ The opt-in provides a value for money offer based on minimising PSAA costs and the distribution of any surpluses back to scheme members</li> </ul>	Green
Unable to secure the appointment of a qualified registered auditor.	<ul style="list-style-type: none"> <li>▪ By opting into the PSAA scheme</li> </ul>	Green
Lack of transparent / compliant procurement process	<ul style="list-style-type: none"> <li>▪ By opting into the PSAA scheme and using their specialist team</li> </ul>	Green

## **Equalities implications / Public Sector Equality Duty**

Considering the Council's Public Sector Equality Duties under the Equality Act 2010, s.149, is integral to the decision- making process.

Was an Equality Impact Assessment carried out? No

There are no direct equalities implications.

## **Council Priorities**

The procurement process for appointing external auditors provides assurance that the Council has managed and delivered its finances in accordance with its approved plans and budget.

## **Section 3 - Statutory Officer Clearance**

### **Statutory Officer:**

Signed by the Chief Financial Officer

Dawn Calvert

Date: 10<sup>th</sup> February 2022

### **Statutory Officer:**

Signed on behalf of the Monitoring Officer

Caroline Eccles

**Date:** 10<sup>th</sup> February 2022

### **Chief Officer:**

Signed by Head of Procurement

Nimesh Mehta

**Date:** 11<sup>th</sup> February 2022

### **Chief Officer:**

Signed by the Corporate Director

Charlie Stewart

**Date:** 11th February 2022

## **Mandatory Checks**

Ward Councillors notified: NO, as it impacts on all Wards

## **Section 4 - Contact Details and Background Papers**

**Contact: Paul Gower** (Interim Technical Accounting Manager)  
Tel: 020-8424-1335 Email: paul.gower@harrow.gov.uk

### **Background Papers:**

None

If appropriate, does the report include the following considerations?

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|----------------|----|
| 1 Consultation | No |
| 2 Priorities   | No |