

London Borough of Hammersmith & Fulham

Report to: Audit Committee

Date: 14 December 2021

Subject: External Audit appointment 2023-28

Responsible Director: Emily Hill, Director of Finance

SUMMARY

Under the Local Audit and Accountability Act 2014 the Council must make arrangements for the appointment of external auditors for the Council's accounts (including pension fund). The Council will soon need to decide as to appointment of auditors for the period 2023-28.

This report, for noting and for comment, provides detailed background to the appointment process and sets out the options for making such an appointment.

Under the legislation, the decision to appoint the external auditor must be taken by Full Council and this is anticipated to take place in February 2022. It is provisionally recommended that the Council opt-in to the sector-led 'appointing person' regime operated by Public Sector Audit Appointments (PSAA).

RECOMMENDATIONS

This report is for noting and for comment.

Wards Affected: All

Our Priorities	Summary of how this report aligns to the H&F Priorities
Being ruthlessly financially efficient	The external audit provides assurance to internal and stakeholders about the financial arrangements of the Council and the value for money achieved.

Financial Impact

The cost of external audit will be met from existing budgets. A breakdown of costs in recent years is as follows:

	2020/21*	2019/20	2018/19
	£'000	£'000	£'000
Main Audit	195	191	140
Pension Fund	26	36	16

*Currently subject to audit

Legal Implications

Section 7 of the Local Audit and Accountability Act 2014 (the Act) requires the Council to appoint a local auditor to audit its accounts by 31 December in the preceding year for a maximum period of five years.

The procedure for appointment of a local auditor is set out in Section 8 of the Act and requires the Council to consult and take account of the advice of its auditor panel on the selection and appointment of the auditor.

If the Council fails to appoint a local auditor, under section 12 of the Act, 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.

Section 17 of the Act 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 and 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. This report proposes that the Council opts in to the sector-led 'appointing person' regime.

As the Council operates executive arrangements, under section 8 of the Act, the correct decision maker is Full Council.

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Background Papers Used in Preparing This Report

None

BACKGROUND

1. From 1983 to 2015 the Audit Commission was responsible for Local Authority external audit arrangements in England. From 1 April 2015, under the Local Audit and Accountability Act 2014 (the Act), local public bodies in England have been required to appoint their own external auditors and, following some transitional arrangements, the current system came into full effect in 2018/19.
2. Under the legislation, authorities can make an appointment via “an appointing person” to act as a joint procurement body for local audit. The government have appointed Public Sector Audit Appointments (PSAA) for this purpose. PSAA is a subsidiary company of the Local Government Association (LGA) and its role as appointing person for opted-in bodies is to:
 - appoint auditors to local public bodies, including councils, police and crime commissioners, chief constables, fire and rescue authorities and other relevant principal local government bodies;
 - set scales of fees, and charging fees, for the audit of the accounts and relevant bodies;
 - oversee of the delivery of audit services to opted-in bodies; and
 - manage contracts with audit firms.
3. In 2017, following a decision by Full Council, the Council opted into the PSAA arrangements for the period 2018-23. The Council’s auditor under these arrangements is Grant Thornton UK LLP, one of the nine accredited local audit firms. In total, 98% of relevant local bodies (all but 10), opted in to the PSAA arrangements for the period 2018-23.
4. Authorities who choose to make their own arrangements (i.e. those who do not opt-in to the appointing person arrangements) must undertake the following:
 - procurement and contract management functions as otherwise provided by the appointing person
 - establishment of an Independent Auditor Panel - this panel must have at least three members, a majority of whom must be independent and one of whom must chair the panel.
5. It has been confirmed that PSAA will continue as the appointing person for the period after 2023. On 22 September 2021 PSAA invited all eligible bodies to become opted-in authorities for the period 2023/24 to 2027/28 (the compulsory appointing period).
6. A decision to become an opted-in authority must be taken by the members of an authority meeting as a whole which in the Council’s case would be a meeting of Full Council. The deadline to opt-in for the period 2023-28 is Friday 11 March 2022.
7. During the present contract period there have been some significant issues affecting local government audit as follows:

- increased scrutiny following a number of high-profile corporate failures and the ongoing financial challenges faced by many local authorities;
- the introduction of additional oversight and monitoring of audits of significant local public bodies by the Financial Reporting Council;
- resources are considered significantly stretched and the recent 'Redmond Review' has pointed to a 'broken market';
- local audit opinions have been delayed in past few years, some significantly so; and
- additional work has now meant additional fees are needed.

OPTIONS AND ANALYSIS OF OPTIONS

8. Below are the options, including a provisional recommended option, to be put forward to Full Council for decision.
9. There are three viable options for appointing auditors pursuant to the Act:
 - Option 1 – Opt-in to PSAA arrangements for the years 2023-28 (recommended)
 - Option 2 – Local procurement and standalone appointment
 - Option 3 – Local consortium arrangements

A 'do nothing' option is not viable as the Council must, under the Local Audit and Accountability Act 2014, make arrangements for the audit of its accounts annually and existing arrangements expire in 2023.

Option 1 - Opt-in to PSAA arrangements for the years 2023-28 (recommended)

10. As per the engagement for the period 2018-23 the Council would opt-in to PSAA arrangements; the PSAA would then undertake market engagement and procurement and appoint an auditor on the Council's behalf.
11. The proposed contract duration is five years, with an option to extend for a further one or two years with supplier agreement using a single tender, restricted procedure. A dynamic purchasing system will be run in parallel to provide an option for some or all subsequent auditor appointments and there will be between seven and ten contract lots; sizes to be determined but the largest being c20 to 25% of the market to reflect a balance of geography and blend of authority types.
12. The appointment of the PSAA provides the following advantages:
 - the sector-led approach of the PSAA provides the best opportunity to achieve economies of scale and maximum purchasing power;
 - negotiations and contract management are undertaken by a dedicated specialist team; and
 - the approach provides an established route to independent audit appointment whilst avoiding the need for Council to establish an independent audit panel which would mean additional cost. It would also likely necessitate changes to

the Council's existing governance arrangements, requiring the appointment of independent members.

13. The primary drawback of the PSAA approach is that the Council would not be taking advantage of the full flexibility available under the Act. These freedoms, generally, however mean accepting increased risks.
14. It is considered that advantages of this option markedly outweigh the drawbacks and the advantages of the alternatives (below). As such, this is the recommended approach.

Option 2 – Local procurement and standalone appointment

15. In order to make a stand-alone appointment the Council will need to set up an Independent Auditor Panel. This panel of at least three members must be majority independent (including the Chair). Independent members would exclude current and former elected members (or officers) and their close families and friends.
16. The Council would need to consider how the ongoing role of such a panel would complement the role of the existing Audit Committee and review its governance arrangements as necessary (for which further legal advice would be required). The Council would also need to make its own arrangements for procurement and ongoing contract management whilst continually demonstrating independence.
17. The advantage of this approach is that it allows the Council to take maximum advantage of the local appointment regime under the Act.
18. The primary drawbacks are as follows:
 - there would be a cost to recruiting and servicing an Independent Auditor Panel, running the bidding exercise and negotiating the contract;
 - the Council will not be able to take advantage of economies of scales and enhanced purchasing power that may be available through joint or national procurement contracts;
 - there is a risk, that due to the limitations in the local audit market, the Council as a standalone authority may not attract sufficient market interest limiting competition or in extremis may be unable to appoint an auditor;
 - there is a risk that over an extended period independence may wane over time giving rise to conflicts of interests.
19. The number of drawbacks in this option means that it is not recommended.

Option 3 – Set up a Joint Auditor Panel/ local joint procurement arrangements

20. The Act enables the Council to join with other authorities to establish a joint auditor panel. Again, this will need to be constituted of a majority of independent appointees.

21. Detailed legal advice would be required on the exact constitution of such a panel having regard to the obligations of each Council under the Act. The Council would need to liaise with other local authorities to assess the appetite for such an arrangement.
22. The advantage of this approach is that the costs of setting up the panel, running the bidding exercise and negotiating the contract will be shared across several authorities. There is also greater opportunity for enhanced purchasing power by being able to offer a larger combined contract value to the firms. In addition, knowledge and expertise in operating a local panel could be pooled and shared.
23. The primary drawbacks are as follows:
 - a pooled arrangement would limit the opportunity for local input to the decision
 - the choice of auditor within a limited market could be further limited due to pooling because of conflicts of interest where authorities use the same audit firm for consultancy work – this could limit competition and pricing.
24. This option is not recommended in light of the stated drawbacks. There is also a question as to this option's viability given the lack of support for such arrangements at the present time. No such arrangement has currently been proposed within London.

CONCLUSION AND NEXT STEPS

25. Of the viable options, the 'appointing person' route via the PSAA is considered the most preferable and as such is the recommended approach.
26. Subject to comment from Audit Committee, the proposed approach will be put before Full Council in February 2022.
27. The deadline to notify PSAA of an intention to opt-in (subject to approval by Full Council) is 11 March 2022.