

## For General Release

<b>REPORT TO:</b>	<b>GENERAL PURPOSES &amp; AUDIT COMMITTEE</b> <b>16 February 2022</b>
<b>AGENDA ITEM:</b>	
<b>SUBJECT:</b>	<b>Appointment of External Auditors</b>
<b>LEAD OFFICER:</b>	<b>Dave Phillips, Interim Head of Internal Audit</b>
<b>CABINET MEMBER:</b>	<b>Councillor Callton Young</b> <b>Cabinet Member for Resources and Financial Governance</b>
<b>WARDS:</b>	<b>ALL</b>
<b>CORPORATE PRIORITY/POLICY CONTEXT:</b> High quality independent audit is one of the cornerstones of public accountability. It gives assurance that taxpayers' money has been well managed and properly expended. It helps to inspire trust and confidence in the organisations and people responsible for managing public money.	
<b>FINANCIAL IMPACT</b> The External Audit plan of work in relation to the 2020/21 year is currently estimated to cost £149,272 and appropriate provision has been made within the budget for 2021/22.	

### 1. RECOMMENDATIONS

- 1.1 The Committee is asked to recommend to Full Council that the external auditor for the Council and for the pension fund for the audit years 2023/2024 to 2027/2028 should be appointed by Public Sector Audit Appointments Ltd (PSAA), which is a subsidiary of the Improvement and Development Agency (IDeA) which is wholly owned by the Local Government Association.

## **2. EXECUTIVE SUMMARY**

- 2.1 Under the Local Audit and Accountability Act 2014, the Audit Commission, which had previously managed the appointment of external auditors for local government bodies and health trusts, was abolished and new responsibilities to manage their own appointment of local auditors given to those bodies. The Act also provided for the appointment by the secretary of state of a 'sector led body' to be an appointing person. This body would provide the option of a managed appointment process for those who wished to select it. The Public Sector Audit Appointments (PSAA) is approved by the DCLG to be a sector led body for principal authorities – councils, police and fire bodies.
- 2.2 The decision for the Council to appoint its own external auditors itself or to join the sector led approach must be made by Full Council and cannot be delegated.

## **3. DETAIL**

- 3.1 Prior to its final abolition in March 2015, external auditors for local authorities and NHS trusts were appointed by the Audit Commission. The auditor appointed for Croydon Council and for its pension fund at this time was Grant Thornton and they remained as the external auditors, with these contracts being novated from the Audit Commission to PSAA on 1 April 2015. The contracts were due to expire following conclusion of the audits of 2016/17 accounts, but were extended for a period of one year to allow the audits of principal local government bodies to include the audit of 2017/18 accounts.
- 3.2 On 17 October 2016, Full Council resolved that, '*that the external auditor for the Council and for the pension fund should be appointed by Public Sector Audit Appointments Ltd (PSAA), which is a subsidiary of the Improvement and Development Agency (IDeA) which is wholly owned by the Local Government Association.*'
- 3.3 The PSAA subsequently appointed Grant Thornton as auditor for Croydon Council and for its pension fund for the duration of a five-year appointing period. This current appointing period covers the audits of the accounts for 2018/19 to 2022/23. The fee scales for each year are published by the PSAA on its website (<https://www.psaa.co.uk/appointing-auditors-and-fees/list-of-auditor-appointments-and-scale-fees/>) and these are £133,102 and £16,170 for the London Borough of Croydon 2020/21 general fund and pension fund audits respectively.
- 3.3 The appointment of the next external auditor for the Council and for the pension fund must be completed by 31<sup>st</sup> December 2022 and will be for up to 5 years. This can be achieved in two different ways. The choice of which route to take must be made by Full Council and cannot be delegated. The options, which are set out in more detail in sections 4 and 5 below, are:

- To establish an auditor panel to advise on appointment, with the final decision again being made by Full Council. Authorities can work collaboratively, sharing a panel if they choose.
- To follow a sector led approach by which an 'appointing person' operates a nationwide procurement and appoints on the Council's behalf. PSAA was specified as an appointing person by the Secretary of State in July 2016 for this purpose. If this choice was selected, the PSAA would need to be notified by 11 March 2022 of the Council's choice to opt in.

#### **4. APPOINTMENT BY AN AUDITOR PANEL**

- 4.1 An Auditor Panel must have a majority of independent, non-elected members and must 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.
- 4.2 In view of the likely value of a contract for external audit provision a full procurement would be required which the panel would oversee. Following this, the committee would make a recommendation to Full Council which is the body that would make the final decision.
- 4.3 Once the external auditor is appointed the panel continues 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.
- 4.4 This route would give the Council more control over the appointment of its external auditor, but would require the setting up of an auditor panel and a resource for a major procurement exercise. In the event of a breakdown of the relationship or poor auditor performance, the Council would be faced with a re-procurement exercise.

#### **5. APPOINTMENT BY THE SECTOR LED ROUTE**

- 5.1 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. As part of the transitional arrangements moving from the Audit Commission, PSAA has been managing the existing novated external audit contracts.
- 5.2 If Full Council decided to opt for this route, the Council would sign-up with PSAA to take part in the scheme. PSAA would then carry out the EU procurement 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.

- 5.3 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 be undertaken by the General Purposes & Audit Committee as it currently is.
- 5.4 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.
- 5.5 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 via the route described in Section 4 above.

## **6. CONCLUSION**

- 6.1 For the reasons set out above, officers recommend that the sector led approach is the most appropriate option for the Council to follow and that the recommendation should be made to Full Council to approve a sector led approach and opt in to appointing person arrangements.

## **7. FINANCIAL CONSIDERATIONS**

- 7.1 The External Audit plan of work in relation to the 2020/21 year is currently estimated to cost £149,272 and appropriate provision has been made within the budget for 2021/22.

(Approved by Interim Head of Corporate Finance, Finance)

## **8. COMMENTS OF THE COUNCIL SOLICITOR AND MONITORING OFFICER**

- 8.1 The Head of Litigation and Corporate Law comments on behalf of the Director of Legal Services that the Local Audit and Accountability Act 2014 ("the Act") places an obligation on the Council to have an external auditor in place. Section 7 read with Schedule 3 of the Local Audit and Accountability Act 2014 provide that where, as in Croydon, the 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 under those arrangements and as such this is a function reserved to Full Council.
- 8.2 In addition, the Schedule to the Local Audit (Appointing Person) Regulations 2015, SI 2015/192 specifies that an authority that has opted in to appointing person arrangements, as is recommended in this report, does not require an auditor panel.

(Approved by Sandra Herbert Head of Litigation and Corporate Law for and on behalf of the Director of Legal Services and Deputy Monitoring Officer).

**9. HUMAN RESOURCES IMPACT**

9.1 There are no immediate human resources issues arising from this report for LBC employees or staff.

(Approved by: Gillian Bevan, Head of HR, Resources and Assistant Chief Executives)

**10. EQUALITIES, ENVIRONMENTAL AND CRIME AND DISORDER REDUCTION IMPACTS**

10.1 There are no impacts on the issues above identified as arising from this report.

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**CONTACT OFFICER:** Dave Phillips, Interim Head of Internal Audit

**BACKGROUND DOCUMENTS:** None