

<b>REPORT TO:</b>	<b>PENSION COMMITTEE</b> <b>13 April 2022</b>
<b>SUBJECT:</b>	<b>Appointment of External Auditors</b>
<b>LEAD OFFICER:</b>	<b>Nigel Cook</b> <b>Head of Pensions and Treasury</b>
<b>CORPORATE PRIORITY/POLICY CONTEXT:</b> <b>Sound Financial Management:</b> This report forms an important component of the governance arrangements for the stewardship of the Pension Fund.	
<b>FINANCIAL SUMMARY:</b> The External Audit plan of work in relation to the 2020/21 year is currently estimated to cost £25,000 and appropriate provision has been made within the budget set out in the Pension Business Plan.	

## **1 RECOMMENDATIONS**

1.1 The Committee is asked to note that the auditors for the pension fund for the audit years 2023/2024 to 2027/2028 will 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.

### **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 and these are £16,170 for the London Borough of Croydon 2020/21 pension fund audits.
- 3.3 The appointment of the next external auditor for the pension fund must be completed by 31st 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 has to 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:
- 3.3.1 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.
- 3.3.2 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.

### **APPOINTMENT BY AN AUDITOR PANEL**

- 4.1 An Auditor Panel has a majority of independent, non-elected members and is 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. Then 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.

### **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 Full Council has decided to opt for this route and the Council has signed-up with PSAA to take part in the scheme. PSAA will now 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 is 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 is the contracting authority, so there is 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 is the most straightforward and least resource intensive. It enables 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.

## **CONCLUSION**

- 6.1 The Pension Committee is asked to note that the Council has concluded that the sector led approach is the most appropriate option for the Council to follow and that it has approved a sector led approach.

## **4 CONSULTATION**

- 4.1 Officers have fully consulted with the Pension Fund's advisers in preparing this report.

## **5 FINANCIAL CONSIDERATIONS**

- 5.1 This report deals exclusively with the governance of the Council's Pension Fund.

## **6 COMMENTS OF THE COUNCIL SOLICITOR AND MONITORING OFFICER**

**Approved by:** .

### **Human Resources Impact:**

There are no direct workforce implications arising from the recommendations within this report. If any should arise these will be managed under the Council's policies and procedures.

**Approved** by Gillian Bevan, Head of HR Resources and Assistant Chief Executives, on behalf of Dean Shoemith, Chief People Officer

## **7 OTHER CONSIDERATIONS**

- 7.1 There are no Customer Focus, Equalities, Environment and Design, Crime and Disorder or Human Rights considerations arising from this report.

## **8 FREEDOM OF INFORMATION/DATA PROTECTION CONSIDERATIONS**

- 8.1** This report contains confidential information which could be of a sensitive nature, disclosure of which could prejudice the commercial interest of the companies involved and those of the Council's Pension Fund.

### **CONTACT OFFICER:**

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### **BACKGROUND DOCUMENTS:**

None

### **Appendices**

None