

NORTH LONDON WASTE AUTHORITY

REPORT TITLE: ARRANGEMENTS FOR THE APPOINTMENT OF EXTERNAL AUDITOR

REPORT OF: FINANCIAL ADVISER

FOR SUBMISSION TO: AUTHORITY MEETING

DATE: 10 MARCH 2022

SUMMARY OF REPORT:

This report sets out the arrangements for the appointment of external auditors to local authorities, and the options available to the Authority following on from the current contract period end, which runs until the completion of the audit of the statement of accounts for the 2022/23 financial year.

RECOMMENDATIONS:

The Authority is recommended to:

- A. Accept Public Sector Audit Appointments' (PSAA) invitation to 'opt in' to the sector led option for the appointment of external auditors for five financial years by PSAA commencing 1 April 2018;
- B. Waive the requirement under Contract Standing Order (CSO) for three quotations to be sought due to the nature of the services being such that a departure from the CSO is justifiable and in the Authority's overall interest as detailed in sections 2.6 and 3.3 of this report; and
- C. Agree to delegate authority to the Financial Adviser to respond to the invitation and take the necessary steps to finalise the appointment itself following the PSAA procurement process.

SIGNED: Jon Rowney, Financial Adviser

DATE: 28 February 2022

1. INTRODUCTION

- 1.1. The Local Audit and Accountability Act 2014 (the Act) closed the Audit Commission and established transitional arrangements for the appointment of external auditors and the setting of audit fees for all local government and NHS bodies in England. The Act also set out the arrangements for the appointment of auditors for subsequent years, with the opportunity for authorities to make their own decisions about how and by whom their auditors are appointed.
- 1.2. In 2017 the Authority 'opted in' to a sector-led national scheme for the procurement and appointment of auditors to local authorities, run by Public Sector Audit Appointments Ltd (PSAA). The contract period was for the 5 years from 2018/19 to 2022/23.
- 1.3. This report revisits the requirements for making local auditor appointments and looks at the options available to the Authority for the appointment of external auditors following the end of the existing contract in 2023.
- 1.4. In accordance with Regulation 19 of the Local Audit (Appointing Person) Regulations 2015, the Authority is required to make the decision to opt in to the PSAA's scheme. PSAA have set a deadline of 11 March 2022 for opting into this procurement
- 1.5. The current 5 year audit contract was let at a cost of £14,490 per annum. However, since then the required audit work has increased due to the change in activities on the North London Heat and Power project. In addition, there has been a change in regulatory requirements arising from the Redmond review (as outlined in the Audit Strategy Memorandum included as appendix D to the December 2021 Finance Update report). This is estimated to increase the audit fee for the 2020/21 audit to £33,000.
- 1.6. The proposal to opt in was considered at the Authority meeting in February 2022. At the meeting, two questions were asked by Members: the first was whether it would be possible to continue with the current auditors, given that they have familiarised themselves with the scale and stage of the North London Heat and Power Project. The second was how far the Authority could distance itself from the selection of auditors to demonstrate the maximum independence of the auditors eventually appointed.

2. OPTIONS CONSIDERED

- 2.1. There are three broad options open to the Authority under the Act which are considered below:

- 2.1.1. Make a stand alone appointment and set up an Auditor Panel

2.1.2. Work with other local authorities to set up a joint Auditor Panel

2.1.3. Opt-in to the sector led body

Make a Stand Alone Appointment

2.2. In order to make a stand-alone appointment, an auditor panel would need to be set up by the Authority itself. The members of the panel must be wholly or 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. Authority Members will not have a majority input to assessing bids and choosing which audit firm to award a contract for the Authority’s external audit.

2.3. This would mean that, while the appointment process would be led by a majority of “independent members” of the Auditor Panel, the independent members would be selected by the Authority; ownership of the process would lie with the Authority and the specification of the contract would be decided by the Authority. Our expectation is that this would be an expensive option and less attractive to audit providers as a standalone contract. While the majority of members of the Auditor Panel would be independent appointees, they would be paid by the Authority, and the auditors would have a direct contract with the Authority to carry out their role.

2.4. There are currently only nine local audit firms with audit partners that are registered with the Institute of Chartered Accountants of England and Wales (ICAEW) from which local authorities can appoint from. This means that a local procurement exercise would seek tenders from the same firms as the national procurement exercise, however audit firms may be disinterested in a local procurement exercise due to the high overhead of submitting bespoke papers to individual exercises. There is a risk that contracts will not provide value for money, and further, given the national scheme will provide the vast majority of local audit work to firms, an independent tender may not generate any interest at all from the market. Therefore there is unlikely to be a presentational advantage from following this process compared with other options.

Set up a panel with other local authorities

2.5. Alternatively, the Act enables the Authority to join with other authorities to establish a joint auditor panel. Again, this would need to be constituted of wholly or a majority of independent appointees. Further legal advice would be required on the exact constitution of such a panel having regard to the obligations of each Council/Authority under the Act and the Authority would need to establish which other local authorities might wish to enter into a joint arrangement with the Authority.

- 2.6. Under this option, the cost of setting up the panel, procurement and ongoing costs would be shared. Therefore, it may be possible to achieve economies of scale and the contract might be tailored to the Authority's requirements. However, the Authority might have to compromise on the arrangements or auditor contract, the choice of auditor might become complicated by independence issues of the auditor was providing consultancy to another Authority. In addition, an inter-authority decision making process would have to be created.

Opt-in to a Sector Led Body

- 2.7. PSAA has been appointed by the Secretary of State as a sector led body under section 17 of the Act. Therefore, they would have the ability to negotiate contracts with audit firms nationally, maximising the opportunities for the most economic and efficient approach to procurement of external audit on behalf of the whole sector.
- 2.8. This option would mean that costs would be shared across all opting-in authorities. Therefore it is possible that economies of scale would be achieved. In addition, conflicts of interest could be managed by the sector-led body. However this option would mean that the Authority had no direct control over the process.
- 2.9. PSAA have advised that it is not possible for them to extend the current contract for just the NLWA audit as the contracts are subject to a minimum level of work. However, they have advised that where possible, they would typically seek to provide continuity of auditor given the potential inconvenience associated with a change of auditor. This would be subject to the current auditor being awarded a contract from our procurement and barring any threats to independence or other factors emerging.

3. RECOMMENDED OPTION AND NEXT STEPS

- 3.1. All of the above options require a local auditor to be appointed no later than 31 December 2022. Legislation requires an independent auditor panel to make the appointment.
- 3.2. The benefits of pursuing local control over the auditor procurement and appointment process are limited by the pre-defined scope of the audit, and the limited contract levers available for contract management.
- 3.3. In addition, there are only a limited number of local audit firms and audit partners that are registered with the Institute of Chartered Accountants of England and Wales (ICAEW) from which local authorities can appoint from. This means that consideration needs to be given to the likelihood of obtaining sufficient interest in an independent procurement strategy. There is a real risk that an independent

procurement would not achieve value for money. Audit fees are anticipated to increase from their current levels to address existing market failings and increased audit requirements, and through economies of scale the PSAA scheme will provide the best mitigation against this.

3.4. While the Authority would have no direct input to the choice of auditors that are appointed to the contracts, if the decision is made to opt in, PSAA will then ask the Authority two questions:

3.4.1. The first question relates to any shared or joint working arrangements that you may be part of that would result in a preference for the same audit firm to be appointed. The Authority could, at this point request to keep the same audit firm, subject to them being successful through the procurement.

3.4.2. The second question relates to whether there are any audit firms with conflicts of interest with your organisation.

3.5. There are benefits for the Authority (and the London Borough of Camden, who have already taken the decision to opt in) to have the same audit firm as the Authority uses Camden's financial systems and this would reduce the amount of audit work that would have to be duplicated.

3.6. It should be noted that in the final year of the current contract, 2022/23, it is expected that the assets created by the EcoPark south contract, the Resource Recovery Facility and EcoPark House, will come into use. Therefore the transfer of these assets from work in progress to final use will be audited by the current auditors and this might be a natural break-point should a change of auditors arise out of the procurement process.

4. EQUALITIES IMPLICATIONS

4.1. This report does not give rise to any implications.

5. COMMENTS OF THE LEGAL ADVISER

5.1. Section 7 of the Local Audit and Accountability Act 2014 (the Act) requires a relevant authority to appoint a local auditor to audit its accounts for a financial year not later than 31 December in the preceding year. Section 17 of the Act gives the Secretary of State the power to make regulations in connection with specifying an 'appointing person' and the functions of the appointing person. This power has been exercised in the Local Audit (Appointing Person) Regulations 2015 (SI 2015/192) (Regulations). The Regulations give the appointing person the power to issue an invitation to all principal authorities within the class of authorities permitted by its instrument of appointment and the principal authority has the power under regulation 9 to accept the invitation to become an opted in authority.

The Authority is a relevant authority for the purposes of the Act and a principal authority for the purpose of the Regulations and consequently has the power to enter into the arrangements recommended in this report.

List of documents used:

Local Audit (Appointing Person) Regulations 2015 (SI 2015/192) (Regulations)

Local Audit and Accountability Act 2014

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