



# Report to Audit and Governance Committee

**Date:** 25<sup>th</sup> January 2022

**Reference number:**

**Title:** APPOINTMENT OF EXTERNAL AUDITORS

**Relevant councillor(s):** N/A

**Author and/or contact officer:** Richard Ambrose (Section 151 Officer)

**Ward(s) affected:** Not applicable

## **Recommendations:**

- (i) The Committee are asked to note the content of the report.
- (ii) To recommend to Full Council to opt into the arrangements offered by Public Sector Audit Appointments (PSAA) for the appointment of the External Auditors from April 2023 (Option 1).

**Reason for decision:** The Local Authority Audit and Accountability Act 2014 requires the decision of Full Council if it is to opt for the sector-led approach. The opt-in period starts on 22 September 2021 and closes on 11 March 2022. To opt into the national scheme from 2023/24, the Council/Authority needs to return completed opt-in documents to PSAA by 11 March 2022.

## **Executive summary**

- 1.1 The report sets out proposals for appointing the external auditor to the Council for the accounts for the five-year period from 2023/24. The current auditor, Grant Thornton, were appointed as external auditors of the new unitary authority by PSAA until the end of 2022/23.

- 1.2 The auditor appointed at the end of the procurement process will undertake the statutory audit of accounts and Value for Money assessment of the council in each financial year, in accordance with all relevant codes of practice and guidance. The appointed auditor is also responsible for investigating questions raised by electors and has powers and responsibilities in relation to Public Interest Reports and statutory recommendations.
- 1.3 The Council has a choice of the way that it can appoint its external auditors as summarised below: -
- i. Option 1: National Auditor Appointment Scheme - opt into the arrangements offered by PSAA – benefits are detailed in paragraphs 1.8.
  - ii. Option 2: Own procurement arrangement following the procedures in the Act – Challenges are detailed in paragraph 1.9.
  - iii. Option 3: To act jointly with other authorities to procure an auditor following the procedures in the Act – Challenges are the same as Option 2 above.

## **Content of report**

- 1.4 PSAA will commence the formal procurement process in early February 2022. It expects to award contracts in August 2022 and will then consult with authorities on the appointment of auditors so that it can make appointments by the statutory deadline of 31 December 2022. The council will need to decide whether to procure its own external auditor or opt into the national procurement framework conducted by PSAA.
- 1.5 As the client in the contract, a council has little influence over what it is procuring. The nature and scope of the audit is determined by codes of practice and guidance and the regulation of the audit market is undertaken by a third party, currently the Financial Reporting Council. Essentially, Councils find themselves operating in what amounts to a suppliers' market and the client's interest is at risk of being ignored unless we act together.
- 1.6 Everyone, even existing suppliers, agrees that the supply side of the market needs to be expanded, which includes encouraging bids from competitor firms. PSAA, the body nominated by the Government to run the national arrangements, has suggested various ways this could be done, but these initiatives are much more likely to be successful if a large number councils sign up to the national scheme.
- 1.7 It is, therefore, vital that councils coordinate their efforts to ensure that the client voice is heard loud and clear. The best way of doing this across the country is to sign up to the national arrangement.

## **The national auditor appointment scheme**

1.8 PSAA is specified as the 'appointing person' for principal local government under the provisions of the Act and the Local Audit (Appointing Person) Regulations 2015. PSAA let five-year audit services contracts in 2017 for the first appointing period, covering audits of the accounts from 2018/19 to 2022/23. It is now undertaking the work needed to invite eligible bodies to opt in for the next appointing period, from the 2023/24 audit onwards, and to complete a procurement for audit services. PSAA is a not-for-profit organisation whose costs are around 4% of the scheme with any surplus distributed back to scheme members. In summary the advantages of the national opt-in scheme are:

- i. PSAA has now built up considerable expertise and experience from the first contract when circa 99% of Council's opted in and has been working hard to address the issues that have arisen over the last couple of years;
- ii. the Government's selection of PSAA as the appointing person for a second cycle reflects the Department for Levelling Up, Housing and Communities (DLUHC) (former MHCLG) confidence in them as an organisation;
- iii. PSAA has worked very closely with DLUHC to enable the government to consult on changes to the fees setting arrangements to deal better with variations at national and local level, hopefully resulting in more flexible and appropriate Regulations later this year;
- iv. PSAA has sought views from the sector to help inform its detailed procurement strategy;
- v. PSAA are likely to have more negotiating advantage on both quality and price. It can seek to encourage realistic fee levels and to benefit from the economies of scale associated with procuring on behalf of a significant number of bodies;
- vi. PSAA can continue to pool scheme costs and charge fees to opted-in bodies in accordance with the published fee scale as amended following consultations with scheme members and other interested parties (pooling means that everyone within the scheme will benefit from the prices secured via a competitive procurement process – a key tenet of the national collective scheme);
- vii. ensuring suitable independence of the auditors from the bodies they audit and managing any potential conflicts as they arise during the appointment period;
- viii. consulting with authorities on auditor appointments, giving the Council the opportunity to influence which auditor is appointed;
- ix. consulting with Council on the scale of audit fees and ensuring these reflect scale, complexity, and audit risk;

- x. minimising the scheme management costs and returning any surpluses to scheme members; and
- xi. ongoing contract and performance management of the contracts once these have been let.

### **Own or Joint procurement scheme**

1.9 A council procuring its own auditor or procuring through a joint arrangement means setting up an Audit Panel to oversee the procurement and running of the contract.

The members of the panel must be wholly, or majority independent members as defined by the Act. Independent members for this purpose are independent appointees, excluding 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 to which audit firm to award a contract for the Council external audit. In addition to this there are further challenges which are summarised below:

- i. The procurement process is an administrative burden on council staff already struggling for capacity. Contract management is an ongoing burden;
- ii. The service being procured is defined by statute and by accounting and auditing codes. Therefore, as an organisation we would not be able to have more influence over auditors if we procure our own or through the national scheme;
- iii. Possible suppliers are limited to the small pool of registered firms with accredited Key Audit Partners (KAP);
- iv. The Council would not be able to prioritise its audit over others as Auditors are running at full capacity and have to deploy resources according to their assessment of audit risks in accordance with professional standards. Hence, we will find ourselves in the same queue as those within the national arrangement; and
- v. Since the last procurement it is now more obvious than ever that we are in a 'suppliers' market' in which the audit firms hold most of the levers.

### **Other options considered**

1.10 See paragraph 1.3.

### **Legal and Financial implications**

1.11 Section 7 of the Local Audit and Accountability Act 2014 requires a relevant Council to appoint a local auditor to audit its accounts for a financial year not later than 31 December in the preceding year.

- 1.12 There is a risk that current external audit fee levels could increase when the current contracts end. The scope of audit has increased, requiring more audit work. There are also concerns about capacity and sustainability in the local audit market.
- 1.13 Opting into a national scheme provides maximum opportunity to ensure fees are as realistic as possible, while ensuring the quality of audit is maintained, by entering a large-scale collective procurement arrangement.
- 1.14 If the national scheme is not used some additional resource may be needed to establish an auditor panel and conduct a local procurement. Until a procurement exercise is completed it is not possible to state what, if any, additional resource may be required for audit fees from 2023/24.

### **Corporate implications**

- 1.15 Not applicable

### **Consultation and communication**

- 1.16 Not applicable

### **Next steps and review**

- 1.17 Recommendation to the Full Council.
- 1.18 Once approved, need to notify PSAA formally of acceptance of invitation to opt in by 11<sup>th</sup> March 22.

### **Background papers**

- 1.19 Not applicable

