



Report to Council

Date:	23 February 2022
Title:	APPOINTMENT OF EXTERNAL AUDITORS
Relevant councillor(s):	N/A
Author and/or contact officer:	Richard Ambrose (S151 Officer)
Ward(s) affected:	Not applicable

Recommendation:

- (i) To opt into the arrangements offered by Public Sector Audit Appointments (PSAA) for the appointment of External Auditors from April 2023 (Option 1), as endorsed by the Audit & Governance Committee on 25 January, 2022.

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 needs to return completed opt-in documents to PSAA by 11 March 2022.

1. Executive summary

- 1.1 The report sets out proposals for appointing external auditors to the Council 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 external 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: -

- Option 1: National Auditor Appointment Scheme - opt into the arrangements offered by PSAA (see section 3).
- Option 2: Own procurement arrangement following the procedures in the Act (see section 4).
- Option 3: To act jointly with other authorities to procure an auditor following the procedures in the Act (see section 4).

1.4 The Audit & Governance Committee met on the 25th January 2022 to consider the options and agreed to recommend Option 1 to Council.

2. Content of report

2.1 PSAA will commence the formal procurement process in February 2022 and expects to award contracts in August 2022. It will then consult with opted in 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.

2.2 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.

2.3 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 of councils sign up to the national scheme.

3. The national auditor appointment scheme

3.1 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 due to undertake 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.

3.2 The advantages of the national opt-in scheme are:

- a) PSAA has now built up considerable expertise and experience from the first contract when circa 99% of Council's opted in.
- b) 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.
- c) 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.
- d) 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.
- e) 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).
- f) Managing any potential conflicts as they arise during the appointment period.
- g) Minimising the scheme management costs and returning any surpluses to scheme members.
- h) ongoing contract and performance management of the contracts once these have been let.

3.3 There have been a number of external audit issues that have arisen over the last couple of years, including meeting statutory deadlines, increases to audit fees and a lack of interest from firms in carrying out local authority audits. PSAA have sought views from the sector via a consultation to understand these issues and are trying to address these in their upcoming procurement process.

4. Own or Joint procurement scheme

4.1 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 majority of members of the panel must be 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's external audit.

- 4.2 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 than we would through the national scheme.
- 4.3 The procurement process and the management of the contract would be resource intensive and is likely to result in additional costs. Possible suppliers are limited to the small pool of registered firms with accredited Key Audit Partners (KAP).
- 4.4 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.

5. Other options considered

- 5.1 See paragraph 1.3.

6. Legal and financial implications

- 6.1 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.
- 6.2 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.
- 6.3 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.
- 6.4 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.

7. Corporate implications

- 7.1 Not applicable.

8. Local councillors & community boards consultation & views

- 8.1 Not applicable.



9. Communication, engagement & further consultation

9.1 Not applicable.

10. Next steps and review

10.1 If approved, then the Council needs to notify PSAA formally of acceptance of invitation to opt in by 11th March 2022.

10.2 Should the Council agree to opt into the PSAA arrangements, then these will commence from April 2023.

11. Background papers

11.1 Not applicable.

12. Your questions and views (for key decisions)

12.1 Not applicable.

