

# Arrangements for Appointment of External Auditors

<b>Report number:</b>	<b>PAS/WS/21/021</b>	
<b>Report to and date(s):</b>	<b>Performance and Audit Scrutiny Committee</b>	18 November 2021
	<b>Cabinet</b>	7 December 2021
	<b>Council</b>	14 December 2021
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**Decisions Plan:** This item is included in the Decisions Plan.

**Wards impacted:** All wards

**Recommendation:** It is recommended that members:

1. Note the arrangements and options for appointing External Auditors to audit the Final Accounts of the Council from 2023/2024.
2. Recommend to Cabinet and Council to continue to 'opt-in' to the sector led body (Public Sector Audit Appointments Ltd (PSAA)) for the independent appointment of the Council's external Auditor, beginning with responsibilities for the financial year 2023/2024.

## 1. Background

- 1.1 In September 2016, the former Forest Heath and St Edmundsbury Councils' Performance and Audit Scrutiny Committees received papers regarding the appointment of external auditors for a period of five years from 1 April 2018. The Local Audit and Accountability Act 2014 brought to a close 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.
- 1.2 At the end of the transitional arrangements, public bodies were asked to specify their preferred method of appointing external auditors, and a sector led body (the Public Sector Audit Appointments LTD (PSAA)) was chosen.  
  
A sector led body has the opportunity to negotiate contracts with firms nationally, maximising the opportunity for the most economic and efficient approach for procurement of external audit on behalf of the whole sector. The scheme was designed to save time and resources for local government bodies and, through collective procurement, secure the best prices without compromising on audit quality.
- 1.3
- 1.4 West Suffolk Council agreed to continue to use the PSAA (COU.SA.18.010 - Appt of External Auditors) as its route to select its external auditors Ernst and Young for the remaining term of the five years from 1 April 2019 (ending the financial year 2022 to 2023).
- 1.5 The scale fee for the audit of the 2020 to 2021 accounts is £55,050 but this excludes any local fee variations (for perceived local risk areas, changes to audit requirements etc.)

## 2. Appointing Process from 2023 to 2024

- 2.1 The Department of Levelling Up, Housing and Communities has confirmed that PSAA will continue in its role as the Appointing Person for the next appointment of external auditors.
- 2.2 During the present contract period there have been some big issues affecting local government audit:
  - The audit industry is under heavy scrutiny.
  - There is great regulatory pressure to improve audit quality.
  - Audit resources are stretched, and other factors cause delay.
  - Delayed local audit opinions are a huge unresolved concern.
  - Local government audit's focus is being questioned.
  - Additional work means additional fees are needed.
  - Regulations need updating.

- 2.3 The PSAA scheme aims to secure the delivery of an audit service of the required quality for every opted in body at a realistic market price and to support the drive towards a long term competitive and more sustainable market for local public audit services. PSAA plan to provide:
- transparent and independent auditor appointment;
  - ongoing management of any independence issues;
  - proportionate PSAA costs and redistribution of any surpluses;
  - independent scrutiny of every additional fee proposal;
  - a sector led collaborative scheme as the way to get the best deal for the sector;
  - dedicated, experienced team;
  - key updates to all Section 151 officers and Audit Committee Chairs;
  - avoid the need to establish an auditor panel and undertake an auditor procurement;
  - same auditor appointment to significant collaborations or joint working initiatives.
- 2.4 The proposed contract duration is five years, with an option to extend for a further one or two years with supplier agreement using a single tender, restricted procedure.
- 2.5 The way external audit has operated over the last couple of years has been extremely disappointing. There is also a limited number of firms in the market and too few qualified auditors employed by those firms, alongside capacity challenges generally. This has led to a situation where many audits have been delayed, as we have experienced locally. A lack of capacity in the audit market has been exacerbated by increased requirements placed on external auditors by the audit regulator. The drive for audit quality has resulted in auditors needing more assurance, and the additional work has driven higher fees which is likely to continue.
- 2.6 As the client in the contract, West Suffolk unfortunately 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. It is understood that the PSAA have a number of initiatives it would like to consider as part of the upcoming national procurement in order to send a strong message to the market and to open up greater competition.
- 2.7 We consider it important that as councils we coordinate our efforts through the national arrangements to ensure that our voice (as clients) is heard loud and clear to tackle some of the challenges currently being experienced. It is recommended that West Suffolk opt into the PSAA arrangements for the appointing process as it is felt that this is our best option to work alongside other Councils and influence a particularly difficult market.

2.8 Indicative timescales for the process are as follows:

March 2022	Deadline for eligible bodies to notify PSAA of their decision to opt in
June 2022	PSAA will award new contracts
December 2022	PSAA Board will confirm auditor appointments for 2023/24

### 3. Options

3.1 Procurement via PSAA is the recommended approach but there are two other options available to the Council which have been discounted.

#### **Option 1 – Make a standalone appointment**

3.2 In order to make a stand-alone appointment the Council will need to set up an Auditor Panel. The members of the panel must be wholly (or a majority) 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. This means that elected members will not have a majority input to assessing bids and choosing which firm of accountants to award a contract for the Council's external audit. A new independent auditor panel established by the Council will be responsible for selecting the auditor.

#### 3.3 Advantages/benefit

- Setting up an auditor panel allows the Council to take maximum advantage of the new local appointment regime and have local input to the decision.

#### 3.4 Disadvantages/risks

- Recruitment and servicing of the Auditor Panel, running the bidding exercise and negotiating the contract is estimated by the LGA to cost in the order of £15,000 plus ongoing expenses and allowances.
- The Council will not be able to take advantage of reduced fees that may be available through joint or national procurement contracts.
- The assessment of bids and decision on awarding contracts will be taken by independent appointees and not solely by elected members.

## **Option 2 - Set up a Joint Auditor Panel/local joint procurement arrangements**

3.5 The Act enables the Council to join with other authorities to establish a joint auditor panel. Again, this will need to be constituted of wholly (or a majority) of independent appointees (members). Further legal advice will be required on the exact constitution of such a panel having regard to the obligations of each Council under the Act and the Council will need to liaise with other local authorities to assess the appetite for such an arrangement.

### 3.6 Advantages/benefits

- The costs of setting up the panel, running the bidding exercise and negotiating the contract will be shared across a number of authorities.
- There is greater opportunity for negotiating some economies of scale by being able to offer a larger combined contract value to the firms.

### 3.7 Disadvantages/risks

- The decision making body will be further removed from local input, with potentially no input from elected members where a wholly independent auditor panel is used, or possibly only one elected member representing each Council, depending on the constitution agreed with the other bodies involved.

The choice of auditor could be complicated where individual Councils have independence issues. An independence issue occurs where the auditor has recently or is currently carrying out work such as consultancy or advisory work for the Council. Where this occurs, some auditors may be prevented from being appointed by the terms of their professional standards. There is a risk that if the joint auditor panel selects a firm that is conflicted for this Council, then the Council may still need to make a separate appointment with all the attendant costs and loss of economies possible through joint procurement.

## **4. Legal implications**

4.1 Legislation requires a resolution of Council if a local authority wishes to opt into the national arrangement (the PSAA). The practical deadline for this decision is 11 March 2022.

4.2 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 8 governs the procedure for appointment including that the Authority must consult and take account of the advice of its auditor panel on the selection and appointment of a local auditor. Section 8 provides that where a relevant authority is a local authority 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;

- Section 12 makes provision for the failure to appoint a local auditor: the authority must immediately inform the Secretary of State, who may direct the authority to appoint the auditor named in the direction or appoint a local auditor on behalf of the authority.
- Section 17 gives the Secretary of State the power to make regulations in relation to an 'appointing person' specified by the Secretary of State. This power has been exercised in the Local Audit (Appointing Person) Regulations 2015 (SI 192) and this gives the Secretary of State the ability to enable a Sector Led Body to become the appointing person.