

External Audit Appointment Process for Financial Years 2023/24 – 2027/28

Committee considering report:	Governance and Ethics Committee on 15 November 2021 Council on 2 December 2021
Portfolio Member:	Councillor Howard Woollaston
Report Author:	Shannon Coleman-Slaughter
Forward Plan Ref:	C4147

1 Purpose of the Report

This report sets out proposals for appointing the external auditor to the Council for the accounts for the five-year period from 2023/24.

2 Recommendation

It is recommended that the Council accepts the Public Sector Audit Appointments' (PSAA) invitation to opt into the sector-led option for the appointment of external auditors to principal local government and police bodies for five financial years from 1 April 2023.

3 Implications and Impact Assessment

Implication	Commentary
Financial:	<p>There is a risk that current external audit fee levels could increase when the current contracts end. It is clear that the scope of audit has increased, requiring more audit work. There are also concerns about capacity and sustainability in the local audit market.</p> <p>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 into a large scale collective procurement arrangement.</p> <p>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.</p>

Human Resource:	Not applicable
Legal:	<p>Section 7 of the Local Audit and Accountability Act 2014 requires the Council to appoint a local auditor to audit its accounts for a financial year no later than 31 December in the preceding year.</p> <p>Section 8 governs the procedure for appointment including that the Council 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 Council is a local Council operating executive arrangements, the function of appointing a local auditor to audit its accounts is not the responsibility of an executive of the Council under those arrangements.</p> <p>Section 12 makes provision for the failure to appoint a local auditor. The Council must immediately inform the Secretary of State, who may direct the Council to appoint the auditor named in the direction or appoint a local auditor on behalf of the Council.</p> <p>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. In July 2016 the Secretary of State specified PSAA as the appointing person.</p>
Risk Management:	<p>The principal risks are that the Council:</p> <ul style="list-style-type: none"> • Fails to appoint an auditor in accordance with the requirements and timing specified in local audit legislation; or • Does not achieve value for money in the appointment process. <p>These risks are considered best mitigated by opting into the sector-led approach through PSAA.</p>
Property:	Not applicable.
Policy:	Not applicable.

	Positive	Neutral	Negative	Commentary
Equalities Impact:				
A Are there any aspects of the proposed decision, including how it is delivered or accessed, that could impact on inequality?		X		
B Will the proposed decision have an impact upon the lives of people with protected characteristics, including employees and service users?		X		
Environmental Impact:		X		
Health Impact:		X		
ICT Impact:		X		
Digital Services Impact:		X		
Council Strategy Priorities:		X		
Core Business:		X		
Data Impact:		X		
Consultation and Engagement:	Joseph Holmes – Executive Director of Resources, s151 Officer.			

4 Executive Summary

- 4.1 Under the Local Government Audit & Accountability Act 2014, the Council is required to have appointed an external auditor to audit the accounts. The Council has previously opted into the 'appointing person' national auditor appointment arrangements established by Public Sector Audit Appointments (PSAA) for the period covering the accounts for 2018/19 to 2022/23. PSAA is specified as the 'appointing person' for principal local government under the provisions of the Local Government Audit & Accountability Act 2014 and the Local Audit (Appointing Person) Regulations 2015. PSAA are now inviting Councils to opt in for the period 2023/24 to 2027/28.
- 4.2 The auditor appointed at the end of the procurement process will:
- (a) Undertake the statutory audit of accounts and Best Value 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.
 - (b) Act independently of the council and the main purpose of the procurement legislation is to ensure that the appointed auditor is sufficiently qualified and independent.
 - (c) Be registered to undertake local audits by the Financial Reporting Council (FRC) and employ authorised Key Audit Partners to oversee the work. As the report below sets out there is a currently a shortage of registered firms and Key Audit Partners.
- 4.3 Auditors are regulated by the Financial Reporting Council (FRC), which will be replaced by a new body with wider powers, the Audit, Reporting and Governance Authority (ARGA) during the course of the next audit contract.
- 4.4 The national offer supplied by PSAA provides the appointment of an independent auditor with limited administrative cost to the council. By joining the scheme, the Council would be acting with other councils to optimise the opportunity to influence the market that a national procurement provides. Due to the framework in which the audit of local government accounts is undertaken, the Council has very limited influence over the nature of the audit services being procured, the nature and quality of which are determined or overseen by third parties. Therefore, the recommended approach is to opt in to the national auditor appointment scheme.
- 4.5 To take advantage of the national auditor appointment arrangements, the Council is required under the local audit regulations to make the decision at full Council. 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.

5 Supporting Information

Introduction

- 5.1 The current auditor appointment arrangements cover the period up to and including the audit of the 2022/23 accounts. The Council opted into the ‘appointing person’ national auditor appointment arrangements established by Public Sector Audit Appointments (PSAA) for the period covering the accounts for 2018/19 to 2022/23.
- 5.2 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 and is now undertaking the work needed to invite eligible bodies to opt in for the next appointing period, (2023/24 – 2027/28) and to complete a procurement for audit services. The national opt-in scheme provides the following:
- (a) The appointment of a suitably qualified audit firm to conduct audits for each of the five financial years commencing 1 April 2023.
 - (b) Appointing the same auditor to other opted-in bodies that are involved in formal collaboration or joint working initiatives to the extent this is possible with other constraints.
 - (c) Managing the procurement process to ensure both quality and price criteria are satisfied. PSAA has sought views from the sector to help inform its detailed procurement strategy.
 - (d) Ensuring suitable independence of the auditors from the bodies they audit and managing any potential conflicts as they arise during the appointment period.
 - (e) Minimising the scheme management costs and returning any surpluses to scheme members.
 - (f) Consulting with authorities on auditor appointments, giving the Council the opportunity to influence which auditor is appointed.
 - (g) Consulting with authorities on the scale of audit fees and ensuring these reflect scale, complexity, and audit risk.
 - (h) Ongoing contract and performance management of the contracts once these have been let.

Background: Pressures in the current local audit market and delays in issuing opinions

- 5.3 Much has changed in the local audit market since audit contracts were last awarded in 2017. At that time the audit market was relatively stable, there had been few changes in audit requirements, and local audit fees had been reducing over a long period. 98% of those bodies eligible opted into the national scheme. The resulting audit contracts took effect from 1 April 2018.
- 5.4 During 2018 a series of financial crises and failures in the private sector year led to questioning about the role of auditors and the focus and value of their work. Four

independent reviews were commissioned by Government: Sir John Kingman's review of the Financial Reporting Council (FRC), the audit regulator; the Competition and Markets Authority review of the audit market; Sir Donald Brydon's review of the quality and effectiveness of audit; and Sir Tony Redmond's review of local authority financial reporting and external audit. The recommendations are now under consideration by Government, with the clear implication that significant reforms will follow. A new audit regulator (ARGA) is to be established, and arrangements for system leadership in local audit are to be introduced. Further change will follow as other recommendations are implemented.

- 5.5 The Kingman review has led to an urgent drive for the FRC to deliver rapid, measurable improvements in audit quality. This has created a major pressure for audit firms to ensure full compliance with regulatory requirements and expectations in every audit they undertake. By the time firms were conducting 2018/19 local audits during 2019, the measures they were putting in place to respond to a more focused regulator were clearly visible. To deliver the necessary improvements in audit quality, firms were requiring their audit teams to undertake additional work to gain deeper levels of assurance. However, additional work requires more time, posing a threat to the firms' ability to complete all their audits by the target date for publication of audited accounts. Delayed opinions are not the only consequence of the FRC's drive to improve audit quality. Additional audit work must also be paid for. As a result, many more fee variation claims have been needed than in prior years.
- 5.6 This situation has been accentuated by growing auditor recruitment and retention challenges, the complexity of local government financial statements and increasing levels of technical challenges as bodies explore innovative ways of developing new or enhanced income streams to help fund services for local people. These challenges have increased in subsequent audit years, with Covid-19 creating further significant pressure for finance and audit teams.
- 5.7 None of these problems are unique to local government audit. Similar challenges have played out in other sectors, where increased fees and disappointing responses to tender invitations have been experienced during the past two years.

Proposals

- 5.8 That the Council accepts Public Sector Audit Appointments' invitation to opt into the sector-led option for the appointment of external auditors to principal local government and police bodies for five financial years from 1 April 2023. The opt-in period starts on 22 September 2021 and closes on 11 March 2022. The Council is required to return completed opt-in documents to PSAA by 11 March 2022.

6 Other options considered

- 6.1 Two alternative options are available to the Council:
- (a) To appoint its own auditor, which requires it to follow the procedure set out in the Act.
 - (b) To act jointly with other authorities to procure an auditor following the procedures in the Act.

- 6.2 Option A: The Council may elect to appoint its own external auditor under the Act, which would require the council to:
- (a) Establish an independent auditor panel to make a stand-alone appointment. The auditor panel would need to be set up by the Council itself, and 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, 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.
 - (b) Manage the contract for its duration, overseen by the Auditor Panel.
- 6.3 Option B: The Local Government Audit & Accountability Act 2014 enables the Council to join with other authorities to establish a joint auditor panel. This will 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 under the Act and the Council would need to liaise with other local authorities to assess the appetite for such an arrangement.
- 6.4 Both option A and B would be resource-intensive processes to implement for the council, and without the bulk buying power of the sector-led procurement would be likely to result in a more costly service. It would also be more difficult to manage quality and independence requirements through a local appointment process. The Council is unable to influence the scope of the audit and the regulatory regime inhibits the Council's ability to affect quality. The Council and its auditor panel would also need to maintain ongoing oversight of the contract. Local contract management cannot, however, influence the scope or delivery of an audit. Options A and B are therefore not the recommended approach.

Conclusion

- 6.5 This report concludes that the sector-wide procurement conducted by PSAA will produce better outcomes and will be less burdensome for the Council than a procurement undertaken locally on the basis that:
- (a) Collective procurement reduces costs for the sector and for individual Councils compared to a multiplicity of smaller local procurements.
 - (b) PSAA provides the best opportunity to secure the appointment of a qualified, registered auditor. There are only nine accredited local audit firms, and a local procurement would be drawing from the same limited supply of auditor resources as PSAA's national procurement.
 - (c) Supporting the sector-led body offers the best way of ensuring there is a continuing and sustainable public audit market into the medium and long term.
- 6.6 Moving forward, Regulation 19 of the Local Audit (Appointing Person) Regulations 2015 requires that a decision to opt in must be made by a meeting of the Council (meeting as

a whole). The Council is then required to respond formally to PSAA's invitation in the form specified by PSAA by the close of the opt-in period (11 March 2022).

- 6.7 PSAA will commence the formal procurement process in early February 2022, with the expectation of contract awards in August 2022. PSAA will then consult with Councils on the appointment of auditors so that it can make appointments by the statutory deadline of 31 December 2022.

7 Appendices

None

Subject to Call-In:

Yes: ☐ No: ☒

The item is due to be referred to Council for final approval ☒

Delays in implementation could have serious financial implications for the Council ☐

Delays in implementation could compromise the Council's position ☐

Considered or reviewed by Overview and Scrutiny Management Committee or associated Task Groups within preceding six months ☐

Item is Urgent Key Decision ☐

Report is to note only ☐

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