

Council

27 January 2022

Report of Director of Resources

APPOINTMENT OF EXTERNAL AUDITOR

PURPOSE OF REPORT

This report seeks Members' approval to opt into the appointing person arrangements for the appointment of the Authority's external auditor for a period that covers the audits of the statutory accounts for the five consecutive financial years commencing 1 April 2023.

RECOMMENDATION

1. That the Council becomes an opted-in Authority to the national procurement exercise, conducted by Public Sector Audit Appointments Limited, for the appointment of the Authority's external auditor for a period that covers the audits of the statutory accounts for the five consecutive financial years commencing 1 April 2023.
2. That a budget pressure of £10,000 be included in the Medium Term Financial Plan from 2023/24 onwards to reflect the forecast increase in audit fees and the additional work under this new contract.

WARDS AFFECTED

None

STRATEGIC LINK

None

1 BACKGROUND

- 1.1 Under the Local Government Audit and Accountability Act 2014 the Authority is required to appoint an auditor to audit its accounts each financial year.
- 1.2 The Local Audit (Appointing Person) Regulations 2015 state that the decision of a principal authority to opt into the appointing person arrangement may only be made by the members of the authority meeting as a whole i.e. the decision has to be made by full Council and cannot be delegated to a committee or officer.
- 1.3 The Council's current auditor appointment (with Mazars LLP) covers the period up to and including the audit of the 2022/23 accounts. The appointment was made by the Authority opting into the 'appointing person' national auditor appointment arrangements established by Public Sector Audit Appointments Limited (PSAA).
- 1.4 The Local Audit and Accountability Act 2014 requires the Authority to have an auditor

appointment in place by 31 December of the year preceding the start of the contract i.e. by 31 December 2022. As the procurement process can be lengthy, decisions relating to the procurement need to be made now

- 1.5 PSAA has invited authorities to opt in for an appointing period of five consecutive financial years commencing 1 April 2023. Based on the level of opt-ins it will enter into contracts with appropriately qualified audit firms and appoint a suitable firm to be the Authority's auditor. The closing date to give notice to PSAA of the authority's acceptance of their invitation is Friday 11 March 2022.

2 REPORT

- 2.1 As explained above, it is necessary to determine the approach to the appointment of an external auditor for the audits of the Council's statutory accounts for the financial years commencing 1 April 2023.
- 2.2 The appointed external auditor will undertake the statutory audit of accounts and value for money assessment for 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.
- 2.3 The auditor must 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.
- 2.4 The auditor must be registered to undertake local audits by the Financial Reporting Council (FRC) and employ authorised Key Audit Partners to oversee the work. There is currently a shortage of registered firms and Key Audit Partners.
- 2.5 The scope of a local audit is fixed. It is determined by the Code of Audit Practice (published by the National Audit Office), the format of the financial statements (specified by the Chartered Institute of Public Finance and Accountancy) and the application of auditing standards is currently regulated by the FRC. These factors apply to all local audits. Councils therefore have very limited influence over the nature of the audit services they are procuring, the nature and quality of which are determined or overseen by third parties.
- 2.6 PSAA is the body appointed by the Secretary of State under the provisions of the Local Government Audit and Accountability Act 2014 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. The Council opted in to that process and it worked well.
- 2.7 PSAA 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.
- 2.8 The advantages of opting in to the PSAA arrangements are:
 - A national procurement exercise is most likely to reduce costs for the sector and for individual authorities compared to lots of smaller local procurements;

- A national procurement exercise is more likely to result in the appointment of suitable qualified and accredited auditors who are currently in short supply (and any local procurement exercise is likely to be in competition with the national exercise);
- The costs of setting up the appointment arrangements and negotiating fees would be shared across all opt-in authorities;
- PSAA will manage the procurement process to ensure both quality and price criteria are satisfied (relieving Council officers of a significant piece of work when staffing resources are already under pressure);
- PSAA will undertake ongoing contract and performance management of the contracts, including any conflicts at individual authority level, once the contracts have been let (reducing officer time and ensuring consistency across the sector);
- The national offer is more likely to ensure consistency of audit approach across local authorities.
- If it does not use the national appointment arrangements, the Authority will need to establish its own Auditor Panel with an independent chair and independent members to oversee a local auditor procurement and ongoing management of an audit contract, which would take up significant officer and member resources.

2.9 The Local Government Association (LGA) favours the PSAA approach. It has stated that “The way external audit has operated over the last couple of years has been extremely disappointing. This has led to many audits being delayed and dozens of audits remain uncompleted from 2019/20. Dealing with these issues is not a quick or easy fix. Nevertheless, the LGA’s view is that the national framework remains the best option for councils. There are many reasons for favouring the national arrangements and we think those reasons have become more compelling since 2016/17 when councils were last asked to make this choice. We believe that in a suppliers’ market it is imperative that councils act together to have the best chance of influencing the market and for nationally coordinated efforts to improve the supply side of the market to be effective.”

2.10 It is therefore recommended that the Authority becomes an opted-in Authority to the national procurement exercise, conducted by Public Sector Audit Appointments Limited, for the appointment of the Authority’s external auditor for the five consecutive financial years commencing 1 April 2023.

2.11 Should Members of the committee approve the recommendation to opt into the national auditor appointment scheme is made, the Director of Resources will submit a formal notice of acceptance to PSAA’s invitation by the close of the opt-in period on 11 March 2022.

2.12 PSAA will subsequently commence the formal procurement process for all opted-in authorities. 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.

3 RISK ASSESSMENT

Legal

- 3.1 The Local Audit and Accountability Act 2014 set out the procedure for the appointment of auditors and Public Sector Audit Appointments Limited has been specified as an appointing person to procure and appoint auditors through a national scheme.
- 3.2 Section 7 of the Local Audit and Accountability Act 2014 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.
- 3.3 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. Schedule 3 of the Local Audit and Accountability Act 2014 excludes the power of the Council to delegate this function, so the decision must be taken by Council.
- 3.4 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.
- 3.5 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.
- 3.6 The legal risk of implementing the recommendations is assessed as low.

Financial

- 3.7 The 2021/22 budget includes £35,397 for external audit fees (excluding grant work such as the audit of the housing benefit claim).
- 3.8 Members of the Committee will recall that there have been significant increases in fees over recent years due to the increased complexity of the work and increases in the scope of audit, requiring more audit work. The Redmond Review on 'Local Audit and the Transparency of Local Authority Financial Reporting' (published in 2020) gave a clear message that the level of audit fees currently being charged is no longer sustainable for firms to deliver a compliant audit to the required quality standard. The Redmond Report concludes that evidence suggests fees are at least 25% lower than is required.
- 3.9 Therefore, officers expect that fees will increase under these new arrangements. Any additional costs of the contract will be reported to Members as part of the outcome of the procurement exercise.
- 3.10 It is proposed that a budget pressure of £10,000 will be included in the Medium Term Financial Plan from 2023/24 onwards to reflect the forecast increase in audit fees and the additional work associated with preparing the statement of accounts under this contract. This will be included in the updated MTFP that will be presented to Council for approval on 3 March 2022. The financial risk of implementing the recommendations

of this report is assessed as “low”.

Corporate

- 3.11 The principal risks are that the Authority fails to appoint an auditor in accordance with the statutory requirements or does not achieve value for money in the appointment process. These risks are mitigated by opting into the sector-led approach through PSAA.

4 OTHER CONSIDERATIONS

- 4.1 In preparing this report, the relevance of the following factors has also been considered: prevention of crime and disorder, equalities, environmental, climate change, health, human rights, personnel and property.
- 4.2 Climate change: PSAA has described how it requires its contracted audit firms to demonstrate how they will minimise environmental impact / address climate change. A copy is set out in Appendix 1. During the pandemic external audits have been carried out remotely, which has reduced the need for external auditors to travel to Matlock Town Hall (except for Committee meetings). In future, it is expected that on-site working will increase a little as it would be beneficial to working relationships to have some face to face meetings. However, it is not expected that this will return to pre-pandemic levels.

5 CONTACT INFORMATION

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6 BACKGROUND PAPERS

None

7 ATTACHMENTS

Appendix 1: How PSAA requires its contracted audit firms to demonstrate how they will minimise environmental impact / address climate change.

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Does PSAA require its contracted audit firms to demonstrate how they will minimise environmental impact/address climate change issues?

PSAA's audit services contracts covering the audits from 2018/19 to 2022/23 include a clause in relation to 'Co-operation with PSAA on environmental issues'. This states that "Throughout the Contract the Supplier shall co-operate with PSAA in seeking reasonable and practical ways to improve the sustainability of the delivery of the Services" so there is a requirement for our contracted firms to consider environmental issues. We have yet to finalise the contract terms to be used in our 2022 procurement, however we do intend to retain this contractual provision.

In addition, in its 2022 procurement PSAA will determine 5% of the bidders' tender evaluation score by the additional social value that they will deliver from the contract. In direct response to our June consultation on the draft scheme prospectus we have broadened the scope of social value that a bidder could provide in its response. The scope now includes sustainability and environmental concerns, and equality, diversity and inclusion, alongside apprenticeships and long term development opportunities. We intend to ask bidders to describe how their delivery of social value will be measured and evidenced to PSAA so that it will form part of our contract management arrangements.

When PSAA develops its auditor appointment proposals following contract award to successful firms, one of the factors that we consider is the location of the audit in relation to the locations of the contracted firms' local audit resources. There is the possibility that one of the outcomes from the remote working enforced by C19 is that auditors will travel less to clients, taking advantage of the significant improvements in video conferencing, but it will be some time before that can be assessed with any clarity.

Source: <https://www.psa.co.uk/faqs/does-psaa-require-its-contracted-audit-firms-to-demonstrate-how-they-will-minimise-environmental-impact-address-climate-change-issues/>