

**AUDIT COMMITTEE**  
**25 JANUARY 2022**

**ARRANGEMENTS FOR THE APPOINTMENT OF EXTERNAL AUDITORS FROM 2023/24**

**Cabinet Member(s):** Cllr Andrew Moore, Cabinet Member for Finance  
**Responsible Officer:** Andrew Jarrett, Deputy Chief Executive (S151)]

**Reason for Report:** To advise Members of the options, process and legislative requirement to appoint External Auditors for the Accounting Periods from 2023/24 and to seek Member endorsement of the recommended option for Council approval.

**Recommendation:** To propose that Full Council agree opting into the PSAA procurement process for the appointment of an External Auditor from 2023/24.

**Financial Implications:** The Council's external audit fees are £36,729 for 2020/21. However over the past couple of years, additional charges have been made by Grant Thornton, our current external auditor, for undertaking additional work as prescribed by the regulators. The prospectus indicates that these additional tasks will continue, and that there is likely to be a further increase in fees to address imbalance in the audit market and attract new entrants / retain current organisations in the market. Scale fees are therefore likely to return to levels prior to the last PSAA procurement exercise in 2017.

**Budget and Policy Framework:** Additional budget provision has been made for the likely increase in fees. The audit itself will follow the prescribed process outlined by the regulator.

**Legal Implications:** Local Authorities are required under legislation to appoint their own External Auditors for the Accounts 2023/24 (when the current contract expires). The Local Audit and Accountability Act 2014 requires Local Authorities to decide between opting from one of the following two options available, namely:

1. Utilising the Public Sector Audit Appointments (PSAA), under the appointing persons regime, Local Audit (Appointing Person) Regulations 2015, or
2. Running our own procurement exercise.

Regulation 19 of the Local Audit (Appointing Person) Regulations 2015 requires that a decision to opt-in must be made by Full Council.

**Risk Assessment:** The principal risks are that the Authority:

1. fails to appoint an auditor in accordance with the requirements and timing specified in local audit legislation; or
2. does not achieve value for money in the appointment process.

These risks are considered best mitigated by opting into the sector-led approach through PSAA. The process as set out above and the recommendation should ensure compliance with the Local Audit and Accountability Act 2014.

**Equality Impact Assessment:** There are no Equalities Impact implications relating to the content of this report.

**Relationship to Corporate Plan:** The audit will help ensure that the council's financial resources are directed towards the delivery of our Corporate Plan's priorities and that they provide Value for Money (VfM).

**Impact on Climate Change:** There are no Climate Change implications relating to the content of this report.

## 1. Introduction/Background

- 1.1. Since the abolition of the Audit Commission on 31 March 2015, Councils have had the choice of procuring and appointing their own External Auditors or opting into a national scheme run by the Public Sector Audit Appointments Limited (PSAA). In February 2017, the Council agreed to opt-in to the national appointment scheme for the period covering the accounts for 2018/19 to 2022/23.
- 1.2. PSAA is an independent, not-for-profit company limited by guarantee and established by the Local Government Association, whose costs are around 4% of the scheme with any surplus distributed back to scheme members. It was originally established, under powers delegated by the Secretary of State, to operate the transitional arrangements of existing contracts that were scheduled to terminate in March 2017 and were subsequently extended for a further year.
- 1.3. The current PSAA contract and arrangements will end in March 2023 and a decision on whether to opt-in to the national scheme again needs to be made by 11 March 2022.
- 1.4. The Secretary of State has confirmed PSAA in the role of the appointing person for eligible principal bodies for the period commencing April 2023. This means that PSAA can make auditor appointments for audits of the accounts of principal authorities, which choose to opt into its arrangements, for the five financial years 2023/2024 to 2027/2028.
- 1.5. This is a further update to the report which was presented to the Audit Committee on the 21 September 2021. It summarises the key proposals contained in the Public Sector Audit Appointments Ltd (PSAA) prospectus (Appendix A) and recommends opting into the PSAA procurement process.
- 1.6. On 22 September 2021 the Chief Officer of Public Sector Audit appointments wrote to our Chief Executive making the formal Invitation to opt into the national scheme for auditor appointments. A copy of this letter is included within Appendix A, along with a copy of the Prospectus in Appendix B and the Procurement Strategy in Appendix C.
- 1.7. The deadline for formal acceptance of this invitation is 11 March 2022 which means that this meeting of the Audit Committee must make its recommendation in order that it can be considered by Full Council at its meeting on 23 February 2022.

- 1.8. For information purposes, the S151's across Devon discussed this matter at its December meeting and were all minded to opt in. Therefore the option of a joint local procurement has not been considered.

## **2. Changes in the audit**

- 2.1. Since the 2017 procurement much has changed in the local audit market. 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.
- 2.2. 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.
- 2.3. 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.
- 2.4. None of these problems is 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.

## **3. The Appointed Auditor**

- 3.1. The auditor appointed at the end of the procurement process will 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.
- 3.2. 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.
- 3.3. The auditor must be registered to undertake local audits by the Financial Reporting Council (FRC) 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.
- 3.4. Auditors are regulated by the 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.
- 3.5. 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.

#### **4. The Options open to MDDC**

4.1. As laid out above, there are effectively two options open to the Council, namely:

1. Utilise the Public Sector Audit Appointments (PSAA), under the appointing persons regime, Local Audit (Appointing Person) Regulations 2015, or
2. Run our own procurement exercise.

#### **4.2. Option 1 - Sector led Procurement Exercise Utilising PSAA.**

4.2.1. This is the least resource demanding of the two options available to the Authority. The use of PSAA provides for a procurement exercise undertaken on a larger scale than an Authority led procurement exercise and will ensure that the most competitive rates are obtained through economies of scale. This will result in a larger interest from the registered Audit Sector Partners and result in a reduced cost for undertaking the procurement exercise (establishing an audit panel, advertising and interview costs) as procurement exercise costs will be shared by the number of Authorities opting for this option.

4.2.2. The PSAA will take into considered, if requested, joint working arrangements across organisations and ensure the same auditor is appointed to ensure smooth working. The monitoring of contracts, quality, compliance and independence will be managed by the PSAA, who will also mediate any conflicts arising.

- 4.2.3. 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.
- 4.2.4. However, elected members have less opportunity for direct involvement other than through the LGA and/or stakeholder representatives.

#### **4.3. Option 2: Running our own procurement exercise**

- 4.3.1. To conduct our own procurement exercise would require the establishment of an Auditor Panel. The majority of the panel members must be independent appointees, which precludes current and former elected members (or officers) and their close families and friends. The Panel role cannot, therefore, be performed by the Audit Committee. 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.
- 4.3.2. This exercise will therefore involve disproportionate use of resources (cost and management time) and would not deliver economies of scale/bulk buying power which the sector led procurement process would deliver. The Council would therefore not be able to take advantage of reduced fees that may be available through joint or national procurement contracts.
- 4.3.3. The specification or scope of the audit will still be specified nationally, the National Audit Office (NAO) is responsible for writing the Code of Audit Practice which all firms appointed to carry out the Council's audit must follow. A local procurement would be drawing from the same limited supply of auditor resources as PSAA's national procurement
- 4.3.4. In light of the benefits that the sector led procurement option undertaking our own procurement exercise is not recommended.

### **5. Conclusions/recommendations.**

- 5.1. The primary aim of the PSAA Procurement Strategy is 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.
- 5.2. Opting in to the sector-led national approach would therefore seem a logical way of maintaining the collective purchasing power that a national framework would provide. Best value for MDDC is therefore most likely to be achieved through joining the PSAA approach as opposed to going it alone.
- 5.3. For the reasons stated above, Option 1 is recommended option as it provides the best opportunity to deliver Value for Money.
- 5.4. The date by which principal authorities will need to opt into the appointing person arrangement is 11 March 2022. The aim is to award contracts to audit firms by the end of June 2022, giving six months to consult with authorities on appointments before the 31 December 2022 deadline.

5.5. This is a decision that requires a recommendation to be made to Full Council.

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**Circulation of the Report:** Cabinet Member seen and approved [yes/no – name of  
Cabinet Member], Cabinet, Leadership Team seen and approved [yes/no]

**List of Background Papers:** Appendix A – Letter to CEO from PSAA  
Appendix B – PSAA Prospectus  
Appendix C – PSAA Procurement Strategy  
Appendix D - Form of notice of acceptance of  
the invitation to opt in