

Report to the Council

Committee: Council

Date: 16th December 2021

Subject: Appointment of External Auditor

Chair of Audit and Governance: Councillor I Hadley

Portfolio Holder: Finance, Qualis Client and Economic Development –
Councillor J Philip

Recommendations/Decisions Required:

- (1) That the Council continues to participate in the national procurement process led by Public Sector Audit Appointments (PSAA) for the appointment of external auditors.**
- (2) Subject to the recommendation above (1), delegated authority be granted to the Section 151 officer to formally give notice of the Council's intention to opt into the PSAA procurement agreement**

1. Executive Summary

- 1.1. At its meeting on 22nd November 2021 the Audit and Governance Committee considered the options for appointing an Auditor when the current contract comes up for renewal on 1st April 2023 and Recommended that Council continues to opt into Public Sector Audit Appointments Limited (PSAA) arrangement.
- 1.2. The current auditor appointment arrangements of opting into the national auditor appointment arrangements established by PSAA were agreed by full Council in December 2016 and cover the 5 years up to and including the audit of the 2022/23 accounts. The Local Audit and Accountability Act 2014 requires authorities to either opt into the appointing person regime, led by PSAA or to establish an auditor panel and conduct their own procurement exercise.
- 1.3. The external auditor for the audit of accounts for 2023/24 should be appointed before the end of December 2022. To comply with the Local Audit (Appointing Person) Regulations 2015 full Council must make the decision. The close of the opt in period is 11 March 2022.
- 1.4. Whilst there has been some considerable issues with the delivery of audits under the contracts negotiated by PSAA in 2016 it is considered likely that a sector wide procurement conducted by PSAA will still produce better outcomes for the Council than any procurement undertaken ourselves or with a limited number of partners. Use of the PSAA will also be less resource intensive than establishing an auditor panel and

conducting our own procurement. Local procurement would draw in the same limited supply of auditor resource as the PSAA's national procurement

- 1.5. One of the specific functions of the Audit and Governance Committee, as set out in the Constitution, is to be responsible for the appointment of the Council's external auditors and ensure it is in line with the requirements of the Local Audit and Accountability Act 2014.
- 1.6. However, Regulation 19 of the Local Audit (Appointing Person) Regulations 2015 requires that a decision to opt in must be made by Full Council (authority meeting as a whole).

2. Detailed Report

- 2.1. Public Sector Audit Appointments Limited (PSAA) is a company limited by guarantee without share capital. The company is owned by the Improvement and Development Agency (IDeA), itself wholly owned by the Local Government Association (LGA). The LGA is a national membership body for local authorities which works on behalf of members to support, promote and improve local government. PSAA began operations on 1 April 2015 when the then Secretary of State for Communities and Local Government delegated to PSAA on a transitional basis a number of statutory functions following the closure of the Audit Commission. These responsibilities included appointing auditors and setting audit fees for bodies subject to audit under the provisions of the Local Audit and Accountability Act 2014. Whilst most of these transitional responsibilities have come to an end, PSAA is still responsible for a small residual number of audits under these arrangements.
- 2.2. In June 2016, the Secretary of State specified the company as an appointing person under the provisions of the Local Audit and Accountability Act 2014. This means that for audits of accounts from 2018/19 PSAA appoints an auditor to eligible principal authorities (councils, local police bodies, fire authorities and other local government bodies) that have chosen to opt into the national auditor appointment scheme developed by the company. The scheme formally commenced in April 2018. The duration of the first appointing period was set at five years and therefore runs until 31 March 2023. The second appointing period will commence on 1 April 2023.
- 2.3. PSAA is responsible for:
 - appointing auditors to local public bodies, including councils, police and crime commissioners, chief constables, fire and rescue authorities and other relevant principal local government bodies;
 - setting scales of fees, and charging fees, for the audit of accounts of relevant bodies;
 - overseeing the delivery by its appointed auditors of consistent, high-quality and effective external audit services to opted-in bodies; and
 - ensuring effective management of contracts with audit firms for the delivery of external audit services to opted-in bodies
- 2.4. At 31 March 2020, 478 of the 487 eligible bodies (98%) had opted into PSAA's national auditor appointment arrangements including all principal authorities created since 1 April 2018. Bodies remain in the scheme for the specified appointing period. The current appointing period covers audits of the accounts for the five financial years 2018/19 to 2022/23. In May 2021, the Government confirmed that PSAA would continue as the appointing body for local audit, in charge of procurement and contract management for local government auditors.

- 2.5. The PSAA formally invited all eligible bodies including councils to opt into the national auditor appointment scheme from April 2023, the close of the opt in period is 11 March 2022.
- 2.6. The PSAA provide an FAQ on why accepting the national opt-in invitation is the best option and the main advantages are copied below:
- transparent and independent auditor appointment via a third party;
 - the best opportunity to secure the appointment of a qualified, registered auditor;
 - on-going management of any independence issues which may arise;
 - access to a specialist PSAA team with significant experience of working within the context of the relevant regulations to appoint auditors, managing contracts with audit firms, and setting and determining audit fees;
 - a value for money offer based on minimising PSAA costs and distribution of any surpluses to scheme members
 - collective efficiency savings for the sector through undertaking one major procurement as opposed to a multiplicity of smaller procurements;
 - avoids the necessity for local bodies to establish an auditor panel and undertake an auditor procurement, enabling time and resources to be deployed on other pressing priorities;
 - updates from PSAA to Section 151 officers and Audit Committee Chairs on a range of local audit related matters to inform and support effective auditor-audited body relationships; and
 - concerted efforts to work with other stakeholders to develop a more sustainable local audit market.
 - Assure timely auditor appointments
- 2.7. The delivery of audit contracts negotiated by the PSAA have been beset with issue over the past two years. Some of the blame for this has been levelled at the PSAA for forcing down prices too low meaning that the big audit firms were unable to properly resource delivery. In practice the issues are more complex, and the firms entered these contracts being clear on the expectations upon them, having worked with the sector over many years.
- 2.8. The current issues are now many fold and include a limited supply of auditors, increased requirement by the Government and the overseeing accountancy bodies on the application of auditing standards to be applied and increased complexity associated with ever expanding council activities and due to Covid.
- 2.9. For the 2020/21 accounts, more than 90% of audits were not delivered on time.
- 2.10. The LGA and PSAA are acutely aware of these issues and have worked with the Accountancy firms and local authorities to remedy these issues, but with partial success. Inevitably the cost of audits will rise under the forthcoming procurement process, and probably necessarily so, to address some of the issues that have emerged since the last procurement process was undertaken.
- 2.11. It is likely that the number of councils using the PSAA process will reduce this time around, but it is expected that the majority will still choose to follow this procurement route.
- 2.12. Whilst PSAA has drawn criticism they have high visibility of the issues and it is believed that they are still best placed to undertake the negotiation on behalf of the sector.

3. Audit and Governance Committee Comments

- 3.1. The Audit and Governance Committee considered the report at its meeting on 22nd November 2021. The Committee asked as to the size of savings delivered through the PSAA approach last time around and whether these were higher than would have been achieved through a standalone procurement. Having received the answer the Committee was content with recommending to Council that it continues to use the PSAA approach.

4. Resource Implications

- 4.1. If PSAA is not used additional resource may be needed to establish an auditor panel and conduct our own procurement. Until either procurement exercise is completed it is not possible to state what additional resource may be required for audit fees for 2022/23, although it is anticipated that any increase will be minimised through using PSAA.

5. Legal and Governance Implications

- 5.1. The process as set out above and the recommendation should ensure compliance with the Local Audit and Accountability Act 2014.

6. Safer, Cleaner and Greener Implications

- 6.1. None.

7. Consultation Undertaken

- 7.1. None

Background Papers

PSAA Prospectus

PSAA – Appointing Person – Frequently Asked Questions

Audit & Governance Committee 28 November 2016 Appointment of External Auditors

<https://eppingforestintranet.moderngov.co.uk/mgAi.aspx?ID=57999>