

<b>Report of:</b>	<b>Head of Governance &amp; Corporate Services</b>
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<b>Report Track:</b>	<b>Audit &amp; Governance Committee: 06/12/21 Council: 15/12/21</b>

**Audit & Governance Committee  
6 December 2021  
Appointment of External Auditors**

**1 Purpose of Report**

- 1.1 To determine whether to opt into the national scheme for external auditor appointments from April 2023.

**2 Recommendation(s)**

- 2.1 That the Committee recommends to Council to approve the opting-in to the national scheme for external auditor appointments from April 2023.

**3 Key Issues and Reasons for Recommendations**

**Key Issues**

- 3.1 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. Following the ending of transitional arrangements, the Council elected to opt-in to the national scheme operated by Public Sector Audit Appointments (PSAA).
- 3.2 The current 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.
- 3.3 If the Council determines not to opt-into the national scheme, alternative arrangements will need to be made for the procurement and appointment of an external auditor. Two options exist to the Council as follows:
- Establishing a stand-alone Auditor Panel to make the appointment on behalf of the Council;
  - To commence work on exploring the establishment of local joint procurement arrangements with neighbouring authorities.

## Reasons for Recommendations

- 3.4 The preferred option is to opt-in to the National Scheme as it is considered that this offers best value for money and assures the appointment of a suitably qualified and independent auditor.

### 4 Relationship to Corporate Priorities

- 4.1 The appointment of External Auditors is a Statutory Requirement and contributes to the corporate priority of “Financially Resilient Council”.

### 5 Report Detail

- 5.1 External auditors were traditionally appointed by the Audit Commission, under the Audit Commission Act 1998. However, the Audit Commission was abolished on 31 March 2015 and the existing External Audit contracts transferred to Public Sector Audit Appointments Limited (PSAA).
- 5.2 PSAA is an independent, not-for-profit company limited by guarantee and established by the Local Government Association. 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.
- 5.3 In July 2016 PSAA were specified by the Secretary of State as an ‘appointing person’ under regulation 3 of the Local Audit (Appointing Person) Regulations 2015. This allowed PSAA to make auditor appointments to relevant principal local government bodies that chose to opt-in to the national appointment arrangements for external auditors from 2018/19.
- 5.4 In February 2017 the Council agreed to opt-in to the national appointment scheme.
- 5.5 The current 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. The Council has a duty to appoint new external auditors before the end of December 2022 in readiness for the 2023/24 audit of the accounts.
- 5.6 If the Council determines not to opt-into the national scheme, alternative arrangements will need to be made for the procurement and appointment of an external auditor. Two alternative options exist to the Council as follows:
- Establishing a stand-alone Auditor Panel to make the appointment on behalf of the Council;
  - To commence work on exploring the establishment of local joint procurement arrangements with neighbouring authorities.
- 5.7 There are benefits and disadvantages for each of the options. The main benefit of opting-in to the national scheme is that it offers value for money and assures the appointment of a suitably qualified and independent auditor. The two alternative options will be considerably more resource intensive for the Council and potentially more expensive due to:

- the requirement to establish an Audit Panel and undertake a procurement exercise; and
- the lack of the ability to offer a suitably large contract value to the market place.

Furthermore, it is anticipated that there will be little if any interest in undertaking a joint procurement locally.

- 5.8 The Council's procurement regulations support the use of framework agreements reflecting the increased contract value available to the market.
- 5.9 In the context of procuring a service the Council's influence in determining service provision is severely limited. 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. Not all accounting firms will be eligible to compete for the work, the scope of public audit is wider than for private sector organisations with as an example the external auditor being required to form a conclusion on the body's arrangements for securing value for money. Potential providers will need to demonstrate that they have the required skills and experience and be registered with a Registered Supervising Body approved by the Financial Reporting Council
- 5.10 The preferred option is to opt-in to the national sector led scheme, as supported by the Local Government Association in its letter attached at Appendix A.

## **6 Implications**

### **6.1 Financial**

There are no direct financial implications of the recommendation to opt-in to the National led scheme and this provides the best opportunity to ensure value for money in the appointment process. There will be no fee to join the sector led arrangements. The other options available for consideration would include the cost of establishing an Audit Panel and procuring an External Auditor via Tender process for which there is no budget provision. Provision is made within the budget for the cost of the External Auditors fees.

### **6.2 Legal**

Local Audit and Accountability Act 2014 states a relevant authority must appoint an auditor (a "local auditor") to audit its accounts for a financial year not later than 31 December in the preceding financial year and that a relevant authority must consult and take into account the advice of its auditor panel on the selection and appointment of a local auditor.

Regulation 19 of the Local Audit (Appointing Person) Regulations 2015 enables the appointment of an External auditor to be made by a person specified by the Secretary of State ("an appointing person") to audit the accounts of those authorities that choose to opt-in to such arrangements. The decision to opt-in to the sector led procurement process, instead of an Audit Panel, must be made by a meeting of the full Council

**6.3 Human Resources**

None

**6.4 Risk Management**

The opt-in proposal minimises the risk of the appointment process. This includes both the appointment by the due date and ensuring value for money in the procurement exercise.

**6.5 Equality & Diversity**

None

**6.6 Climate Change**

None

<b>7 Appendices to the Report</b>
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Appendix 1: Letter from the Local Government Association

**Previous Consideration**

None.

**Background Papers**

Appointment of External Auditors – Report to Council – 22 February 2017



From the Chairman of the Association  
Cllr James Jamieson

**To: Mayors/Leaders/Chief Executives/Chief Finance Officers of English Principal Councils**

23 September 2021

Dear Tim Clegg,

**Retender of External Audit Contracts**

I am writing because your council must shortly make a decision whether to opt into the national arrangement for the procurement of external audit or procure external audit for itself, and to set out the LGA's view on that decision.

In most councils this matter will be considered first in detail by the Audit Committee. You will therefore no doubt wish to pass on a copy of this letter and the more detailed attachment to the colleague who chairs the relevant committee.

Legislation requires a resolution of Full Council if a local authority wishes to opt into the national arrangement. The practical deadline for this decision is 11<sup>th</sup> March 2022. As this is a decision for the Full Council, I wanted to ensure that you had sight of the letter that has been sent to audit and finance colleagues and that you are aware of the crucial issues to be considered.

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.

The information attached goes into more detail about the background to this decision. My officers will be happy to answer any questions you may have. Please contact Alan Finch ([alan.finch@local.gov.uk](mailto:alan.finch@local.gov.uk)) if you have any issues you would like to raise.

Yours sincerely

Cllr James Jamieson  
Chairman

cc: Chief Executive  
Chief Finance Officer

## RETENDER OF EXTERNAL AUDIT CONTRACTS

### Information from the LGA for those charged with governance

The process for retendering for external audit in local authorities in England, for contracts due to start from 2023/24, is now underway and shortly the council will need to decide whether to procure its own external auditor or opt into the national procurement framework.

Legislation requires a resolution of Full Council if a local authority wishes to opt into the national arrangement. The deadline for this decision is the 11<sup>th</sup> March 2022. If the council doesn't make such a decision, the legislation assumes that the council will procure its own external audit, with all the extra work and administration that comes with it.

The national framework remains the best option councils can choose. 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.

The way external audit has operated over the last couple of years has been extremely disappointing. A lack of capacity in the audit market has been exacerbated by increased requirements placed on external auditors by the audit regulator. There is also a limited number of firms in the market and too few qualified auditors employed by those firms. This has led to a situation where many audits have been delayed and dozens of audit opinions remain outstanding from 2019/20 and 2020/21. Auditors have also been asking for additional fees to pay for extra work.

As the client in the contract, a council 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. Essentially, councils find themselves operating in what amounts to a suppliers' market and the client's interest is at risk of being ignored unless we act together.

Everyone, even existing suppliers, agrees that the supply side of the market needs to be expanded, which includes encouraging bids from challenger firms. Public Sector Audit Appointments Ltd (PSAA), the body nominated by the Government to run the national arrangements, has suggested various ways this could be done, but these initiatives are much more likely to be successful if a large number councils sign up to the national scheme.

It is therefore vital that councils coordinate their efforts to ensure that the client voice is heard loud and clear. The best way of doing this across the country is to sign up to the national arrangement.

To summarise, the same arguments apply as at the time of the last procurement:

- A council procuring its own auditor or procuring through a joint arrangement means setting up an Audit Panel with an independent chair to oversee the procurement and running of the contract.

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- The procurement process is an administrative burden on council staff already struggling for capacity. Contract management is an ongoing burden.
- Procuring through the appointing person (PSAA) makes it easier for councils to demonstrate independence of process.
- Procuring for yourself provides no obvious benefits:
  - The service being procured is defined by statute and by accounting and auditing codes
  - Possible suppliers are limited to the small pool of registered firms with accredited Key Audit Partners (KAP).
  - Since the last procurement it is now more obvious than ever that we are in a 'suppliers' market' in which the audit firms hold most of the levers.
- PSAA has now built up considerable expertise and has been working hard to address the issue that have arisen with the contracts over the last couple of years:
  - PSAA has the experience of the first national contract. The Government's selection of PSAA as the appointing person for a second cycle reflects MHCLG's confidence in them as an organisation.
  - PSAA has commissioned high quality research to understand the nature of the audit market.
  - It has worked very closely with MHCLG to enable the government to consult on changes to the fees setting arrangements to deal better with variations at national and local level, hopefully resulting in more flexible and appropriate Regulations later this year.

Councils need to consider their options. we have therefore attached a list of Frequently Asked Questions relating to this issue which we hope will be useful to you in reaching this important decision.

When the LGA set up PSAA in 2015, we did so with the interests of the local government sector in mind. We continue to believe that the national arrangement is the best way for councils to influence a particularly difficult market.

If you have any questions on these issues please contact Alan Finch, Principal Adviser (Finance) ([alan.finch@local.gov.uk](mailto:alan.finch@local.gov.uk)).