

Report To:	Audit and Governance Committee
Date:	24 November 2021
Report Title:	Arrangements for Appointing External Auditors
Report of:	Homira Javadi, Chief Finance Officer
Ward(s):	All
Purpose of report:	To outline the timeline and options available to the Council in appointing an External Auditor when the current arrangements reach their end.
Officer Recommendations:	<p>(a) The Committee to consider the content of this report and recommend to Full Council which of the options to adopt for the appointment of External Auditors from 2023/24.</p> <p>(b) That, further to (a) above, Full Council is recommended to delegate to the Section 151 Officer in consultation with the Head of Legal Services to:</p> <ul style="list-style-type: none"> i. accept the invitation received from Public Sector Audit Appointments Limited (PSAA) to 'opt-in' the Council into the national public sector scheme for the appointment of external auditors by the deadline of the 11th March 2022; <u>or</u> ii. consider other arrangements outside of PSAA.
Reasons for recommendations:	The Council has a statutory responsibility to appoint an external auditor to audit its accounts.
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1. Introduction

- 1.1 During Autumn 2021 all eligible bodies will need to make important decisions about their external audit arrangements for the period commencing from the financial year 2023/24.
- 1.2 In relation to appointing auditors, local bodies have options to arrange their own procurement and make the appointment themselves or in conjunction with others, or they can join and take advantage of the national collective scheme administered by PSAA.
- 1.3 The Council being an eligible body received an invitation (on 22 September 2021) from Public Sector Audit Authority (PSAA) to 'opt-in'. The requirement is that a recommendation is required by this Committee to Council by Friday 11th March

2022 to formally respond and accept (or decline) the opt-in invitation from Public Sector Audit Authority (PSAA) to join the procurement of bulk external audit services. The next Full Council meeting is scheduled for 23rd February 2022.

2. Public Sector Audit Appointments Limited (PSAA)

- 2.1 Public Sector Audit Appointments Limited (PSAA) is an independent company limited by guarantee incorporated by the Local Government Association in August 2014. PSAA is responsible for appointing an auditor for the five-year period to relevant principal local government bodies that opt into its national scheme, and to set 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.
- 2.2 In July 2016, the Secretary of State specified PSAA as an appointing person for principal local government and police bodies for audits from 2018/19, under the provisions of the Local Audit and Accountability Act 2014 and the Local Audit (Appointing Person) Regulations 2015.
- 2.3 Acting in accordance with this role, PSAA is responsible for appointing auditors and setting scales of fees for relevant principal authorities that have chosen to opt into its national scheme, overseeing issues of auditor independence and monitoring compliance by the auditor with the contracts entered into with the audit firms.
- 2.4 2018 proved to be a very significant turning point for the audit industry. A series of financial crises and failures in the private sector gave rise to questioning about the role of auditors and the focus and value of their work. In rapid succession the PSAA had the results of various independent reviews commissioned by Government.
- 2.5 However, additional work requires more time, posing a threat to firms' ability to complete all of their audits by the target date for publication of audited accounts (then 31 July) – a threat accentuated by growing recruitment and retention challenges, the complexity of local government financial statements and increasing levels of technical challenges as bodies explored innovative ways of developing new or enhanced income streams to help fund services for local people.
- 2.6 2019/20 audits have presented even greater challenges. With Covid-19 in the mix both finance and audit teams have found themselves in uncharted waters. Even with the benefit of an extended timetable targeting publication of audited accounts by 30 November, more than 260 opinions remained outstanding.
- 2.7 Delayed opinions are not the only consequence of the FRC's drive to improve audit quality. Auditors need to be paid for their additional work. As a result, many more fee variation claims have been received than in prior years. None of these problems are unique to local government audit. Similar challenges have played out throughout other sectors where increased fees and disappointing responses to tender invitations have been experienced during the past two years.

3. Appointment of External Auditor from 2023/24 - Options

- 3.1 The Council's current External Audit provider was appointed under the PSAA procurement contract. Current scale fees are based on rates negotiated by PSAA and reflect market share offered in framework contracts. If the Council wishes to remain in the PSAA framework and allow PSAA to continue to manage the appointment of the external auditors, it can do so.
- 3.2 PSAA sent an invite to "opt-in" (September 2021) to the Chair of Audit and Governance Committee, the Chief Executive, and the Section 151 Officer, requesting a decision on/before Friday 11th March 2022.
- 3.3 There are three ways for a principal local government body to appoint its auditor for the five financial years from 2023/24, namely:
- **Option 1** - Undertake an individual auditor procurement and appointment exercise.
 - **Option 2** - Undertake a joint audit procurement and appointing exercise with other bodies, those in the same locality for example, or
 - **Option 3** - Join PSAA's sector led national scheme.
- 3.4 All of the above options require a local auditor to be appointed not later than 31 December in the financial year preceding the financial year of the accounts to be audited. So, for the audit of the accounts of the 2023/24 financial year, there must be a local auditor appointed by 31 December 2022.
- 3.5 PSAA has now formally invited this Council to opt into the national scheme (Option 3 above) for auditor appointments from April 2023. Details relating to PSAA's invitation are provided in **Appendix B (1 & 2)** to this Report.
- 3.6 An analysis of available options is provided within the attached **Appendix A**.

4. PSAA Indicative Timescales

Timescale	Activities
September 2021	Eligible bodies invited to join PSAA's national scheme (will require a decision by Full Council, or equivalent decision maker).
w/c 7 February 2022	Publish Contract Notice and issue documentation on request
11 March 2022	Deadline for eligible bodies to notify PSAA of their decision to opt-in.
w/c 14 March 2022	Deadline for submission of Selection Questionnaires
w/c 4 April 2022	Issue invitation to tender to short-listed suppliers.
w/c 11 July 2022	Deadline for submission of tenders.
August 2022	PSAA Board approval of contract awards, assuming a satisfactory outcome.
December 2022	PSAA Board will confirm auditor appointments for 2023/24.

5. Financial Appraisal

- 5.1 The proposed external audit fees cannot be fully known until the procurement process has been completed, as the costs will depend on proposals from the audit firms. Given the widespread prevalence of fee variations, market uncertainty and the revision to an 80% quality weighting within the procurement, it is almost certain that the fee payable by the Council will rise.
- 5.2 Opting-in to a national scheme provides a strong opportunity to ensure fees are as low as possible, whilst ensuring the quality of audit is maintained by entering into a large-scale collective procurement arrangement.
- 5.3 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 for 2023/24.
- 5.4 The 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 audit firms will be eligible to compete for the work, they 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 or bid under the proposed arrangements whereby those going through registration or being 'supervised' by an appropriate approved body would be eligible.

6. Risk Management Implications

- 6.1 It is the Council's policy to proactively identify and manage significant risks which may prevent delivery of business objectives.
- 6.2 It is not possible to eliminate or manage all risks all the time and risks will remain which have not been identified. However, it is the officer's opinion based on the information available, that the significant risks associated with this decision / project have been identified, assessed and that controls will be put in place to manage them effectively.
- 6.3 There is no immediate risk to the Council, however, early consideration by the Council of its preferred approach will enable detailed planning to take place so as to achieve successful transition to the new arrangement in a timely and efficient manner.

7. Equality Analysis

- 7.1 This is a routine report for which detailed Equality Analysis is not required to be undertaken.

8. Legal Implications

- 8.1 The Local Audit and Accountability Act 2014 (Part 3) gives powers to appoint auditors. In July 2016, the Secretary of State for Housing Communities and Local Government specified PSAA as an appointing person for principal local government

and police bodies for audits from 2018/19, under the provisions of the Local Audit and Accountability Act 2014 and the Local Audit (Appointing Person) Regulations 2015.

8.2 The implications arising therefrom in relation to the audit of the council's accounts are set out in the report.

9. Appendices

- Appendix A - Options for local appointment of External Auditors from 2023/24.
- Appendix B1 - Invitation to opt into the national scheme for auditor appointments from April 2023.
- Appendix B2 - Appointing Period 2023/24 to 2027/28 - Form of notice of acceptance of the invitation to opt in.

Appendix A

Available Options for local appointment of External Auditors from 2023/24

	Option 1	Option 2	Option 3
	<i>Undertake an individual auditor procurement and appointment exercise.</i>	<i>Undertake a joint audit procurement and appointing exercise with other bodies, those in the same locality for example.</i>	<i>Join PSAA's sector led national scheme</i>
Description	<p>To make a stand-alone appointment, the Council will need to set up an Independent Auditor Panel. 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, this excludes current and former elected members (or officers) their close families and friends. This means that elected members will not have a majority input to assessing bids and choosing which firm of accountants to award a contract for the Council's external audit. A new independent auditor panel established by the Council will be responsible for selecting the auditor.</p> <p>The auditor panel must have at least three members, a majority of whom must be independent, and one of whom must chair the panel.</p>	<p>The 2014 Act enables the Council to join with other authorities to establish a joint auditor panel. Again, this will need to be constituted of wholly or a majority of independent appointees (members). Further legal advice will be required on the exact constitution of such a panel having regard to the obligations of each Council under the Act and the Council need to liaise with other local authorities to assess the appetite for such an arrangement.</p> <p><i>The auditor panel must have at least three members, a majority of whom must be independent, and one of whom must chair the panel. This is to ensure that, when a public body appoints its own auditors, the independence of the auditor is maintained.</i></p>	<p>PSAA is an independent company limited by guarantee incorporated by the Local Government Association in August 2014. PSAA is currently responsible for appointing auditors and setting scales of fees for relevant principal authorities that have chosen to opt into its national scheme, overseeing issues of auditor independence and monitoring compliance by the auditor with the contracts entered into with the audit firms. PSAA would have the ability to negotiate contracts with the firms nationally, maximising the opportunities for the most economic and efficient approach to procurement of external audit on behalf of the whole sector.</p>

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Advantages/benefit	<ul style="list-style-type: none"> Setting up an auditor panel allows the Council to take maximum advantage of the local appointment regime and have local input to the decision. 	<ul style="list-style-type: none"> The costs of setting up the panel, running the bidding exercise and negotiating the contract will be shared across a number of authorities. There is greater opportunity for negotiating some economies of scale by being able to offer a larger combined contract value to the firms. 	<ul style="list-style-type: none"> PSAA will ensure the appointment of a suitably qualified and registered auditor and expects to be able to manage the appointments to allow for appropriate groupings and clusters of audits where bodies work together. PSAA will monitor contract delivery and ensure compliance with contractual requirements, audit quality and independence requirements. Any auditor conflicts at individual authorities would be managed by PSAA who would have a number of contracted firms to call upon. It is expected that the large-scale contracts procured through PSAA will bring economies of scale and attract keener prices from the market than a smaller scale competition. The overall procurement costs would be expected to be lower than an individual smaller scale local procurement.

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			<ul style="list-style-type: none"> • The overhead costs for managing the contracts will be minimised though a smaller number of large contracts across the sector. • There will be no need for the Council to establish alternative appointment processes locally, including the need to set up and manage an 'auditor panel'; and • A sustainable market for audit provision in the sector will be easier to ensure for the future.
Disadvantages/risks	<ul style="list-style-type: none"> • 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 £25,000 plus on-going expenses and allowances. • The Council will not be able to take advantage of reduced fees that may be available through joint or national procurement contracts. • The assessment of bids and decision on awarding contracts will be taken by independent 	<ul style="list-style-type: none"> • The decision making body will be further removed from local input, with potentially no input from elected members where a wholly independent auditor panel is used or possible only one elected member representing each Council, depending on the constitution agreed with the other bodies involved. • The choice of auditor could be complicated where individual Councils have independence issues. An independence issue occurs where the auditor has recently or is 	<ul style="list-style-type: none"> • Individual elected members will have less opportunity for direct involvement in the appointment process other than through the Local Government Association (LGA) and/or stakeholder representative groups. • In order for the PSAA to be viable and to be placed in the strongest possible negotiating position, PSAA will need Councils to indicate their intention to opt-in before final contract prices are known.

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	appointees and not solely by elected members.	<p>currently carrying out work such as consultancy or advisory work for the Council. Where this occurs, some auditors may be prevented from being appointed by the terms of their professional standards.</p> <ul style="list-style-type: none"> • There is a risk that if the joint auditor panel choose a firm that is conflicted for this Council then the Council may still need to make a separate appointment with all the attendant costs and loss of economies possible through joint procurement. 	