

Report to:	Audit and Standards Committee
Date:	17 January 2022
Report Title:	Arrangements for Appointing External Auditors
Report of:	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 recommendation(s)	The Committee recommends that Full Council approves the decision to accept Public Sector Audit Appointments' (PSAA's) invitation to opt into the sector-led option for the appointment of external auditors from 1st April 2023.
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 The current auditor appointment arrangements cover the period up to and including the audit of the 2022/23 accounts. The Council opted into the 'appointing person' national auditor appointment arrangements established by Public Sector Audit Appointments (PSAA) for the period covering the accounts 2018/19 to 2022/23.
- 1.2 All local government bodies need to make important decisions about appointing their external auditors, and have options to arrange their own procurement, 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 LDC Full Council is scheduled for 21st 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 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 Standard 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 will not be 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. 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.

- 5.3 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. 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.

- 6.2 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. 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