

BABERGH DISTRICT COUNCIL and MID SUFFOLK DISTRICT COUNCIL

TO: JOINT AUDIT AND STANDARDS COMMITTEE	REPORT NUMBER: IRJAC/21/18
FROM: Katherine Steel, Assistant Director – Corporate Resources	DATE OF MEETING: 24 January 2022
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ARRANGEMENTS FOR THE APPOINTMENT OF EXTERNAL AUDITORS

1. PURPOSE OF REPORT

- 1.1 This report outlines the options available to the Councils to appoint an external auditor to undertake the work from the 2023/24 Final Accounts for a five-year period and makes a recommendation of the preferred option.
- 1.2 The Councils' will need to consider the options available and decide which is the preferred option at the February Full Council meetings, to meet the deadline of 11 March 2022 to notify Public Sector Audit Appointments Ltd (PSAA) if they wish to 'opt-in' to the sector led body approach.

2. OPTIONS CONSIDERED

- 2.1 Three options have been considered as set out in section 4 of the report below.

3. RECOMMENDATIONS
3.1 Note the arrangements and options for appointing an external auditor to audit the Final Accounts of the Councils from 2023/24.
3.2 Recommend to the Councils to continue to 'opt-in' to the sector led body (Public Sector Audit Appointments Ltd (PSAA)) for the independent appointment of the Councils' external auditor, beginning with responsibilities for the financial year 2023/24.
REASON FOR DECISION
To enable the Councils to appoint an external auditor, as required by the Local Audit and Accountability Act 2014.

4. KEY INFORMATION

Background

- 4.1 In September 2016, the Joint Audit and Standards Committees received report JAC85 regarding the appointment of external auditors for a period of five years from 1 April 2018. The Local Audit and Accountability Act 2014 brought to a close the Audit Commission and established transitional arrangements for the appointment of

external auditors, and the setting of audit fees for all local government and NHS bodies in England.

- 4.2 At the end of the transitional arrangements, public bodies were asked to specify their preferred method of appointing external auditors, and a sector led body (the Public Sector Audit Appointments Ltd (PSAA)) was chosen.
- 4.3 A sector led body can negotiate contracts with firms nationally, maximising the opportunity for the most economic and efficient approach for procurement of external audit on behalf of the whole sector. The scheme was designed to save time and resources for local government bodies and, through collective procurement, secure the best prices without compromising on audit quality.
- 4.4 Babergh and Mid Suffolk District Councils agreed to opt-in to the sector led body at the Full Council meetings in September 2016.

Appointing Process from 2023/24

- 4.5 The Department of Levelling Up, Housing and Communities (DLUHC) has confirmed that PSAA will continue in its role as the Appointing Person for the next appointment of external auditors.
- 4.6 During the present contract period there have been some big issues affecting local government audit:
 - The audit industry is under heavy scrutiny
 - There is great regulatory pressure to improve audit quality
 - Audit resources are stretched, and other factors cause delay
 - Delayed local audit opinions are a huge unresolved concern
 - Local government audit's focus is being questioned
 - Additional work means additional fees are needed
 - Regulations need updating.
- 4.7 The PSAA scheme aims 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. PSAA plan to provide:
 - Transparent and independent auditor appointment
 - Best opportunity to secure the value for money appointment of a qualified, registered auditor
 - Ongoing management of any independence issues
 - Proportionate PSAA costs and redistribution of any surpluses
 - Collective efficiency savings by undertaking one major procurement
 - A dedicated, experienced team
 - Key updates to all Section 151 officers and Audit Committee Chairs
 - Avoid the need to establish an auditor panel and undertake an auditor procurement
 - Same auditor appointment for significant collaborations or joint working initiatives.
- 4.8 The proposed contract duration is five years, with an option to extend for a further one or two years with supplier agreement using a single tender, restricted procedure.

- 4.9 The way that external audit has operated over the last couple of years has been challenging. There is a limited number of firms in the market and too few qualified auditors employed by those firms, alongside capacity challenges generally. This has led to a situation where many audits have been delayed, as has been experienced by Babergh and Mid Suffolk. A lack of capacity in the audit market has been exacerbated by increased requirements placed on external auditors by the audit regulator. The drive for audit quality has resulted in auditors needing more assurance, and the additional work has driven higher fees which is likely to continue.
- 4.10 There is a risk that depending upon how the contract specification, issued by PSAA, is worded, to improve the timeliness and quality of audits, that the main firms may consider that they need to split their audit and non-audit businesses, to ensure the correct focus on audit quality. This could lead to a further reduction in the number of firms willing to bid for the national contracts.
- 4.11 As the clients in the contract, Babergh and Mid Suffolk have little influence over what they are 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. It is understood that the PSAA has several initiatives it would like to consider as part of the upcoming national procurement to send a strong message to the market and to open greater competition.
- 4.12 We consider it important that as councils we coordinate our efforts through the national arrangements to ensure that our voice (as clients) is heard to tackle some of the challenges currently being experienced. It is recommended that Babergh and Mid Suffolk opt into the PSAA arrangements for the appointing process as it is felt that this is our best option to work alongside other councils and influence a particularly difficult market.
- 4.13 The Local Government Association's (LGA) view is that the national framework remains the best option for local authorities.
- 4.14 Indicative timescales for the process are as follows:

11 March 2022	Deadline for eligible bodies to notify PSAA of their decision to opt in
June 2022	PSAA will award new contracts
December 2022	PSAA Board will confirm auditor appointments for 2023/24

Options

- 4.15 Procurement via PSAA is the recommended approach but there are two other options available to the Councils which have been considered and discounted.

Option 1 - Make a standalone appointment

- 4.16 To make a stand-alone appointment the Councils would need to set up an Auditor Panel. The members of the panel must be wholly or a majority independent members as defined by the Act. Independent members for this purpose are independent appointees; this excludes current and former elected members (or officers) and 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 Councils' external audit. A new independent auditor panel established by the Councils would be responsible for selecting the auditor.

Advantages/benefits

- 4.17 Setting up an auditor panel allows the Councils to take maximum advantage of the new local appointment regime and have local input to the decision.

Disadvantages/risks

- 4.18 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 on-going expenses and allowances. It is also unclear whether the Councils will be able to attract sufficient individuals with the required skills and experience to undertake the role.
- 4.19 The Councils will not be able to take advantage of reduced fees that may be available through joint or national procurement contracts.
- 4.20 The assessment of bids and decision on awarding contracts will be taken by independent appointees and not solely by elected members.
- 4.21 Bids may not be received as the value of a local contract will be insignificant compared to the national contract.

Option 2 - Set up a Joint Auditor Panel/local joint procurement arrangements

- 4.22 The 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 will need to liaise with other local authorities to assess the appetite for such an arrangement. The likelihood within Suffolk is that the other authorities are likely to opt-in to the PSAA arrangements as they all did with the previous appointment round.

Advantages/benefits

- 4.23 The costs of setting up the panel, running the bidding exercise and negotiating the contract will be shared across several authorities.
- 4.24 There is greater opportunity for negotiating some economies of scale by being able to offer a larger combined contract value to the firms.

Disadvantages/risks

- 4.25 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 possibly only one elected member representing each Council, depending on the constitution agreed with the other bodies involved.
- 4.26 The choice of auditor could be complicated where individual Councils have independence issues. An independence issue occurs where the auditor has recently

or is 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. There is a risk that if the joint auditor panel selects a firm that is conflicted for these Councils, then the Councils may still need to make a separate appointment with all the attendant costs and loss of economies possible through joint procurement.

- 4.27 Bids may be limited as the value of the local contract will be insignificant compared to the national contract.

5. LINKS TO CORPORATE PLAN

- 5.1 The appointment of an external auditor is a statutory requirement of the Councils and as such contributes towards the fitness of purpose of the governance arrangements to ensure that the ambitions of the Corporate Plan can be achieved.

6. FINANCIAL IMPLICATIONS

- 6.1 The scale fee for the audit of the 2021/22 accounts is £42,585 for Babergh and £38,437 for Mid Suffolk, but this excludes any local fee variations (for perceived local risk areas, changes to audit requirements etc).
- 6.2 External audit fees could increase when the current contract ends for the audit of the 2022/23 accounts, to address some of the issues being experienced within the sector, but this is likely to happen regardless of the route taken to appoint an external auditor.
- 6.3 The cost of establishing a local or joint Auditor Panel will include the cost of recruiting independent appointees (members), servicing the Panel, running a bidding and tender evaluation process, letting of a contract, and paying members fees and allowances.
- 6.4 Opting-in to the PSAA approach provides maximum opportunity to limit the extent of any increases in audit fees by entering a large-scale collective procurement arrangement and would not incur the costs of establishing an Auditor Panel.

7. LEGAL IMPLICATIONS

- 7.1 Legislation requires a resolution of Council if a local authority wishes to opt into the national arrangement (the PSAA). The deadline for this decision is 11 March 2022.
- 7.2 Section 7 of the Local Audit and Accountability Act 2014 (the Act) requires a relevant authority to appoint a local auditor to audit its accounts for a financial year not later than 31 December in the preceding year.
- 7.3 Section 8 governs the procedure for appointment including that the Authority must consult and take account of the advice of its auditor panel on the selection and appointment of a local auditor.
- 7.4 Section 8 and Schedule 3 provides that where a relevant authority is a local authority operating an executive arrangement the function of appointing a local auditor to audit its accounts is not the responsibility of an executive of the authority under those arrangements.

7.5 Section 12 makes provision for the failure to appoint a local auditor: the authority must immediately inform the Secretary of State, who may direct the authority to appoint the auditor named in the direction or appoint a local auditor on behalf of the authority.

7.6 Section 17 gives the Secretary of State the power to make regulations in relation to an 'appointing person' specified by the Secretary of State. This power has been exercised in the Local Audit (Appointing Person) Regulations 2015 (SI 192) and this gives the Secretary of State the ability to enable a Sector Led Body to become the appointing person.

8. RISK MANAGEMENT

8.1 This report is not linked to any of the Council's Corporate / Significant Business Risks.

8.2 The disadvantages / risks of the options considered are described within section 4 of this report.

9. CONSULTATIONS

9.1 The options have been considered across the group of Suffolk Chief Financial Officers and it is likely that the other authorities will also recommend opting-in to the PSAA approach.

10. EQUALITY ANALYSIS

10.1 An Equality Impact Assessment (EIA) is not required because the recommendation does not have an impact on any of the protected characteristics.

11. ENVIRONMENTAL IMPLICATIONS

11.1 There are no environmental implications arising from the content and recommendation of this report.

12. BACKGROUND DOCUMENTS

12.1 Report JAC85 to Joint Audit and Standards Committee 12 September 2016 – Changes to arrangements for appointment of external auditors.