

To: Audit and Governance Committee

Date: 20th October 2021

Report of: Head of Financial Services

Title of Report: Appointment of External Auditors 2023/24 to 2027/28

Summary and Recommendations

Purpose of report: To consider the process to appointment external auditors for the next procurement period.

Key Decision No

Cabinet lead member Councillor Ed Turner

Policy Framework: Efficient and Effective Council

Recommendation(s): That the Committee:

a) Considers the report to Council (Appendix 1) and recommends to Council that the Council opt in to the national procurement of external auditors

Appendices

Appendix 1 – Report to Council on the Appointment of Auditors

Appendix 2 – LGA Frequently Asked Questions

Background

1. 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.
2. 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 11th 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.

Future Audit Arrangements

3. Under the Local Audit and Accountability Act 2014, the Council has to appoint external auditors to complete audits from 2023/24 to 2027/28 following the end of the current audit contract. The opt-in period starts on 22 September 2021 and closes on 11 March 2022. To opt into the national scheme from 2023/24, the Council needs to return completed opt-in documents to Public Sector Audit Appointments Limited (PSAA) by 11 March 2022.
4. PSAA, a not for profit organisation set up by the Local Government Association (LGA) has been appointed as the appointed body for procuring external auditors under a national contract. There is also the option to appoint auditors on an individual authority basis or to enter into a consortium of local authorities. Since PSAA is letting contracts on a national basis, the expectation is that there will be better value for money achieved through this than any other approach. The recommendation of the Head of Financial Services is that the Council should opt in to contractual process being led by PSAA. PSAA would then assign the external auditors to the Councils that have adopted this approach. In order for the Council to opt in to the national approach, the agreement of full Council is needed and the report to Council is attached at Appendix 1. It is therefore recommended that Audit and Governance Committee recommend to Council that the Council opts in to the national contract.

Information from the LGA

5. The LGA has produced some information to be provided to those charged with governance and this follows. They have also provided some Frequently Asked Questions which are attached at Appendix 2. Information from the LGA:
 - a) 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.
 - b) 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.
 - c) 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.

- d) 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 of councils sign up to the national scheme.
- e) 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.
- f) 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.
 - 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 issues 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

- g) 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.
- h) 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.

Financial Implications

- 6. There is a risk that current external audit fee levels could increase when the current contracts end. The scope of audit has increased, requiring more audit work. There are also concerns about capacity and sustainability in the local audit market.
- 7. Opting into a national scheme provides maximum opportunity to ensure fees are as realistic as possible, while ensuring the quality of audit is maintained, by entering into a large scale collective procurement arrangement.
- 8. If the national scheme is not used some additional resource would 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 budget may be required for audit fees from 2023/24.

Legal Implications

- 9. Section 7 of the Local Audit and Accountability Act 2014 requires a relevant Council to appoint a local auditor to audit its accounts for a particular financial year not later than 31 December in the preceding year.
- 10. Section 8 governs the procedure for appointment including that the Council must consult and take account of the advice of its auditor panel on the selection and appointment of a local auditor. Section 8 provides that where a relevant Council is a local Council operating executive arrangements, the function of appointing a local auditor to audit its accounts is not the responsibility of an executive of the Council under those arrangements.
- 11. Section 12 makes provision for the failure to appoint a local auditor. The Council must immediately inform the Secretary of State, who may direct the Council to appoint the auditor named in the direction or appoint a local auditor on behalf of the Council.
- 12. 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. In July 2016 the Secretary of State specified PSAA as the appointing person.

- a) In accordance with the Accounts and Audit Regulations 2015 (as amended), the accounts must be audited, approved and published by 30th September 2021.

Risk Implications

13. The principal risks are that the Council:

- fails to appoint an auditor in accordance with the requirements and timing specified in local audit legislation; or
- does not achieve value for money in the appointment process.

14. These risks are considered best mitigated by opting into the sector-led approach through PSAA.

Name and contact details of author:-

Name: Bill Lewis

Job title: Financial Accounting Manager

Service Area / Department: Financial Services,

Tel: 01865 252607 e-mail: blewis@oxford.gov.uk

Background papers: None

Version number:

This page is intentionally left blank