

<b>DECISION-MAKER:</b>	<b>GOVERNANCE COMMITTEE COUNCIL</b>		
<b>SUBJECT:</b>	<b>LOCAL APPOINTMENT OF EXTERNAL AUDITORS</b>		
<b>DATE OF DECISION:</b>	<b>16 NOVEMBER 2021 (GOVERNANCE COMMITTEE) 17 NOVEMBER 2021 (COUNCIL)</b>		
<b>REPORT OF:</b>	<b>EXECUTIVE DIRECTOR FOR FINANCE, COMMERCIALISATION &amp; S151 OFFICER</b>		
<b><u>CONTACT DETAILS</u></b>			
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<b>STATEMENT OF CONFIDENTIALITY</b>		
Not Applicable		
<b>BRIEF SUMMARY</b>		
<p>The Local Audit and Accountability Act 2014 ('the Act') requires that a local auditor is appointed no later than 31 December in the financial year preceding the financial year of the accounts to be audited. This report sets out the proposals for appointing the external auditor to the Council for the 2023/24 accounts and beyond, noting that the current appointment applies up to and including the 2022/23 accounts.</p>		
<p>Regulations made under the Act allow authorities to opt in for their external auditor to be appointed by an 'appointing person'. Public Sector Audit Appointments Ltd ('PSAA') has been specified by the Secretary of State as an 'appointing person' (or 'sector led body'). PSAA has now formally invited the Council to opt-in, along with all other authorities, to the appointment scheme for the financial years 2023/24 to 2027/28, so that they can enter into a number of contracts with appropriately qualified audit firms and appoint a suitable firm to be the Council's external auditor from April 2023.</p>		
<b>RECOMMENDATIONS:</b>		
<b>Governance Committee</b>		
	(i)	To consider and recommend to Council that it accepts the PSAA invitation to 'opt-in' to the sector led national scheme for the appointment of external auditors.
<b>Council</b>		
	(i)	That Council accepts the PSAA invitation to 'opt-in' to the sector led national scheme for the appointment of external auditors for the five financial years commencing 1 April 2023.

<b>REASONS FOR REPORT RECOMMENDATIONS</b>	
1.	Whilst the Council has until December 2022 to appoint the external auditors for the 2023/24 accounts, PSAA has formally invited the Council to opt-in to the national scheme. Details relating to PSAA's invitation are provided in Appendices 1 and 2 of this report. If the Council is to take advantage of this national scheme for appointing external auditors then it needs to take the decision to enable it to accept the invitation by early March 2022.
2.	The Local Audit (Appointing Person) Regulations 2015 ('the Regulations') require that a decision to opt-in must be made by a meeting of the Council (meeting as a whole). The Council then needs to formally respond to PSAA's invitation in the form specified by PSAA.
3.	PSAA will commence the formal procurement process in February 2022. It expects to award contracts in August 2022 and consult with authorities on the appointment of auditors during late summer/autumn 2022 so that it can make an appointment by the statutory deadline of December 2022.
4.	It is considered that the national scheme conducted by PSAA will produce better outcomes and will be less burdensome for the Council than any procurement undertaken locally. More specifically: a) Collective procurement reduces costs for the sector and for individual authorities compared to a multiplicity of smaller local procurements; b) Any auditor conflicts or independence issues at individual authorities would be managed by PSAA who would have a number of contracted firms to call upon; c) Without the national appointment, the Council would need to establish a separate independent auditor panel, which could be difficult, costly and time-consuming; d) It provides the best opportunity to secure the appointment of a qualified, registered auditor - there are only nine accredited local audit firms, and a local procurement would be drawing from the same limited supply of auditor resources as PSAA's national procurement; e) PSAA will monitor contract delivery and ensure compliance with contractual, audit quality and independence requirements; and f) Supporting the sector-led body offers the best way of to ensuring there is a continuing and sustainable public audit market into the medium and long term.
<b>ALTERNATIVE OPTIONS CONSIDERED AND REJECTED</b>	
5.	There are three options open to the Council under the Act. In summary, these comprise: a) Setting up an independent auditor panel and undertaking an individual external auditor procurement and appointment exercise; b) Joining with other councils to set up a joint independent auditor panel and undertaking a joint audit procurement and appointing exercise; or c) Opting-in to a national sector led body that will negotiate contracts and make the appointment on behalf of councils.
6.	If the Council chooses not to opt-in then there would be a need to establish an independent auditor panel. In order to make a stand-alone appointment the auditor panel would need to be set up by the Council itself. 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) and their close

	families and friends. This means that elected members will not have a majority input to assessing bids and choosing which audit firm to award a contract for the Council's external audit.
7.	Alternatively, 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 would be required on the exact constitution of such a panel having regard to the obligations of each Council under the Act and the Council would need to liaise with other local authorities to assess the appetite for such an arrangement.
8.	Neither of these options are recommended. Both these options would be more resource-intensive processes to implement and without the bulk buying power of the sector led procurement, would be likely to result in a more costly service. It would also be more difficult to manage quality and independence requirements through a local appointment process.
9.	Only auditors registered to undertake local audits by the Financial Reporting Council are eligible for appointment. It should be noted that currently there are only nine providers on the register, nearly all of whom are firms with a national presence. This means that any local procurement exercise, as described above, would seek tenders from these same firms, subject to the need to manage any local independence issues. Local firms could not be invited to bid.
<b>DETAIL (Including consultation carried out)</b>	
10.	The Council's current external auditor is Ernst & Young LLP. This appointment was made in 2017 under the first national opt-in scheme run by PSAA and applies to the accounts for financial years 2018/19 to 2022/23.
11.	The Local Audit and Accountability Act 2014 ('the Act') sets out the arrangements for the appointment of local auditors and gives authorities the ability to decide how and by whom their auditors are appointed. Regulations made under the Act allow authorities to 'opt-in' for their auditor to be appointed by an 'appointing person'.
12.	PSAA is an independent, not-for-profit company limited by guarantee incorporated by the Local Government Association. It was specified as an 'appointing person' in 2016 by the Secretary of State under regulation 3 of the Local Audit (Appointing Person) Regulations 2015. Acting in accordance with this role PSAA is responsible for appointing an auditor and setting scales of fees for relevant principal authorities that have chosen to opt into its national scheme. 98% of eligible bodies made the choice to opt-in for the five-year period commencing in April 2018. PSAA costs are around 4% of the scheme with any surplus distributed back to scheme members. PSAA will make auditor appointments for authorities that choose to opt-in to this second national appointment scheme for audits of the accounts for financial years 2023/24 to 2027/28.
13.	There are pressures on the local audit market arising from additional work and recruitment and retention challenges. PSAA will seek to encourage market sustainability in its procurement. Firms will be able to bid for a variety of differently sized contracts so that they can match their available resources and risk appetite to the contract for which they bid. They will be required to meet appropriate quality standards and to reflect realistic market prices in their tenders, informed by the scale fees and the supporting information provided about each audit. Where regulatory changes are in train which affect the

	amount of audit work suppliers must undertake, firms will be informed as to which developments should be priced into their bids.
14.	<p>The principal benefits in choosing to opt-in to the national scheme are as follows:</p> <p>a) PSAA will manage the procurement process to ensure both quality and price criteria are satisfied and will consult on individual auditor appointments;</p> <p>b) PSAA will ensure the appointment of a suitably qualified and registered auditor and expects to be able to manage the appointments to allow for formal collaboration or joint working initiatives;</p> <p>c) PSAA will monitor contract delivery and ensure compliance with contractual, audit quality and independence requirements;</p> <p>d) PSAA will consult with authorities on the scale of audit fees and ensure these reflect scale, complexity and audit risk;</p> <p>e) It is expected that scheme management costs will be minimised and any surpluses returned to scheme members;</p> <p>e) The overall procurement costs would be lower than an individual smaller scale local procurement.</p>
15.	<p>The scope of the audit will still be specified nationally with the National Audit Office responsible for writing the Code of Audit Practice which all firms appointed to carry out the Council's audit must follow. Auditors are regulated by the FRC, which will be replaced by a new body with wider powers, the Audit, Reporting and Governance Authority (ARGA) during the course of the next audit contract. Councils therefore have very limited influence over the nature of the audit services they are procuring, the nature and quality of which are determined or overseen by third parties.</p>
<b>RESOURCE IMPLICATIONS</b>	
<b><u>Capital/Revenue</u></b>	
16.	<p>The PSAA scale fee for the 2020/21 audit is £109,891, however EY has submitted a proposed rebasing of the scale fee to £178,126 to reflect changes in work required to address professional and regulatory requirements and scope associated with risk. There is a risk that current external audit fee levels could increase when the current contracts end. It is clear that the scope of audit has increased, requiring more audit work. There are also concerns about capacity and sustainability in the local audit market. In 2019 the Ministry of Housing, Communities and Local Government (as was) accepted that audit fees had become insufficient to reflect the increased challenges in auditing local authorities. In response to the Redmond Review the Government committed to review and reform regulations to provide the appointing person with greater flexibility to ensure the costs to audit firms of additional work are met and reduce the need for time consuming case-by-base consideration. A consultation on changes to the Local Audit (Appointing Person) Regulations 2015 took place earlier this year. The Government also announced £15 million nationally in additional funding in 2021/22 to support affected local bodies to meet the anticipated rise in audit fees in 2021/22. The Council's share is not yet known or whether the additional funding will be ongoing.</p>
17.	<p>The proposed fees for the subsequent years cannot be known until the procurement process has been completed, as the costs will depend on proposals from the audit firms, however opting-in to a national scheme will provide maximum 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.</p>

18.	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.
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**Property/Other**

19.	None.

**LEGAL IMPLICATIONS**

**Statutory power to undertake proposals in the report:**

20.	Section 7 of 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. Section 8 governs the procedure for appointment which is reserved to full Council.
21.	Section 12 of the Act 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.
22.	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. In July 2016 the Secretary of State specified PSAA as the appointing person.

**Other Legal Implications:**

23.	None.
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**RISK MANAGEMENT IMPLICATIONS**

24.	The principal risks are that the Council <ul style="list-style-type: none"> <li>a) Fails to appoint an auditor in accordance with the requirements and timing specified in local audit legislation; or</li> <li>b) Does not achieve value for money in the appointing process.</li> </ul> These risks are considered best mitigated by opting into the sector-led approach through PSAA.
25.	There is a risk that through the national procurement exercise PSAA may fail to attract sufficient capacity to enable auditor appointments to every opted-in body or realistic market prices. In this eventuality PSAA has fallback options to extend one or more existing contracts for 2023/24 and also 2024/25.

**POLICY FRAMEWORK IMPLICATIONS**

26.	Not applicable.
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<b>KEY DECISION?</b>	<b>Yes/No</b>
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<b>WARDS/COMMUNITIES AFFECTED:</b>	<b>None</b>
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<b><u>SUPPORTING DOCUMENTATION</u></b>
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<b>Appendices</b>	
1.	PSAA Invitation – Southampton City Council
2.	Form of notice of acceptance of the invitation to opt in

**Documents In Members' Rooms**

1.	None
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**Equality Impact Assessment**

Do the implications/subject of the report require an Equality and Safety Impact Assessment (ESIA) to be carried out.	Yes/No
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**Privacy Impact Assessment**

Do the implications/subject of the report require a Privacy Impact Assessment (PIA) to be carried out.	Yes/No
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**Other Background Documents**

**Other Background documents available for inspection at:**

Title of Background Paper(s)	Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)
1.	None