



ADUR & WORTHING
COUNCILS

Joint Governance Committee
25th January 2022

Key Decision: No

Ward(s) Affected: All

Appointment of External Auditor

Report by the Director for Digital, Sustainability & Resources

1.0 PURPOSE

- 1.1 The current contract for external audit is due to come to an end in 2023 and the external auditor for the audit of our accounts for 2023/24 has to be appointed before the end of December 2022.
- 1.2 This report sets out the approach to procuring a replacement supplier for the audit of the 2023/24 accounts and seeks approval to use Public Sector Audit Appointments (PSAA) to procure a new supplier.

2.0 RECOMMENDATIONS

- 2.1 The Joint Governance Committee is asked to:
- (a) Recommend to the Councils that the Councils opt in to the Appointing Person arrangements made by the Public Sector Audit Appointments (PSAA) for the appointment of external auditors for the five years from 1st April 2023.

3.0 BACKGROUND

3.1 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.

3.2 Following the demise of the Audit Commission, new arrangements were established for the appointment of external auditors. The Local Audit and Accountability Act 2014 gives the Councils two options:

- i) to either opt in to the Appointing Person regime; or
- ii) to establish an auditor panel and conduct their own procurement exercise.

3.3 Public Sector Audit Appointments Limited (PSAA) is an independent, not for profit company limited by guarantee, established by the LGA for the purpose of procuring external auditors on behalf of Local Government.

3.4 PSAA has been specified as the sector-led appointing body under the Local Audit (Appointing Person) Regulations 2015. Regulation 19 of the Local Audit (Appointing Person) Regulations 2015 requires that the decision to opt-in must be made by the authority meeting as a whole, i.e. Full Council. The closing date to notify PSAA of our intention to participate in the procurement is Friday 11 March 2022.

3.5 In 2017 the Council opted to use the PSAA to procure external audit services. This initially drove down audit fees, however due to changing audit requirements these fees have started to increase in recent years.

3.6 At present there is a significant challenge for the auditors to deliver the audit on time. As at 24th November 2021, only 23% of 2020/21 audit opinions had been delivered against a target date of 30th September. One of the ambitions of the new procurement is to improve the timeliness of audit opinions.

4.0 ISSUES FOR CONSIDERATION

4.1 The Councils must choose whether to opt into the Appointing Persons Regime and procure via the PSAA or set up an audit panel and procure a new provider itself.

4.2 **Procuring a new external auditor ourselves:**

4.2.1 If the Councils opted to appoint their own external auditor, under the relevant legislation, we would be required to:

- Establish an independent auditor panel to make a stand-alone appointment. The auditor panel would need to be set up by the Council itself, and the panel must be largely made up of independent members as defined by the Act. Independent members for this purpose are independent appointees, excluding 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 to which audit firm to award a contract for the Council/Authority's external audit.
- By establishing our own audit panel, the Councils would also incur additional costs in supporting the panel and paying any allowances to panel members.
- Manage the contract for its duration, overseen by the Auditor Panel.

4.2.2 The Act enables the Councils 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. This option has been considered across the County but the majority of our local Councils will be opting to use the PSAA.

4.2.3 However for our own procurement exercise to be successful, the audit market must be in a place to respond to the tender process. Local government has a unique accounting framework which requires specialist knowledge. This is further complicated within Adur and Worthing by our joint working arrangements.

4.2.4 Soft market testing undertaken by one of our neighbouring authorities would indicate that whilst some smaller local firms may be interested, they are only interested in simple audits and only have the capacity to audit one or two Councils whereas the larger firms will only be interested in participating in larger procurement exercises such as the one managed by the PSAA. Consequently undertaking our own procurement exercise may not obtain the best outcome for the Council.

4.3 **The national auditor appointment scheme**

4.3.1 In summary the national opt-in scheme provides the following:

- the appointment of a suitably qualified audit firm to conduct audits for each of the five financial years commencing 1 April 2023;

- appointing the same auditor to other opted-in bodies that are involved in formal collaboration or joint working initiatives;
- managing the procurement process on behalf of the Councils to ensure both quality and price criteria are satisfied. PSAA has sought views from the sector to help inform its detailed procurement strategy;
- ensuring suitable independence of the auditors from the bodies they audit and managing any potential conflicts as they arise during the appointment period;
- minimising the scheme management costs and returning any surpluses to scheme members;
- consulting with authorities on auditor appointments, giving the Councils the opportunity to influence which auditor is appointed;
- consulting with authorities on the scale of audit fees and ensuring these reflect scale, complexity, and audit risk; and
- ongoing contract and performance management of the contracts once these have been let.

4.3.2 Utilising the PSAA will also ensure that the Councils have the same auditor as the Pension Fund which will streamline audit effort.

4.4 Overall, the sector-wide procurement conducted by PSAA should produce better outcomes for the Councils and will be less administratively burdensome than a procurement undertaken locally because:

- collective procurement is expected to reduce costs for the sector and for individual authorities compared to locally run and managed procurements;
- if we do not use the national appointment arrangements, the Councils will need to establish their own auditor panel with an independent chair and independent members to oversee the procurement of an external auditor and ongoing management of an audit contract, incurring additional administration costs;
- it is the best opportunity to secure the appointment of an appropriately qualified auditor. Any local procurement would be drawing from the same limited supply of auditor resources as PSAA's national procurement and so may not be so attractive to the market.

5.0 ENGAGEMENT AND COMMUNICATION

5.1 All Chief Financial Officers within the County area discussed the most appropriate and cost effective options for procuring the new external audit contract.

6.0 FINANCIAL IMPLICATIONS

6.1 The overall cost of audit between 2019/20 and 2020/21 is shown in the table below:

	Adur		Worthing	
	2019/20 £'000	2020/21 £'000	2019/20 £'000	2020/21 £'000
Core audit	37	40	41	43
Certification of grant claims	30	44	15	36
Total	67	84	56	79

6.2 Whilst the cost of the new audit arrangements will not be known until after the procurement exercise, it is widely anticipated that fees will increase. However DLUCH have previously committed to providing additional funding for audit activity.

7.0 LEGAL IMPLICATIONS

7.1 The Local Audit and Accountability Act 2014 gave the Councils two options: to either opt in to the Appointing Person regime; or to establish an auditor panel and conduct their own procurement exercise.

7.2 Regulation 19 of the Local Audit (Appointing Person) Regulations 2015 requires that the decision to opt-in to the Appointing Person regime must be made by Full Council.

7.3 The terms of reference of the Joint Governance Committee in the Council's constitution includes responsibility for audit and accounts activity and specifically "Power to undertake responsibilities with regard to external auditors under the Local Audit and Accountability Act 2014.

Background Papers

Letter from the LGA regarding the PSAA

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Sustainability & Risk Assessment

- 1. Economic**
Matter considered and no issues identified.
- 2. Social**
 - 2.1 Social Value**
Matter considered and no issues identified.
 - 2.2 Equality Issues**
Matter considered and no issues identified.
 - 2.3 Community Safety Issues (Section 17)**
Matter considered and no issues identified.
 - 2.4 Human Rights Issues**
Matter considered and no issues identified.
- 3. Environmental**
Matters considered and no issues identified.
- 4. Governance**
The report concerns the appointment of the external auditor for the housing benefit subsidy audit.