



AUDIT & GOVERNANCE COMMITTEE

Monday, 13 December 2021

Subject	Arrangements for the appointment of External Auditors
Report by	Councillor Edward Back, Assistant Cabinet Member for Resources
Supporting Officer	Brian Mew Chief Finance Officer and Section 151 Officer Brian.mew@eastsuffolk.gov.uk 01394 444571

Is the report Open or Exempt?	OPEN
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Category of Exempt Information and reason why it is NOT in the public interest to disclose the exempt information.	Not applicable.
Wards Affected:	All Wards

Purpose and high-level overview

Purpose of Report:

The purpose of this report is to update members on the appointment process for external auditors for the 5-year period from the financial year beginning 2023/24 and recommends continuing with the Public Sector Audit Appointments Ltd (PSAA) procurement route.

Options:

All options are detailed further in this report, but can be summarised as follows:

1. Procurement of external auditors via the PSAA route (recommended)
2. Form an East Suffolk Council Auditor Panel and conduct a stand-alone procurement exercise.
3. Join with other local authorities, establishing a Joint Auditor Panel and joint procurement.

Recommendation/s:

That the:

1. Arrangements and options for appointing External Auditors to audit the Final Accounts of the Council from 2023/24 for a 5-year period, and the practical deadline to opt-in of 11th March 2022, be noted
2. Committee recommend that Full Council to continue to 'opt-in' to the sector led body, Public Sector Audit Appointments Ltd (PSAA), for the independent appointment of the Council's external Auditor for 5 years from the financial year 2023/24.

Corporate Impact Assessment

Governance:

Section 7 of the Local Audit and Accountability Act 2014 (the Act) requires a relevant authority to appoint an external auditor to audit its accounts for a financial year not later than 31 December in the preceding year.

ESC policies and strategies that directly apply to the proposal:

The appointment of external auditors does not link directly to the Council's policies and strategies, however through securing external assurance over the Council's governance, financial statements, and value for money, this will assist to achieve the priorities of the Strategic Plan.

Environmental:

No impact

Equalities and Diversity:

No impact

Financial:

The appointment method of external auditors will affect the fee charged to the Council.
Human Resources: No impact
ICT: No impact
Legal: No impact
Risk: Failure to appoint an external auditor in the timescales required. Section 12 of the Local Audit and Accountability Act 2014 (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.

External Consultees:	Public Sector Audit Appointments Ltd (PSAA) Suffolk Chief Finance Officers
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Strategic Plan Priorities

Select the priorities of the Strategic Plan which are supported by this proposal: (Select only one primary and as many secondary as appropriate)		Primary priority	Secondary priorities
T01	Growing our Economy		
P01	Build the right environment for East Suffolk	<input type="checkbox"/>	<input type="checkbox"/>
P02	Attract and stimulate inward investment	<input type="checkbox"/>	<input type="checkbox"/>
P03	Maximise and grow the unique selling points of East Suffolk	<input type="checkbox"/>	<input type="checkbox"/>
P04	Business partnerships	<input type="checkbox"/>	<input type="checkbox"/>
P05	Support and deliver infrastructure	<input type="checkbox"/>	<input type="checkbox"/>
T02	Enabling our Communities		
P06	Community Partnerships	<input type="checkbox"/>	<input type="checkbox"/>
P07	Taking positive action on what matters most	<input type="checkbox"/>	<input type="checkbox"/>
P08	Maximising health, well-being and safety in our District	<input type="checkbox"/>	<input type="checkbox"/>
P09	Community Pride	<input type="checkbox"/>	<input type="checkbox"/>
T03	Maintaining Financial Sustainability		
P10	Organisational design and streamlining services	<input type="checkbox"/>	<input type="checkbox"/>
P11	Making best use of and investing in our assets	<input type="checkbox"/>	<input type="checkbox"/>
P12	Being commercially astute	<input type="checkbox"/>	<input checked="" type="checkbox"/>
P13	Optimising our financial investments and grant opportunities	<input type="checkbox"/>	<input type="checkbox"/>

P14	Review service delivery with partners	<input type="checkbox"/>	<input checked="" type="checkbox"/>
T04	Delivering Digital Transformation		
P15	Digital by default	<input type="checkbox"/>	<input type="checkbox"/>
P16	Lean and efficient streamlined services	<input type="checkbox"/>	<input type="checkbox"/>
P17	Effective use of data	<input type="checkbox"/>	<input type="checkbox"/>
P18	Skills and training	<input type="checkbox"/>	<input type="checkbox"/>
P19	District-wide digital infrastructure	<input type="checkbox"/>	<input type="checkbox"/>
T05	Caring for our Environment		
P20	Lead by example	<input type="checkbox"/>	<input type="checkbox"/>
P21	Minimise waste, reuse materials, increase recycling	<input type="checkbox"/>	<input type="checkbox"/>
P22	Renewable energy	<input type="checkbox"/>	<input type="checkbox"/>
P23	Protection, education and influence	<input type="checkbox"/>	<input type="checkbox"/>
XXX	Governance		
XXX	How ESC governs itself as an authority	<input checked="" type="checkbox"/>	<input type="checkbox"/>
How does this proposal support the priorities selected? A sector led body has the opportunity to negotiate contracts with firms nationally, maximising the opportunity for the most economic and efficient approach for procurement of external audit on behalf of East Suffolk Council.			

Background and Justification for Recommendation

1 Background facts	
1.1	The Local Audit and Accountability Act 2014 brought the Audit Commission to a close, with it formally closing on 31 March 2015. Transitional arrangements for the appointment of external auditors, and the setting of audit fees for all local government and NHS bodies in England were established, and at the end of the transitional arrangements, public bodies were asked to specify their preferred method of appointing external auditors. Following this a sector led body, the Public Sector Audit Appointments Ltd (PSAA) was chosen.
1.2	It was believed that a sector led body had the opportunity to 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.
1.3	<p>Legislation requires a resolution of Council if a local authority wishes to opt-in to the national arrangement with the PSAA.</p> <p>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. 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</p>

	<p>local auditor. Section 8 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.</p> <ul style="list-style-type: none"> • 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. • 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.
1.4	East Suffolk Council agreed to use the PSAA as its route to select its external auditors, Ernst & Young, for the remaining term of the five years from 1 April 2019 (ending the financial year 2022/23).

2 Current position

2.1	East Suffolk Council now needs to decide how best to appoint its external auditors for the five-year period from 2022/23.						
2.2	The Department of Levelling Up, Housing and Communities has confirmed that PSAA will continue in its role as the Appointing Person for the next appointment of external auditors. 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.						
2.3	<p>Indicative timescales for the PSAA process are as follows:</p> <table border="1"> <tr> <td>Mar-22</td><td>Deadline for eligible bodies to notify PSAA of their decision to opt in</td></tr> <tr> <td>Jun-22</td><td>PSAA will award new contracts</td></tr> <tr> <td>Dec-22</td><td>PSAA Board will confirm auditor appointments for 2023/24</td></tr> </table>	Mar-22	Deadline for eligible bodies to notify PSAA of their decision to opt in	Jun-22	PSAA will award new contracts	Dec-22	PSAA Board will confirm auditor appointments for 2023/24
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2.4	<p>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 plans to provide:</p> <ul style="list-style-type: none"> • a transparent and independent auditor appointment; • ongoing management of any independence issues; • proportionate PSAA costs and redistribution of any surpluses; • independent scrutiny of every additional fee proposal; 						

	<ul style="list-style-type: none"> • a sector led collaborative scheme as the way to get the best deal for the sector; • 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 to significant collaborations or joint working initiatives. <p>It is understood that the PSAA also have a number of initiatives it would like to consider as part of the upcoming national procurement in order to send a strong message to the market and to open up greater competition. The Local Government Association (LGA) will also continue to work with Public Sector Audit PSAA and government on the need for a better, more robust market for local audit with more qualified audit firms and greater numbers of qualified auditors. It also recognises that this is a long-term process and needs to be funded properly over the longer term. LGA's view is that the national framework remains the best option for councils. They believe that in a suppliers' market it is imperative that councils act together to have the best chance of influencing the market and for nationally coordinated efforts to improve the supply side of the market to be effective.</p>
2.5	It must be noted that the way the external audit procurement has operated over the last couple of years has been disappointing. There are a limited number of firms in the market to provide sufficient public sector audits and too few qualified auditors employed by those firms. This has led to a situation where many audits have been delayed, as East Suffolk Council has experienced recently. A lack of capacity in the audit market has been exacerbated by increased requirements placed on external auditors by the audit regulator, and the drive for audit quality has resulted in auditors needing more assurance. In turn this additional work has driven higher fees which is likely to continue.
2.6	As the client in the contract, East Suffolk also 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.

3 How to address current situation

3.1	As well as opting-in with the PSAA, there are two other options to consider.
3.2	East Suffolk could make a stand-alone appointment . To do this the Council will 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 Council's external audit. A

	<p>new independent auditor panel established by the Council will be responsible for selecting the auditor. Advantages and disadvantages of this option are as follows:</p> <p>Advantages:</p> <ul style="list-style-type: none"> - Setting up an auditor panel allows the Council to take maximum advantage of the new local appointment regime and have local input to the decision. <p>Disadvantages:</p> <ul style="list-style-type: none"> - Recruitment and servicing of the Auditor Panel, running the bidding exercise and negotiating the contract is estimated by the LGA to cost in the region of £15,000, plus on-going expenses and allowances. - The Council will not be able to take advantage of reduced fees that may be available through joint or national procurement contracts. - The assessment of bids and decision on awarding contracts will be taken by independent appointees and not solely by elected members.
3.3	<p>The other option is for East Suffolk to set up a Joint Auditor Panel and establish local joint procurement arrangements. As with the stand-alone appointment option, this will need to be constituted of wholly (or a majority) 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 will need to liaise with other local authorities to assess the appetite for such an arrangement. Initial discussions between Suffolk Chief Finance Officers s have established that our neighbouring authorities do not intend to pursue such an arrangement at present. Advantages and disadvantages of this option are as follows:</p> <p>Advantages:</p> <ul style="list-style-type: none"> - The costs of setting up the panel, running the bidding exercise and negotiating the contract will be shared across a number of authorities. - There is greater opportunity for negotiating some economies of scale by being able to offer a larger combined contract value to the audit firms. <p>Disadvantages:</p> <ul style="list-style-type: none"> - 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. - 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 this Council, then the Council may still need to make a separate appointment with all the attendant costs and loss of economies possible through joint procurement.

4 Reason/s for recommendation	
4.1	It is believed that the best option for East Suffolk is to 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 therefore recommended that East Suffolk opt into the PSAA arrangements for the procurement appointing process. It is felt that this is our best option to work alongside other Councils and influence a particularly difficult market.

Appendices

Appendices:
None.
Background Papers:
None.