

Committee(s): Ordinary Council	Date: 23 rd February 2022
Subject: Arrangements to appoint External Auditors from 2023/24	Wards Affected: All
Report of: Jacqueline Van Mellaerts – Corporate Director (Finance & Resources)	Public
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Summary

To recommend to Council to opt into the appointing persons arrangement made by the Public Sector Audit Appointments (PSAA) for the Councils external auditor appointment for the accounting periods 2023/24. To meet deadline of 11 March 2022.

Recommendation(s)

Members are asked to:

R1. Recommend to Ordinary Council that the Council opts into the proposed central arrangements for appointing external auditors for the accounting periods 2023/24 – 2027/28. (Option 3)

Main Report

Introduction and Background

1. The Audit & Scrutiny's Committee's terms of reference include responsibility for managing the budget associated with external auditors' fees. In practical terms, this means the Audit & Scrutiny Committee should satisfy itself the external auditors' work is satisfactory, and that the fees represent value for money.
2. The Council is currently opted into the PSAA's arrangement for audits from 2018/19 – 2022/23. Under that arrangement, the Council's appointed external auditor, allocated by PSAA, is EY LLP. Some 98% of relevant local bodies (all but 10) opted into the PSAA arrangements for the period 2018 to 2023 and it is expected that a similar proportion will do so for the coming period.

3. The Council must formally respond to PSAA's opt-in invitation by 11 March 2022 in readiness for the 2023/24 financial year. If it does not opt in it must appoint its own auditor by 31 December 2022.
4. The decision must be taken by Full Council, as set out in the Local Audit and Accountability Act 2014, which requires the Council to either appoint its own auditor, following the advice of an independent auditor panel, or to opt into a central system where the auditor will be appointed by an 'appointing person'.
5. The Department of Communities and Local Government on 17 August 2016 specified Public Sector Auditor Appointments Ltd as the 'appointing person,' meaning this is the central system used by those councils that opt into this arrangement.
6. By opting in to the PSAA arrangements, Full Council are agreeing to allow the PSAA to run the procurement exercise and appoint and manage the External Auditor on its behalf. The proposed contract duration is five years, with an option to extend for a further one or two years with supplier agreement.

Issue, Options and Analysis of Options

7. The Council has three options which are discussed below.

Option 1 - Create its own auditor panel to advise the Council and appoint its own external auditors following a procurement exercise. (Not opt into PSAA Process)

- A separate independent audit panel would need to be created. The panel must consist of a majority of independent members and be chaired by an independent person. The panel would be responsible for advising the authority on the selection and appointment of a local auditor to audit its accounts and provide advice therein and on maintaining independence with the auditor if requested. This would require additional governance arrangements to be administered but possible to set up.
- A separate procurement exercise would need to be undertaken which would require additional time and financial resource for the Council.
- The Council would not benefit from the economies of scale of a joint exercise and therefore costs may be higher, but until an exercise is carried out, outcomes are not yet known if fees could be potentially cheaper.
- Available audit firms may be limited due to larger firms dedicating their resource to the contracts awarded through the PSAA, risking the possibility that the council is unable to secure an auditor.

Option 2 - Work with other Councils to create a joint auditor panel which will advise and appoint external auditors following a joint procurement exercise (Not Opt into PSAA process)

- Economies of scale will only be achieved if there are a number of other councils willing to participate in a local exercise, however, indications are that the majority of other Essex authorities will be looking to opt-in to the PSAA appointing persons arrangements.
- The points listed under option 1 above would also be relevant for this option, although risks and rewards would be shared with the other authorities under a joint procurement.
- Our strategic partner, Rochford District Council have already approved to opt in to the PSAA process.

Option 3 - Continue to opt into the central Public Sector Audit Appointments Ltd service. Key points are:

- An opportunity to secure the appointment of a qualified, registered auditor in a transparent and independent process, removing the need for an independent auditor's panel.
 - Economies of scale should result in lower fees, through undertaking one major procurement as opposed to a multiplicity of individual procurements although this is not guaranteed.
 - A clear fee structure, with any additional fees sent to PSAA for approval before these are passed onto councils. Any surpluses are distributed to scheme members (whilst this is not guaranteed, c£10,330k has been redistributed to Brentwood Council over the last 3 years)
 - An independent third party to deal with any issues with the contract and manage those issues.
 - Concerted efforts to develop a more sustainable local audit market.
 - No need to undergo a separate procurement exercise as PSAA would undertake this process.
 - Councils would not require additional resources or costs to undertake a procurement process.
 - Following the procurement process, it is likely that we would be assigned a different external auditor to that which we currently have. Notwithstanding the PSAA process which allows for opt in bodies to make representations on the proposed auditor appointment.
8. The Chair of Audit & Scrutiny asked officers to review all options, and to not assume the Council would automatically choose to opt in. (Option 3).
9. Officers have benchmarked the Council with other Essex Authorities decisions and upon discussion with other Essex Authorities it is likely that most other Essex Authorities will opt into the PSAA process. As of 7th February, a total of

201 bodies have opted into the national scheme at this stage. Some 98% of relevant local bodies (all but 10) opted into the PSAA arrangements for the period 2018 to 2023.

10. It was noted that Essex Fire, Essex Police and PFCC have not previously opted into the PSAA process. A presentation was distributed to the Essex Finance Officer Association (EFOA) where Police & Fire authorities explained their decision to not opt into the process going forward for the next period. The Section 151 Officer spoke with key Officers at the Authority to understand their decision.
11. In January an announcement was also made by Rob Whiteman, CIPFA CEO that CIPFA support the work of PSAA and recommends that local authorities opt-in to the next procurement exercise. The Local Government Association (LGA) 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.
12. Following officers review and given the advice from CIPFA and the LGA the preferred recommendation is to continue to opt into the PSAA process (Option 3). If the Council was to not opt in, Officers have considered the following risks:
 - Administrative and additional resources required in undertaking a new complex procurement process, which will have an impact on both human & financial resources.
 - Not benefiting from economies of scale offered by the PSAA process
 - Not having a third independent party acting on the authority's behalf with respect to contractual arrangements.
 - Will not address the national concerns of local audit delays due to a widespread resource issues in the sector.
 - Whilst the PFCC have seen reduced audit fees from the previous procurement period, this cannot guarantee that Brentwood would realise this benefit.
 - Reputational risk sits with the Council alone and not shared with the other bodies under the PSAA scheme.
 - Does not align the principles of a harmonised approach with our strategic partner – Rochford District Council

Reasons for Recommendation

13. To ensure the Council has proper arrangements in place for an External Audit function.

Consultation

14. None

References to Corporate Plan

15. Manage our finances and contracts robustly to ensure best value for money.

Implications

Financial Implications

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16. Under the framework agreement PSAA agree a 'scale fee' for each council over the contract period. This is the core fee based on known requirements at the time of the procurement process but may vary subsequently to that date e.g., as a result of:
 - a) Changes in local arrangements e.g, group accounting
 - b) New national risks emerging (e.g., changes to legislation/accounting standards) which require all audit firms to undertake additional work or
 - c) New local risks emerging (e.g., significant errors in the accounts which require additional testing in subsequent years).
17. Consequently the 'scale fee' is only a baseline indication of the cost of the core work required to be completed, and a 'variation' to the fee is often required to reflect the above risks/changes.
18. It is not possible to quantify the likely cost under a new framework until a procurement exercise has been undertaken by PSAA or by the Council itself. It is recognised that there has been continued pressure on audit fees over the past few years, mainly driven by the increasing complexity of local government financial arrangements and the resultant increase in the amount of work auditors have to complete to meet their responsibilities. Future technical changes could result in further pressures, this applies in both opt in and opt out options.
19. The Council has a budget for external audit fees of £77,000 for 2020/21 audit work, which includes scale fees, additional variation work and Housing

Benefit certification work (which is procured separately). To support implementation of the Redmond review recommendations, Government is providing principal local government bodies with £15 million per annum for the next 3 years in additional funding in 2021/22; this equates to £26,994 for Brentwood Council. This is intended to support the anticipated rise in fees for 2020/21 audits, driven by new requirements on auditors, including the National Audit Office's Code of Audit Practice 2020, and to enable local authorities to develop standardised statements of service information and costs. However, there is no guarantee of additional funding in future years.

20. Brentwood's Audit costs comparison:

	Brentwood	
	2019/21	2020/21
Scale Fee	52,365	52,365
<u>Variation Fee - Increased Costs</u>		
Covid-19 Risks	6,000	3,000
VFM Risks	3,000	21,000
Other	11,617	25,500
Total	72,982	101,865

21. Other fees relate to group consolidation work, additional pension liability costs, going concern assessment and property valuation costs.
22. 2019/20 Fee variation proposal of £34,575 was submitted by Ernst & Young LLP. PSAA have reviewed and considered information provided to them and have concluded that a variation of £20,617 is appropriate (as shown in the above table) and reduced the auditors proposal by £13,958. S151 is currently in discussion with PSAA on this fee variation.

Legal Implications

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23. The Local Audit and Accountability Act 2014 (the Act) requires the Council to either appoint its own auditor, following the advice of an independent auditor panel, or to opt into a central system where the auditor will be appointed by an 'appointing person'.

24. By opting into this arrangement the Council will fulfil its duty under the Act, and will be able to show value for money by using the most economic option.

Economic Implications

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25. There are no direct economic implications.

Risk Implications

26. If the Council fails to appoint new external auditors by 31 December 2022 it will breach the Local Audit and Accountability Act 2014.
27. The way in which the Council appoints its new external auditors may not achieve value for money.

Background Papers

Redmond review

<https://www.gov.uk/government/publications/local-authority-financial-reporting-and-external-audit-independent-review>

Appendices to this report

None