

REPORT OF THE  
LEAD MEMBER FOR FINANCE AND SUPPORT SERVICES

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TO COUNCIL  
23<sup>rd</sup> FEBRUARY 2022

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**TITLE:** External Auditor Appointment 2023/24 to 2027/28

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**RECOMMENDATIONS:** That Council approves the decision to opt in to the national auditor appointments framework managed by Public Sector Audit Appointments.

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**EXECUTIVE SUMMARY:** The purpose of this report is to:

- Inform Council of the process for appointing local authority external auditors for the five years 2023/24 to 2027/28.
  - Seek approval to become an opted-in authority, joining the national auditor appointments framework managed by Public Sector Audit Appointments.
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**BACKGROUND DOCUMENTS:**

[www.psaa.co.uk](http://www.psaa.co.uk) - Public Sector Audit Appointments website

“Timeliness of local auditor reporting on local government in England, 2020” - National Audit Office

“Local auditor reporting on local government in England” - Public Accounts Committee July 2021

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**KEY DECISION:** No

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**DETAILS:** See appended report.

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KEY COUNCIL POLICIES: N/A

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EQUALITY IMPACT ASSESSMENT AND IMPLICATIONS: N/A

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ASSESSMENT OF RISK: N/A

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**LEGAL IMPLICATIONS:** Supplied by Melinda Edwards Principal Solicitor

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 financial year.

Section 17 of the Act gives the Secretary of State the power to make provision, by regulations, for certain relevant authorities to have a local auditor appointed on their behalf by a body (an 'appointing person') specified by the Secretary of State.

In that regard, the Local Audit (Appointing Person) Regulations 2015 (the Regulations) make provision for the process through which relevant authorities will become subject to these arrangements and the duties / functions of such authorities, or of their auditors. Authorities who opt into such arrangements do not need to establish an independent auditor panel.

The decision to become an opted-in authority must be made by full Council, on the recommendation of the Audit and Accounts Committee.

Public Sector Audit Appointments (PSAA) is specified as an appointing person under the provisions of the Act and regulation 3 of Regulations.

A formal decision was taken at Council in February 2017 to confirm the proposed approach agreed by the Audit & Accounts Committee and the S151 Officer to opt into the national auditor appointment scheme. Accordingly, PSAA let five-year audit services contracts in 2017 for the first appointing period, covering audits of the accounts from 2018/19 to 2022/23.

PSAA is now undertaking the work needed to invite eligible bodies to opt in for the next appointing period, from the 2023/24 audit onwards, and to complete a procurement for audit services. The council is therefore required to decide whether it wishes to opt in again to the national auditor appointment scheme.

*When commissioning contracts for the procurement of goods, services or the execution of works, the council must comply with the requirements of the Public Contracts Regulations 2015 (PCR) and its own Contractual Standing Orders (CSO's) failing which the decision may be subject to legal challenge from an aggrieved provider. CSO's stipulate that where a suitable framework exists, this must be used unless there is an auditable reason not to do so.*

*The Framework is compliant with PCR and has been procured for local authorities, including Salford City Council and other public sector organisations to use. Each framework is an overarching agreement through which those named organisations can select a service from either a single, or a range of providers by undertaking an exercise to call off the services and enter into an individual contract/agreement with that provider, according to the terms of the framework agreement.*

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#### **FINANCIAL IMPLICATIONS:**

If the decision is taken to opt in to the national appointment scheme, the fee setting process, including variations, would be managed by PSAA. Given the current weaknesses in the public audit market referred to in the report, scale fees are likely to increase in future. In response, the government has committed funding of £15 million per year towards meeting these increased costs, for the three years from 2022/23.

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#### **PROCUREMENT IMPLICATIONS:**

If the decision is taken to opt in to the national appointment scheme, PSAA would be responsible for running the competitive tender process and awarding the audit contracts.

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**HR IMPLICATIONS:** None

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**CLIMATE CHANGE IMPLICATIONS:** None

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**OTHER DIRECTORATES CONSULTED:** N/A

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#### **CONTACT OFFICER:**

Simon Bleckly, Head of Internal Audit, Ext. 01925 442217

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**WARDS TO WHICH REPORT RELATES:** N/A

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## **APPOINTMENT OF EXTERNAL AUDITOR**

### **1.0 Background**

- 1.1 Under the Local Audit & Accountability Act 2014 (“the Act”), the Authority is required to appoint an auditor to audit its accounts for each financial year. The Authority has three options:
- To appoint its own auditor, which requires it to follow the procedures set out in the Act.
  - To act jointly with other authorities to procure an auditor following the procedures in the Act.
  - To opt in to the national auditor appointment scheme administered by a body designated by the Secretary of State as the “appointing person”. The body currently designated for this role is Public Sector Audit Appointments Limited (PSAA).
- 1.2 A formal decision was taken at Council in February 2017 to confirm the proposed approach agreed by the Audit & Accounts Committee and the S151 Officer to opt in to the national auditor appointment scheme. PSAA let five-year audit services contracts in 2017 for the first appointing period, covering audits of the accounts from 2018/19 to 2022/23.
- 1.3 The pressure on the external audit market has grown during this period. The Redmond Review has highlighted significant weaknesses in the external audit market and made proposals to strengthen the sector going forwards.

### **2.0 Procurement of External Audit 2023/4 to 2027/28**

- 2.1 PSAA is now undertaking the work needed to invite eligible bodies to opt in for the next appointing period, from the 2023/24 audit onwards, and to complete a procurement for audit services. The council is therefore required to decide whether it wishes to opt in again to the national scheme: if it does so, it must inform PSAA of its intention by Friday 11 March 2022. The decision to become an opted-in authority should be made by Full Council, on the recommendation of the Audit and Accounts Committee
- 2.2 The auditor appointed at the end of the procurement process will undertake the statutory audit of accounts and Best Value assessment of the council in each financial year, in accordance with all relevant codes of practice and guidance. The appointed auditor is also responsible for investigating questions raised by electors and has powers and responsibilities in relation to Public Interest Reports and statutory recommendations. The auditor must act independently of the council and the main purpose of the procurement legislation is to ensure that the appointed auditor is sufficiently qualified and independent.
- 2.3 The auditor must be registered to undertake local audits by the Financial Reporting Council (FRC) and employ authorised Key Audit Partners to oversee the work. As noted below, there is a currently a shortage of registered firms and

Key Audit Partners. 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.

- 2.4 In order to inform this decision-making process, the three options presented above are evaluated in more detail below.

### **Options One and Two – appointment by the council itself, or jointly with other authorities**

The authority may elect to appoint its own external auditor under the Act, which would require the council to:

- Establish an independent auditor panel to make a stand-alone appointment. The auditor panel would need to be set up by the authority itself, and 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, 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 Authority's external audit.
- Manage the contract for its duration, overseen by the Auditor Panel.

Alternatively, the Act enables the Authority 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. Further legal advice would be required on the exact constitution of such a panel having regard to the obligations of each Authority under the Act and the Authority would need to liaise with other local authorities to assess the appetite for such an arrangement.

Liaison with other councils in the region has not identified any that are considering either option one or two for the next procurement process. For the current appointing period, there are 499 eligible bodies that are in the national scheme and only 11 that opted out (including only two unitary authorities).

### **Option Three - appointment via the national auditor appointment scheme**

PSAA is a not-for-profit organisation incorporated by the Local Government Association in 2014 and is responsible for managing the national opt-in scheme for auditor appointments. In summary, this scheme provides for:

- 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 to the extent this is possible with other constraints;
- managing the procurement process 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 Authority the opportunity to influence which auditor is appointed. This is an important element of the scheme for the council, as the complex nature of its investments and corporate structures will require an auditor with appropriate experience and suitably qualified staff;
- 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.

### **The fee setting and variation process**

Under the national scheme, PSAA run a competitive tender process, open to firms listed on the ICAEW's register of Local Auditors to bid for local audit contracts. Tenders are assessed on a price: quality basis in line with a Procurement Strategy set out by PSAA. For each firm awarded an audit contract, PSAA then put together a balanced portfolio of proposed appointments. For the next tender process, the deadline for submission of tenders will be in July 2022, with contract awards being made in August 2022. PSAA will then consult with opted-in bodies on proposed auditor appointments, with all appointments being confirmed by 31 December 2022.

Before setting a scale of fees, PSAA consults with opted-in authorities, relevant representative associations of local authorities and relevant bodies of accountants. The scale fees for individual opted-in authorities are normally based on the scale fee for the previous year, reflecting the auditor's assessment of audit risk and complexity.

Variations from the scale fee should only occur where these factors are significantly different from those identified and reflected in the fee for the previous year. PSAA can approve proposed variations to the scale fee for an individual opted-in authority, to reflect changes in circumstances. It obtains updated fee information from appointed auditors, and explanations for any proposed variations from the scale fee, then considers the reasonableness of the explanations provided by auditors before agreeing to any variation to the scale fee.

Scale fees are based on the expectation that audited bodies are able to provide the auditor with complete and materially accurate financial statements, with supporting working papers, within agreed timeframes. PSAA will charge fees for considering objections from the point at which auditors accept an objection as valid, or any special investigations such as those arising from disclosures under the Public Interest Disclosure Act 1998, as a variation to the scale fee.

- 2.5 These options were considered by members of the Audit and Accounts Committee on 25 January 2022 along with the recommendation of the Chief Finance Officer to progress option 3 – appointment through the national auditor appointment service. Members supported this option on the basis that:-
- options 1 and 2 would be more resource intensive for the authority with no guarantee of market interest
  - sector led procurement should provide the best opportunity for the successful appointment of an external auditor given the weaknesses in the current external audit market.
  - It is anticipated that the vast majority of authorities will choose this option and by joining this route, the council would be optimising the opportunity to influence the market
  - as with the current round of appointments there will be an opportunity for authorities with common interests to request the same external auditor. For example, Greater Manchester districts could request the same auditor.

### **3.0 Conclusion**

- 3.1 The findings from the Redmond review have highlighted the current systemic weaknesses in the market for public audit services: the reforms proposed in response to the review will take time to come into effect.
- 3.2 Appointment via the national auditor appointment scheme represents the most effective option and is recommended by the Chief Finance Officer and the Audit and Accounts Committee.