

**FINANCE, AUDIT AND RISK COMMITTEE  
DECEMBER 2021**

**\*PART 1 – PUBLIC DOCUMENT**

**TITLE OF REPORT: APPOINTMENT OF EXTERNAL AUDITORS FOR 2023/24 TO 2027/28**

REPORT OF: *Service Director: Resources*

EXECUTIVE MEMBER: *Non-Executive*

COUNCIL PRIORITY: BE A MORE WELCOMING, INCLUSIVE AND EFFICIENT COUNCIL

**1. EXECUTIVE SUMMARY**

The Council is required to appoint an auditor for the period from 2023/24 onwards, when the current arrangement with Public Sector Audit Appointments Ltd (PSAA) come to an end. It is considered that continuing with PSAA provides the only realistically viable option.

**2. RECOMMENDATIONS**

*That the Committee recommends to Council:*

- 2.1. That the Council opts in to the appointing person arrangements made by Public Sector Audit Appointments Ltd (PSAA) for the appointment of external auditors, for a period of 5 years from the 2023/24 audit.

**3. REASONS FOR RECOMMENDATIONS**

- 3.1. *The Council is required to appoint an External Auditor, and an appointment through PSAA offers the only realistically viable option.*

**4. ALTERNATIVE OPTIONS CONSIDERED**

- 4.1. The state of the audit market and changes to audit requirements for Local Authorities mean that it is a very complex procurement. The chances of a successful procurement for the Council alone are very low, and there would be extremely high uncertainty on price.
- 4.2. No other Hertfordshire Councils are looking at an opportunity to do a joint procurement (and we are not aware of any others more widely). All are seeking approval to use the PSAA route.

**5. CONSULTATION WITH RELEVANT MEMBERS AND EXTERNAL ORGANISATIONS**

- 5.1. Views from the Finance, Audit and Risk (FAR) Committee are being sought in advance of a decision by Full Council.

## **6. FORWARD PLAN**

- 6.1 This report does not contain a recommendation on a key Executive decision and has therefore not been referred to in the Forward Plan.

## **7. BACKGROUND**

- 7.1 For audits from 2018/19, local authorities have been required to make their own arrangements for the external audit of their accounts. The Secretary of State for Communities and Local Government specified PSAA as an appointing person under the Local Audit (Appointing Person) Regulations 2015. This means that PSAA can make auditor appointments for audits of local authorities. Following a Council decision in November 2016, the Council opted in to the PSAA arrangements for the period from 2018/19 to 2022/23. Our current auditors are Ernst and Young LLP.
- 7.2 The years referenced are the accounting years that are being audited. The auditor needs to be appointed prior to the start of the year that is being audited, but they carry out most of their work following the end of that year.
- 7.3 The PSAA prospectus (see background papers) provides a detailed assessment of the factors that have impacted on the audit sector since the decision on appointing through PSAA was made in 2016. The first of these were in 2018 with high profile financial crises and failures in the private sector. This led to several reviews that sought to strengthen the role of auditors. This resulted in:
- More auditor time being required for private sector audits, in a sector with limited capacity.
  - Increased auditor time (and cost) for Local Government audits, as the new requirements placed on the private sector also generally apply to Local Government as well..
- 7.4 2018 also saw the issues at Northamptonshire County Council emerge. It has been questioned as to whether a different role of audit would have meant that the issues would have emerged and been addressed earlier.
- 7.5 For the audit of the 2018/19 accounts, there were over 200 delayed audit opinions. The audit issues have been further exacerbated by the impact of Covid-19. Even with an extension of statutory audit deadlines (with audits to be completed by 30<sup>th</sup> September rather than 31<sup>st</sup> July) for 2020/21, only 9% of Local Government audits were completed on time.

7.6 The impact on North Herts has been as follows:

<b>Audit year</b>	<b>Accounts approved</b>	<b>Additional audit fees for main audit work (excluding Housing Benefit)</b>
2018/19	29 <sup>th</sup> July 2019- On time	None- scale fee of £40,068
2019/20	30 <sup>th</sup> November- On time (given extended deadline). Approved by FAR in September with delegation to the Chair in relation to unresolved audit matters,	PSAA approved an increased fee of £19,962. This was made up of £7,000 in relation to additional Covid-19 work, and £12,962 for additional work in relation to changing audit requirements.
2020/21	Expected to be approved in January. The deadline was 30 <sup>th</sup> September.	The outline audit plan (presented to FAR in March 2021) detailed areas where EY may seek a higher fee, of those three had estimates provided totalling £6k-£11.5k.

7.7 Earlier this year, Government consulted on allocating £15million of additional funding to Local Government (from 2021/22) to support the additional costs of audit. This would help cover an increase in the Council's scale fee. There has not yet been an announcement on how much each Council will receive or when it will be paid. There has also been a consultation on a new Local Audit Framework, that includes the creation of the Audit Reporting and Governance Authority (ARGA) to oversee those firms carrying out audits in Local Government. It would not affect the auditor appointment process.

## **8. RELEVANT CONSIDERATIONS**

8.1. The Council has three options in relation to appointing an auditor, as required by the regulations.

- Appoint via the PSAA, as a national collective scheme
- Appoint an auditor directly ourselves having gone through a procurement exercise
- Appoint as part of a group of Councils.

8.2 The only potential advantage of procuring directly ourselves would be in having a greater input in to how auditors are appointed. However, the appointment would be the decision of an auditor panel. This panel must have at least three members, a majority of whom are independent of the Council and must have an independent Chair. So the first disadvantage of this approach would be the time and cost involved in putting a panel in place. The second disadvantage is that the state of the audit market means that there could be no interest from audit firms in bidding for a contract for a single District Council.

8.3 A third disadvantage relates to determining fee variations. It is possible that the scope of audit may have settled down by 2023/24, but if it has not then requests for fee variations would be inevitable. There would need to be a way for dealing with such requests that maintains the independence of the External Auditor, does not jeopardise the working relationship between the Auditor and the Council, and is a fair process in line with contractual provisions.

8.4 Some of the above issues may be mitigated by appointing as part of a group of Councils. There are however no other Councils known to be seeking to take this approach.

- 8.5 In effect that leaves PSAA as the only viable option. In their prospectus the PSAA highlight a number of advantages that they offer. These include:
- A transparent and independent process
  - Able to offer larger contracts which are expected to be more attractive to audit firms
  - Management of any independence issues
  - Provide arbitration in relation to increased fee requests
  - Distribute any surpluses to opted in bodies
  - Engagement with consultations and proposals to audit requirements
  - Market engagement to encourage firms to invest in public sector audit
- 8.6 The PSAA have set a deadline for Councils to opt-in of 11 March 2022. Following this they will carry out the procurement of audit firms and then allocating these firms to each opted-in organisation. This will be completed by 31 December 2022, in advance of the 2023/24 accounting year.
- 8.7 If the Council decided to appoint an auditor independently then it would have until 31 December to complete the procurement and selection process.
- 8.8 As well as the main audit of our financial statements, our auditors also currently undertake certification work. This certification work covers grants and claims, with the main one being the housing benefit subsidy claim. The PSAA do not have any power to appoint auditors for this purpose. The grant paying body will set the requirements that need to be met, and the Council will need to appoint an auditor to comply with these requirements. This could be the same auditor used for the financial statements, but would be subject to a separate agreement between the Council and that audit firm. The Council could also appoint a different auditor, and this would not be subject to the auditor panel requirements required for the financial statement audit. To date, the Council has appointed Ernst and Young to undertake the work using a procurement waiver. This reflects the significant benefits of an auditor that already understands our systems and processes carrying out the work.

## **9. LEGAL IMPLICATIONS**

- 9.1. The Council Constitution Terms of Reference states the following at 10.1.5 (q): “To appoint (when this requirement arises) the Council’s external Local Auditor, having consulted and taken into account the advice of the Council’s Auditor Panel.”
- 9.2. The Local Audit and Accountability Act (“the Act”) requires that local authorities (as relevant authorities under the act) must have their accounts audited and that this is carried out by an auditor that is appointed in accordance with the Act.
- 9.3. Part 3 of the act sets out the process for appointing an auditor, including the timescales and the role of the audit panel. It also determines that a failure to appoint an auditor will be referred to the Secretary of State, who would make an appointment on behalf of that authority.
- 9.4. Section 17 of the Act allows for the Secretary of State to determine an appointing person. This person can appoint auditors on behalf of relevant authorities. Public Sector Audit Appointments Ltd (PSAA) have been determined to be an appointing person under the act.

- 9.5. Regulation 19 of the Act determines that an authority will need to make the decision to opt in to using an appointing person at full council.

## **10. FINANCIAL IMPLICATIONS**

- 10.1. The fees paid by the Council in the final year before the PSAA appointment arrangements commenced (i.e. for the 2017/18 accounts) was £44k. The Council's current base fee (known as a scale fee) is just under £41k. As detailed in paragraph 7.6 the Council should expect to pay more than this scale fee for 2021/22 and 2022/23, and should expect a higher scale fee to apply under the new contract. As detailed in paragraph 7.7 the Council should expect to receive additional government funding to cover some (or possibly all) of this increase.
- 10.2. As detailed in section 8 and section 11, the fee that the Council will end up paying under the PSAA arrangements is unknown. It is however considered likely that the fee under this arrangement would be lower than the fee from an individual procurement.

## **11. RISK IMPLICATIONS**

- 11.1. The proposal to use the PSAA appointment arrangements is considered to be the lowest risk options as it provides mitigation against the following risks:
- The risk of not being able to appoint an auditor is fully taken on by PSAA.
  - The price risk is shared amongst all Councils through the setting of scale fees.
  - The issues of managing fee variations and independence is managed by PSAA.

## **12. EQUALITIES IMPLICATIONS**

- 12.1. In line with the Public Sector Equality Duty, public bodies must, in the exercise of their functions, give due regard to the need to eliminate discrimination, harassment, victimisation, to advance equality of opportunity and foster good relations between those who share a protected characteristic and those who do not.
- 12.2. There are no equalities implications arising from this report.

## **13. SOCIAL VALUE IMPLICATIONS**

- 13.1. As the recommendations in the report relate to a contract that could be below £50,000 the "go local" policy has been considered but has not been applied. This could only be achieved through an individual procurement and this route has been rejected for the reasons set out in section 8. Also, the Local Audit and Accountability Act sets out the requirements to be met to be able to act as a Local Auditor and these are unlikely to be met by local providers.
- 13.2. The recommended process is to use the PSAA appointment process. In their procurement strategy (see background papers), PSAA detail that they will consider social value as part of their auditor procurement. 5% of the contract score will be awarded based on social value. Bidders will be asked how "they will deliver from the contract, which could include the creation of audit apprenticeships and meaningful training opportunities. Bidders will also be asked to describe how their delivery of social value will be measured and evidenced".

## **14. ENVIRONMENTAL IMPLICATIONS**

14.1. There are no known Environmental impacts or requirements that apply to this report.

## **15. HUMAN RESOURCE IMPLICATIONS**

15.1 The recommended approach minimises the impact on Officers in relation to the auditor appointment process.

## **16. APPENDICES**

16.1 *None*

## **17. CONTACT OFFICERS**

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## **18. BACKGROUND PAPERS**

18.1 *PSAA Prospectus: The national scheme for local auditor appointments*  
<https://www.psa.co.uk/wp-content/uploads/2021/11/Prospectus-2023-and-beyond-FINAL.pdf>

18.2 PSAA Audit services procurement strategy 2022 <https://www.psa.co.uk/wp-content/uploads/2021/09/Procurement-Strategy-2022-FINAL.pdf>