

**TITLE OF REPORT:** External Auditor Appointments Beyond 1 April 2023

**REPORT OF:** Darren Collins, Strategic Director, Resources and Digital

---

### **Purpose of the Report**

1. To inform Cabinet of the optional arrangements for the appointment of external auditors for the financial year beginning on 1 April 2023 and seek Cabinet agreement to recommend to Council to opt into the national sector-led arrangement for the appointment of external auditors with effect from 1 April 2023.

### **Background**

2. Under the Local Government Audit and Accountability Act 2014 (“the Act”), the Council is required to appoint an auditor to audit its accounts for each financial year. The Council has three options:
  1. To appoint its own auditor, which requires it to follow the procedure set out in the Act;
  2. To act jointly with other authorities to procure an auditor following the procedures in the Act; or
  3. To opt into the national auditor appointment scheme administered by the Secretary of State as the ‘appointing person’. The body currently designated for this role is Public Sector Auditor Appointments (PSAA).
3. In March 2017, the Council agreed to opt into the ‘appointing person’ national auditor appointing arrangements, established by PSAA for the period covering the accounts for 2018/19 to 2022/23.
4. The current auditor appointment arrangement covers the period up to and including the audit of the 2022/23 Statement of Accounts, after which they expire.
5. PSAA is currently undertaking a procurement for the next appointing period, covering audits for five financial years from 2023/24 to 2027/28.
6. The Council needs to make a decision about its external audit arrangements from 2023/24 onwards.

7. To once again opt into the national scheme, the Council must make a decision at a meeting of the Full Council.
8. The Council's Audit and Standards Committee considered this issue on 31 January 2022. The Committee supported the proposed approach recommended within this Cabinet report. The minute of the Committee meeting is attached as Appendix 2 to this report.

### **Proposals**

9. The report identifies the options available to the Council to appoint an external auditor for the financial year commencing on 1 April 2023, with a proposed option to accept the PSAA invitation to opt into the sector-led option for the appointment of external auditors for five financial years commencing 1 April 2023.

### **Recommendation**

10. Cabinet is asked to recommend to Council the proposal to opt-in to the sector-led option for the appointment of external auditors for five financial years commencing 1 April 2023.

For the following reasons:

- (i) To ensure the Council can make the necessary arrangements for the appointment of external auditors for the financial year beginning 1 April 2023 in compliance with the requirements of the Local Audit and Accountability Act 2014; and
- (ii) The optimum arrangement for the achievement of value for money and deliverability.

### Policy Context

1. This report ensures compliance with the Local Audit and Accountability Act 2014. It is also consistent with the Council's objectives of making Gateshead a place where everyone thrives by assisting in ensuring effective financial stewardship and value for money.

### Background

2. Under the Local Government Audit and Accountability Act 2014 ("the Act"), the Council is required to appoint an auditor to audit its accounts for each financial year. The Council has three options:
  1. To appoint its own auditor, which requires it to follow the procedure set out in the Act;
  2. To act jointly with other authorities to procure an auditor following the procedures in the Act; or
  3. To opt into the national auditor appointment scheme administered by the Secretary of State as the 'appointing person'. The body currently designated for this role is PSAA.
3. In March 2017, the Council agreed to opt into the 'appointing person' national auditor appointing arrangements, established by PSAA for the period covering the accounts for 2018/19 to 2022/23.
4. The current auditor appointment arrangement covers the period up to and including the audit of the 2022/23 Statement of Accounts, after which they expire
5. PSAA is currently undertaking a procurement for the next appointing period, covering audits for five financial years from 2023/24 to 2027/28.
6. The Council needs to make a decision about its external audit arrangements from 2023/24 onwards.
7. To once again opt into the national scheme, the Council must make a decision at a meeting of the Full Council.

### The Appointed Auditor

8. The auditor appointed at the end of the procurement process will undertake the statutory audit of the Council's Statement of Accounts (including any associated specific grant returns) 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.

9. 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.
10. The auditor must be registered to undertake local audits by the Financial Reporting Council (FRC) who employ authorised Key Audit Partners to oversee the work. There is currently a shortage of registered firms and Key Audit Partners.
11. Auditors are regulated by the FRC, which will be replaced during the course of the next audit contract by a new body with wider powers, the Audit, Reporting and Governance Authority (ARGA).
12. Councils therefore have very limited influence over the nature of the audit services they are procuring, the nature and quality of which are determined or overseen by third parties.

### **Options for the Council to appoint itself or via a joint arrangement**

13. Should the Council wish to appoint its own external auditor under the Act, it would need to:
  - a. 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 members of the panel would have to 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 would not have a majority input to assessing bids and choosing to which audit firm to award a contract for the Council's external audit.
  - b. manage the contract for its duration, overseen by the auditor panel.
14. Alternatively, the Act enables the Council 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 Council would need to liaise with other local authorities to assess the appetite for such an arrangement.
15. These two options would be more resource-intensive and without the bulk buying power of the sector-led procurement service, would likely result in a more costly process for the Council to implement. It would also be more difficult to manage quality and independence requirements through a local appointment process. The Council would not be able to influence the scope of the audit and the regulatory regime would inhibit the Council's ability to affect quality.

16. The Council and its auditor panel would need to maintain ongoing oversight of the contract. Local contract management cannot, however, influence the scope or delivery of an audit.

### **The National Auditor Appointment Scheme**

17. PSAA is specified as the 'appointing person' for principal local government under the provisions of the Act and the Local Audit (Appointing Person) Regulations 2015. 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. It 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.
18. The benefits of opting into the national scheme are as follows:
  - a. the appointment of a suitably qualified audit firm to conduct audits for five financial years commencing 1 April 2023;
  - b. 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;
  - c. 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;
  - d. ensuring suitable independence of the auditors from the bodies they audit and managing any potential conflicts as they arise during the appointment period;
  - e. minimising the scheme management costs and returning any surpluses to scheme members;
  - f. consulting with authorities on auditor appointments, giving the Council the opportunity to influence which auditor is appointed;
  - g. consulting with authorities on the scale of audit fees and ensuring these reflect scale, complexity, and audit risk; and
  - h. ongoing contract and performance management of the contracts once these have been let.
19. The national offer provides the appointment of an independent auditor with limited administrative cost to the Council. By joining the scheme, the Council would be acting with other councils to optimise the opportunity to influence the market that a national procurement provides.

## **Current Pressures in the Local Audit Market and Delays in Issuing Opinions**

20. Much has changed in the local audit market since audit contracts were last awarded in 2017. At that time the audit market was relatively stable, there had been few changes in audit requirements and local audit fees had been reducing over a long period. 98% of bodies who were eligible opted into the national scheme and attracted competitive bids from audit firms. The resulting audit contracts took effect from 1 April 2018
21. During 2018, a series of financial crises and failures in the private sector led to questioning about the role of auditors and the focus and value of their work, following which four independent reviews were commissioned by Government:
  - a. Sir John Kingman's review of the Financial Reporting Council (FRC), the audit regulator;
  - b. the Competition and Markets Authority review of the audit market;
  - c. Sir Donald Brydon's review of the quality and effectiveness of audit; and
  - d. Sir Tony Redmond's review of local authority financial reporting and external audit.
22. The recommendations are now under consideration by Government, with the clear implication that significant reforms will follow. A new audit regulator (ARGA) is to be established, and arrangements for system leadership in local audit are to be introduced. Further change will follow as other recommendations are implemented.
23. The Kingman review has led to an urgent drive for the FRC to deliver rapid, measurable improvements in audit quality. This has created a major pressure for audit firms to ensure full compliance with regulatory requirements and expectations in every audit they undertake. By the time firms were conducting 2018/19 local audits during 2019, the measures they were putting in place to respond to a more focused regulator were clearly visible.
24. To deliver the necessary improvements in audit quality, firms were requiring their audit teams to undertake additional work to gain deeper levels of assurance. However, additional work requires more time, posing a threat to the firms' ability to complete all their audits by the target date for publication of audited accounts. Delayed opinions are not the only consequence of the FRC's drive to improve audit quality. Additional audit work must also be paid for. As a result, many more fee variation claims have been needed than in prior years.
25. This situation has been exacerbated by growing auditor recruitment and retention challenges, the complexity of local government financial

statements and increasing levels of technical challenges as bodies explore innovative ways of developing new or enhanced income streams to help fund services for local people. These challenges have increased in subsequent audit years, with COVID19 creating further significant pressure for finance and audit teams.

26. None of these problems are unique to local government audit. Similar challenges have played out in other sectors, where increased fees and disappointing responses to tender invitations have been experienced during the last two years.
27. It should be noted that despite the wider problems outlined above, the experiences of the Council under this arrangement have been positive, benefitting from an effective working relationship with our appointed auditor.

### **The Next Audit Procurement**

28. The prices submitted by bidders through the procurement exercise will be the key determinant of the value of audit fees paid by opted-in bodies. PSAA will:
  - a. seek to encourage realistic fee levels and benefit from the economies of scale associated with procuring on behalf of a significant number of bodies;
  - b. continue to pool scheme costs and charge fees to opted-in bodies in accordance with the published fee scale as amended following consultations with scheme members and other interested parties. Pooling means that everyone within the scheme will benefit from the prices secured via a competitive procurement process - a key tenet of the national collective scheme; and
  - c. continue to minimise its own costs, around 4% of scheme costs, and as a not-for-profit company will return any surplus funds to scheme members. (In 2019 it returned a total £3.5 million to relevant bodies and returned a further £5.6 million in 2021).
29. PSAA will seek to encourage market sustainability in its procurement. Firms will be able to bid for a variety of differently sized contracts so that they can match their available resources and risk appetite to the contract for which they bid. They will be required to meet appropriate quality standards and reflect realistic market prices in their tenders, informed by the scale fees and the supporting information provided about each audit. Where regulatory changes are in train which affect the amount of audit work suppliers must undertake, firms will be informed as to which developments should be priced into their bids.
30. The scope of a local audit is fixed. It is determined by the Code of Audit Practice (currently published by the National Audit Office), the format of the financial statements (specified by CIPFA/ LASAAC) and the

application of auditing standards regulated by the FRC. These factors apply to all local audits irrespective of whether an eligible body decides to opt into PSAA's national scheme or chooses to make its own separate arrangements. The requirements are mandatory; they shape the work auditors undertake and have a bearing on the actual fees required.

31. There are currently nine audit providers eligible to audit local authorities and other relevant bodies under local audit legislation. This means that a local procurement exercise would seek tenders from the same firms as the national procurement exercise, subject to the need to manage any local independence issues. Local firms cannot be invited to bid. Local procurements must deliver the same audit scope and requirements as a national procurement, reflecting the auditor's statutory responsibilities.

### **Next Steps**

32. Regulation 19 of the Local Audit (Appointing Person) Regulations 2015 requires that a decision to opt in must be made by a meeting of Full Council (meeting as a whole), except where the authority is a corporation sole (e.g. Police and Crime Commissioner) in which case this decision can be taken by the holder of that office.
33. Therefore, if Cabinet are in agreement, it is intended that this report will be presented to Full Council at its meeting on 24 February 2022, where it will be recommended that Council agree to become an opted-in authority.
34. The closing date to provide formal acceptance of the invitation to PSAA is 11 March 2022.
35. PSAA will commence the formal procurement process in early February 2022. It expects to award contracts in August 2022, then consult with authorities on the appointment of auditors in order to make appointments by the statutory deadline of 31 December 2022.

### **Consultation**

36. The Council's Audit and Standards Committee has been consulted on this report at their meeting of 31 January 2022 and was supportive of the proposed option.

### **Alternative Options**

37. The alternative options are set out in the report.

### **Implications of Recommended Option**

38. **Resources:**
  - a) **Financial Implications** - The Strategic Director, Resources and Digital confirms that the financial implications are set out in this



report. There are no additional financial implications associated with the report itself.

**b) Human Resources Implications** – There are no human resources implications arising from this report.

**c) Property Implications** – There are no property implications arising from this report.

39. **Risk Management Implications** – External Audit activity provides the Council and residents with an independent opinion on the Council's financial statements and performance.

40. **Equality and Diversity Implications** – There are no equality and diversity implications arising from this report.

41. **Crime and Disorder Implications** – There are no crime and disorder implications arising from this report.

42. **Health Implications** – There are no health implications arising from this report.

43. **Climate Emergency and Sustainability Implications** – There are no climate emergency and sustainability implications arising from this report.

44. **Human Rights Implications** – There are no human rights implications arising from this report.

45. **Ward Implications** – There are no ward implications arising from this report.

46. **Background Information** – The following document has been used in the preparation of this report:

- Local Audit and Accountability Act 2014

**Minute from Audit and Standards Committee Meeting Monday, 31  
January 2022**

**ASC 366 External Auditor Appointments Beyond 1 April 2023**

The Committee were advised that Regulation 19 of the Local Audit (Appointing Person) Regulations 2015 requires that a decision to opt in must be made by a meeting of Full Council (meeting as a whole), except where the authority is a corporation sole (e.g. Police and Crime Commissioner) in which case this decision can be taken by the holder of that office.

It is therefore intended that this report will be presented to Cabinet on 22 February 2022 followed by Full Council at its meeting on 24 February 2022, where it will be recommended that Members agree to become an opted-in authority.

The closing date to provide formal acceptance of the invitation to PSAA is 11 March 2022.

PSAA will commence the formal procurement process in early February 2022.

It expects to award contracts in August 2022, then consult with authorities on the appointment of auditors in order to make appointments by the statutory deadline of 31 December 2022.

**RESOLVED**

- i) That the information be noted.
- ii) That the Committee agreed to accept the PSAA invitation to opt into the sector-led option for the appointment of external auditors for five financial years commencing 1 April 2023 and submit any comments to Cabinet.