



Full Council	Tuesday, 21 December 2021	Matter for Information and Decision
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Report Title: **Public Sector Audit Appointments Limited (PSAA) –
Appointment of next External Auditor**

Report Author(s): **Comie Campbell (Head of Finance / Acting Section 151
Officer)/ Jo Nacey (Senior Finance Strategy Manager)**

Purpose of Report:	To ensure that Oadby and Wigston Borough Council appoints its external auditor in an open and transparent way.
Report Summary:	The final year of Grant Thornton being our appointed auditors is 2022/23, a new appointment is required for 2023/24. This report will make a recommendation to Full Council of the preferred option in appointing an external auditor. This decision can only be made by Full Council.
Recommendation(s):	A. That the Council opts-in to the appointing person arrangements made by Public Sector Audit Appointments Ltd (PSAA) for the appointment of external auditors (Option 1); and B. That authority be delegated to the Section 151 Officer to submit the formal notice of acceptance and provision of information to PSAA as required.
Responsible Strategic Director, Head of Service and Officer Contact(s):	Comie Campbell (Head of Finance/Acting Section 151 Officer) (0116) 257 2713 Comie.Campbell@oadby-wigston.gov.uk Jo Nacey (Interim Senior Financial Strategy Manager) (0116) 257 2706 Jo.Nacey@oadby-wigston.gov.uk
Corporate Priorities:	Building, Protecting and Empowering Communities Growing the Borough Economically Providing Excellent Services
Vision and Values:	"A Strong Borough Together" (Vision) Innovation (V4)
Report Implications:-	
Legal:	The implications are set out in the report.
Financial:	The implications are set out in the report.
Corporate Risk Management:	Decreasing Financial Resources (CR1) Effective Utilisation of Assets/Buildings (CR5) Regulatory Governance (CR6) Organisational/Transformational Change (CR8)

	Economy/Regeneration (CR9)
Equalities and Equalities Assessment (EA):	There are no implications arising from this report. EA not applicable.
Human Rights:	There are no implications arising from this report.
Health and Safety:	There are no implications arising from this report.
Statutory Officers' Comments:-	
Head of Paid Service:	The report is satisfactory.
Chief Finance Officer:	As the author, the report is satisfactory.
Monitoring Officer:	The report is satisfactory.
Consultees:	None.
Background Papers:	None
Appendices:	None

1 Introduction

1.1 The Local Audit and Accountability Act 2014 brought to a close the Audit Commission and the arrangements for the appointment of external auditors and the setting of audit fees for all local government and NHS bodies in England.

1.2 The last year of the current contract is 2022/23 with new contracts starting from April 2023.

1.3 There are 3 options available for local government to appoint its external auditor:

Option 1: Through an approved sector led body (SLB) to be specified by the Department for Levelling Up, Housing and Communities (DLUHC) to act as the Appointing Person on behalf of opted-in authorities. The opt-in sector led body approach requires Full Council Approval (Regulation 19, Local Audit (Appointing Person) Regulations 2015). The SLB is Public Sector Audit Appointments Ltd (PSAA), who are a wholly owned company of the Local Government Association.

Option 2: Establish its own independent auditor panel (Part 3, section 9 and schedule 4 of the Local Audit and Accountability Act 2014). The panel must be made up of a majority or of wholly independent members and must be chaired by an independent member.

Option 3: Establish a joint independent auditor panel to carry out the function on behalf of two or more Councils.

2 Review of Options

Option 1 - Appointment of PSAA

2.1 Our current external audit provider, Grant Thornton, was appointed under the previous PSAA procurement contract arrangement. Current scale fees are based on rates negotiated by PSAA and reflect market share offered in framework contracts. If the Council wishes to

remain in the PSAA framework and allow PSAA to continue to manage the appointment of the external auditors, it can do so. PSAA are requesting that all Councils wishing to “opt in” to the new PSAA scheme should ideally notify them by the end of the calendar year. PSAA operates a sector-wide procurement that they argue would produce better outcomes and will be less burdensome for the Council than any procurement undertaken locally (Options 2 and 3). Further, it is expected that the appointed auditor would be for a period of 5-years.

2.2 The PSAA has been consulting with local government during 2021 and significant information is provided at their website: www.psa.co.uk/about-us/appointing-person-information/appointing-period-2023-24-2027-28/

2.3 The advantages and disadvantages of **Option 1** are:

Advantages (Benefits)

- i. The costs of setting up the appointment arrangements and negotiating fees would be shared across all opt-in authorities. By offering large contract values, the firms would be able to offer better rates and lower fees than are likely to result from local negotiation. Any conflicts at individual authorities would be managed by the Sector-led Body who would have a number of contracted firms to call upon. The appointment process would not be delegated to locally appointed independent members. Instead a separate body is set up to act in the collective interests of the ‘opt-in’ authorities.
- ii. The audit costs are likely to be lower than if the Council/Authority sought to appoint locally, as national large-scale contracts are expected to drive keener prices from the audit firms;
- iii. Without the national appointment, the Council would need to establish a separate independent auditor panel, which could be difficult, costly and time-consuming;
- iv. PSAA can ensure the appointed auditor meets and maintains the required quality standards and can manage any potential conflicts of interest much more easily than the Council/Authority;
- v. Supporting the sector-led body will help to ensure there is a vibrant public audit market for the benefit of the whole sector and this Council/Authority going forward into the medium and long term.
- vi. The scope of local audit is fixed, being defined by statute and by accounting and auditing codes, so it would be the same under a local procurement as under PSAA’s procurement.

In respect of PSAA itself:

- vii. PSAA has considerable expertise and experience in the role of appointing person.
- viii. Government confidence having appointed PSAA for a second five-year period – MHCLG’s Spring statement refers to our “strong technical expertise and the proactive work we have done to help to identify improvements”.
- ix. A dedicated team who are very familiar at working within the context of the relevant regulations to appoint auditors, manage contracts with audit firms, and set and determine audit fees.
- x. A not-for-profit organisation whose costs are around 4% of the scheme with any surplus distributed back to scheme members – so it provides value for public money PSAA is member of new Local Audit Liaison Committee, and regular links with MHCLG and the HO so give feedback and of the sector.

2.4 Disadvantages (Risks) of Option 1 are:

- i. Individual elected Members will have less opportunity for direct involvement in the appointment process other than through the LGA and / or stakeholder representative groups.
- ii. For the Sector-led Body to be viable and to be placed in the strongest possible negotiating position it will need councils to indicate their intention to opt-in before final contract prices are known.
- iii. There is less control over the contract length and deciding who will be the external auditors appointed.

3 Option 2 and 3 – Stand Alone or Joint Arrangement Auditor Appointment Options

3.1 The governance around Options 1 and 2 are similar, the only difference between the two is that:

- Option 2 the Council appoints its own external auditor (stand-alone appointment), whereas
- Option 3 the Council appoints along with other Councils (joint arrangement).

3.2 For both Options 2 and 3 the Council will either have to establish its own or participate in a joint auditor panel. Such appointment panels are required to be wholly (or a majority) of 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 – only the independent auditor panel established by the Council will be responsible for selecting the auditor.

3.3 The **overriding disadvantage** of Options 2 and 3 when compared to Option 1 is that there are only 8 (in England) qualified, registered auditors who are duly accredited to undertake public audit. It is therefore expected that these auditors will be procured via the PSAA arrangement and thus economies of scale will be lost via Options 2 and 3 because a local arrangement would be "fishing in the same pool" as that of PSAA.

4 Future Fee expectation

4.1 It is anticipated that future year's audit fees, no matter how procured, will cost more than in the past; some of this higher cost was starting to be reflected in the audit requirements of 2019/20. The reasons for this higher cost of audit includes:

- **Limited auditor resource.** This has come about because a lot of the former Audit Commission staff have now exited the audit sector. The firms are now having to invest in their own internal training programmes for a very limited public sector audit market.
- **Higher audit standards.** Because of the audit shortcomings that have been identified following the collapse of Enron, Carillion and other similar high-profile companies, the audit testing regime has been enhanced to help ensure greater reliance on audit conclusions. There are also planned changes in regulation, through the replacement of the Financial Reporting Council with the new Audit, Reporting and Governance Authority (ARGA)
- **Introduction of new auditing and accounting standards,** requiring additional audit work in a variety of areas, such as accounting estimates, group reporting and leases
- **Introduction of the new Code of Practice,** covering a wider scope on Value for Money and reporting, increasing the volume of work required by experienced staff

- **Increased risk profile and complexity of local authorities**, for example entering new transactions, investments, and new models of delivery, increasing the time input of senior and experienced staff.

5 Conclusion

- 5.1 On balance, considering the various advantages and disadvantages related to each of the options for procuring an external auditor, it is considered that the arrangement offered by PSAA offers best value in respect of audit contract value and the cost of administration.