
ARRANGEMENTS TO APPOINT EXTERNAL AUDITORS FROM 2023/24

1 PURPOSE OF REPORT

- 1.1 To seek Audit Committee's recommendation 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 – 2027/28.

2 INTRODUCTION

- 2.1 The Audit Committee's terms of reference include responsibility for managing the budget associated with external auditors' fees. In practical terms, this means the Audit Committee should satisfy itself the external auditors' work is satisfactory, and that the fees represent value for money.
- 2.2 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.
- 2.3 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.
- 2.4 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'.
- 2.5 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.

3 OPTIONS FOR APPOINTING NEW EXTERNAL AUDITORS

- 3.1 The Council has three options which are discussed below.

1. Create its own auditor panel to advise the Council and appoint its own external auditors following a procurement exercise: -

- 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.
- 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.

- 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.

2. Work with other Councils to create a joint auditor panel which will advise and appoint external auditors following a joint procurement exercise: -

- 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 other Essex authorities will be looking to opt-in to the PSSA appointing persons arrangements.
- The points listed under option 2 above would also be relevant for this option, although risks would be shared with the other authorities under a joint procurement.

3. Continue to opt into the central Public Sector Audit Appointments Ltd service (option being recommended). The main benefits of this are:

- The best 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
- 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.£11k has been redistributed to RDC 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.

2 RISK IMPLICATIONS

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

3 RESOURCE IMPLICATIONS

- 3.1 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:
- 1) Changes in local arrangements e.g., a new LATCO being set up
 - 2) New national risks emerging (e.g., changes to legislation/accounting

standards) which require all audit firms to undertake additional work or
3) New local risks emerging (e.g., significant errors in the accounts which require additional testing in subsequent years).

- 3.2 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.
- 3.3 It is not possible to quantify the likely cost under a new framework until a procurement exercise has been undertaken by PSAA. 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.
- 3.4 The Council has a budget for external audit fees of £75,000 for the 2020/21 audit. To support implementation of the Redmond review recommendations, MHCLG is providing principal local government bodies with £15 million in additional funding in 2021/22; this equates to £18,917 for the 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.

4 LEGAL IMPLICATIONS

- 4.1 The Local Audit and Accountability Act 2014 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 RECOMMENDATION

- 5.1 It is proposed that the Audit Committee **RECOMMENDS TO COUNCIL**

That the Council opts into the proposed central arrangements for appointing external auditors for the accounting periods 2023/24 – 2027/28.



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Background Papers:-

None.

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