

WELWYN HATFIELD BOROUGH COUNCIL  
AUDIT COMMITTEE - 31 JANUARY 2022  
REPORT OF THE HEAD OF RESOURCES

**APPOINTMENT OF EXTERNAL AUDITORS 2023/24 TO 2026/27**

**1 Executive Summary**

- 1.1 The Council's current contract for external audit ends covers until the closure of accounts for 2022/23.
- 1.2 Local Authorities are required under legislation to appoint their own External Auditors. The Local Audit and Accountability Act 2014 requires Local Authorities to decide between opting from one of the following two options available:
- The Council running its own procurement exercise.
  - Utilising the Public Sector Audit Appointments (PSAA), under the appointing persons regime (Local Audit (Appointing Person) Regulations 2015).
- 1.3 This report sets out the background and recommendations regarding the appointment of external auditors for the period of 2023/24 to 2026/27.

**2 Recommendation(s)**

- 2.1 That Audit Committee recommends to Council that the council opts into the appointing arrangements made by Public Sector Audit Appointments for the appointment of its external auditors for the years 2023/24 to 2026/27.

**3 Explanation**

- 3.1 Public Sector Audit Appointments Limited (PSAA) was incorporated by the Local Government Association (LGA) in August 2014. PSAA is a company limited by guarantee without share capital and is a subsidiary of the Improvement and Development Agency (IDeA) which is wholly owned by the LGA.
- 3.2 In July 2016, the then Secretary of State for Housing Communities and Local Government specified PSAA as an appointing person for principal local government and police bodies for audits from 2018/19, under the provisions of the Local Audit and Accountability Act 2014 and the Local Audit (Appointing Person) Regulations 2015.
- 3.3 Acting in accordance with this role PSAA is responsible for appointing an auditor and setting scales of fees for relevant principal authorities that have chosen to opt into its national scheme.
- 3.4 PSAA has a responsibility for ensuring that the company delivers the following objectives:
- Appointing auditors to all relevant authorities;

- Setting scales of fees, and charging fees, for the audit of accounts of relevant authorities and consulting with relevant parties in relation to those scales of fees;
  - Ensuring effective management of contracts with audit firms for the delivery of consistent, quality and effective audit services to relevant authorities;
  - Ensuring that public money continues to be properly accounted for and protected;
  - Being financially responsible having regard to the efficiency of operating costs and transparently safeguarding fees charged to audited bodies; and,
  - Leading its people as a good employer, ensuring that it continues to be fit-for purpose; motivating and supporting its staff; and communicating with them in an open, honest and timely way.
- 3.5 The Council opted-in to the last procurement exercise undertaken by PSAA in 2017 and under this agreement External Audit services have been supplied by Ernst and Young LLP who were sourced through the PSAA procurement route for the accounts since 2018/2019.
- 3.6 This arrangement will end for the accounts for 2022/2023 and PSAA is undertaking the next procurement exercise for the external audit of the accounts from 2023/2024 for a period of 5 years.
- 3.7 In September 2021, the PSAA issued their invitation to all principal local government organisations (including police and fire bodies) to confirm whether they desired to opt into the next national scheme for auditor appointments which will commence in April 2023 and run until March 2028.
- 3.8 The PSAA has also published its strategy for the procurement of audit services contracts for the second appointing period. Their stated aim is to secure the delivery of an audit service of the required quality for every opted-in body at a realistic market price and to support the drive towards a long-term competitive and more sustainable market for local public audit services.
- 3.9 A decision to become an opted-in authority must be taken in accordance with the Regulations which requires agreement at Full Council. To become an opted-in authority, the form of acceptance notice has to be completed and returned to PSAA by 11 March 2022.
- 3.10 The Local Government Association (LGA) ‘supports the appointing person arrangements and encourages as many eligible bodies as possible to opt in. It believes the national scheme remains the best option councils can choose. In its view, there are many reasons for favouring the national arrangements and those reasons have become more compelling since 2016/17 when councils were last asked to make this choice.’
- 3.11 The government has recognised the failures in the audit market, and many of the recommendations from the Redmond Review have been considered. The PSAA has taken on board aspects relevant in the procurement of auditors from the Redmond Review, such as attempting to attract providers to the public sector audit market.
- 3.12 It should be noted that under the current PSAA regime, only 9% of local government audits for last year (2020/21) were completed by the end of September. This is a sharp reduction on the 45% filed on time for 2019/20 and is

the third successive year where the number of accounts produced on schedule has reduced.

#### Running the council's own procurement exercise

- 3.13 The Council procuring its own auditor or procuring through a joint arrangement entails setting up an Audit Panel with an independent chair to oversee the procurement and running of the contract is another option available to it. Whilst this option would provide the Council with the scope to select panel members with an appropriate skill set and understanding of the Council's particular circumstances, it may be challenging to attract an independent chair with the suitable skills.
- 3.14 It is also unlikely that this approach would be the best means of securing the appointment of a suitable external auditor. A local procurement would be drawing from the same limited supply of auditor resources as PSAA's national procurement scheme, and the larger firms may consider a single authority contract too small to bid for.
- 3.15 The procurement process and the ongoing contract management would be additional administrative burdens for the Council. It is considered therefore that procuring directly provides no obvious benefits when compared to a national scheme and brings additional risks around attracting suitable firms to bid for the audit.

#### Opting into the PSAA arrangements

- 3.16 There is no fee levied directly by the PSAA to the local authorities for appointing auditors or for managing the arrangements. These costs are instead recovered through audit fees set by PSAA.
- 3.17 The company is staffed by a team with significant experience of working within the context of the Regulations to appoint auditors, manage contracts with audit firms, and set and determine audit fees. Many of them have transferred from predecessor bodies such as the Audit Commission.
- 3.18 The PSAA have consulted on the proposed procurement approach and are considering different lots for groupings of authorities (yet to be determined), as well as adjusting requirements to allow firms to work together, particularly in instances where new bidders to the local authority market can work with experienced local authority auditors to help widen the pool of audit firms that can bid.
- 3.19 The Scale Fee for the Council's audit has remained fixed for the past three years. However, there have been fee increase requests approved by the PSAA for a number of years linked to increased demands on audit, a factor recognised in the Redmond Review. In either scenario the council is likely to see increases to the scale fees payable.
- 3.20 The PSAA has worked closely with the Department for Levelling Up, Housing and Communities (DLUHC) to enable consultation on changes to the fee setting arrangements to deal better with variations at national and local level, which may result in more flexible and appropriate Regulations later this year.
- 3.21 Whilst it is clear that there are national issues within the local government audit market, the view is that risks around attracting suitable firms are greater should

the council pursue its own procurement arrangements. On this basis, it is recommended that the council opt into the PSAA appointments scheme.

#### **4 Legal Implication(s)**

- 4.1 The Local Audit and Accountability Act 2014 requires Local Authorities to appoint its external auditors
- 4.2 Regulation 19 of the Local Audit (Appointing Person) Regulations 2015 requires that a decision to opt-into the appointing persons regime must be made by Full Council.
- 4.3 Selecting and appointing external auditors or auditor panels under the provisions of the Local Audit and Accountability Act is a function of Council.

#### **5 Risk Management Implications**

- 5.1 Failure to appoint an auditor in line with the required timing would open up the council to significant reputational and financial risks. Opting in to the PSAA Scheme reduces this risk significantly.

#### **6 Financial Implications**

- 6.1 Opting in to the PSAA appointment scheme provides the most cost-effective procurement option. The time and resources required for the Council to undertake its own procurement process would be much higher than the PSAA route.
- 6.2 Opting in offers greater opportunity to achieve a lower audit base fee due to economies of scale and buying power available under joint procurement. As at April 2021, 540 public sector bodies were opted in to the PSAA.
- 6.3 Until the procurement exercise is completed it is not possible to identify the financial impact of the process and Audit Fees for 2023/2024. It is likely that the audit fees will increase as outlined in the Redmond Review. However, as stated the PSAA option should deliver a lower cost compared to self-procuring as there is greater opportunity through using PSAA and any increase will be minimised through this route.

#### **7 Security and Terrorism Implication(s)**

- 7.1 None directly arising from this report

#### **8 Procurement Implication(s)**

- 8.1 The council may opt-into the Public Sector Audit Appointments (PSAA) the appointing persons regime (Local Audit (Appointing Person) Regulations 2015), in line with the Local Government Act 2014.
- 8.2 The recommendation is in accordance with the Council's Contract Procedure Rules and the Public Contracts Regulations 2015.

#### **9 Climate Change Implication(s)**

- 9.1 None directly arising from this report.

**10 Human Resources Implication(s)**

10.1 None directly arising from this report.

**11 Health and Wellbeing Implication(s)**

11.1 None directly arising from this report

**12 Communication and Engagement Implication(s)**

12.1 None directly arising from this report

**13 Link to Corporate Priorities**

13.1 The subject of this report is linked to the corporate priority of being a well-run council which puts customers first, and of delivering value for money.

**14 Equality and Diversity**

14.1 An EqIA was not completed because this report does not propose changes to existing service-related policies or the development of new service-related policies.

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