

FOR PUBLICATION

DERBYSHIRE COUNTY COUNCIL

AUDIT COMMITTEE

7 December 2021

Report of the Director of Finance & ICT

Appointment of External Auditor

1. Divisions Affected

1.1 County-wide.

2. Key Decision

2.1 This is not a Key Decision.

3. Purpose

3.1 To provide Audit Committee with details of the requirement for the Council to procure a new external auditor for the audit of the Council's accounts for 2023-24 and the four years thereafter.

3.2 For Audit Committee to note the options available for how to make the appointment and to approve the preferred option of again opting-in to the sector-led body, Public Sector Audit Appointments (PSAA), to undertake the procurement on behalf of the Council.

- 3.3 For Audit Committee to note that the decision to become an opted-in authority must be made by Full Council before 11 March 2022, which is the closing date to give notice to PSAA of the Council's acceptance of its invitation to participate in a sector-led approach to procurement.

4. Information and Analysis

Current Arrangements

- 4.1 The Council's current external auditor is Mazars. Their appointment on 14 December 2017 was made after Full Council opted-in to a sector-led approach to appointing an external auditor on 7 December 2016, approving the use of PSAA to undertake the procurement on behalf of the Council.
- 4.2 PSAA is an independent company limited by guarantee, incorporated by the Local Government Association (LGA) in August 2014. In July 2016, the Secretary of State specified PSAA as an 'appointing person' for principal local government bodies for audits from 2018-19, under the provisions of the Local Audit and Accountability Act 2014 (the Act) and the Local Audit (Appointing Person) Regulations 2015 (the Regulations). Acting in accordance with this role, PSAA is responsible for appointing auditors and setting scales of fees for relevant authorities that have chosen to opt-in to its national scheme, overseeing issues of auditor independence and monitoring compliance by the auditor with the contracts PSAA enters into with audit firms.
- 4.3 At the time of PSAA's appointment of the Council's current auditors, PSAA confirmed that they had applied the following principles in selecting audit firms for each authority:
- Ensuring auditor independence.
 - Meeting commitments to audit firms under the audit contracts.
 - Accommodating joint/shared working arrangements where relevant to the auditor's responsibilities.
 - Ensuring a balanced mix of authority types for each firm.
 - Taking account of each firm's principal locations.
 - Providing continuity of audit firm if possible but avoiding long appointments.
- 4.4 The current external auditor appointment covers the audits of five consecutive financial years, which commenced on 1 April 2018 and will come to an end on 31 March 2023.

Next Appointing Period

- 4.5 The external auditor for the audit of the Council's 2023-24 accounts, and for the four years thereafter, known as the next appointing period, must be appointed by 31 December 2022. The Council again has a choice about how to make that appointment.
- 4.6 On 22 September 2021, PSAA contacted the Council to again invite it to become an opted-in authority in accordance with the Regulations.
- 4.7 The closing date to give notice to PSAA of the Council's acceptance of its invitation to participate in a sector-led approach to procurement is 11 March 2022. A decision to become an opted-in authority must be made by the members of an authority meeting as a whole.
- 4.8 This means that the decision as to which option to use for the appointment of external auditors for the five-year period commencing 1 April 2023 must be made by Full Council before 11 March 2022.

Options for Local Appointment of External Auditors

- 4.9 There are three broad options for local appointment of external auditors open to the Council under the Act:
- Option 1 - Opt-in to a sector led body.
 - Option 2 - Make a stand-alone appointment.
 - Option 3 - Set up a Joint Auditor Panel/local joint procurement arrangements.

Preferred Option – Opt-in to a Sector-Led Body

- 4.10 The preferred option is Option 1, for the Council to again opt into the sector-led body, PSAA. The two other options, Options 2 and 3 in paragraph 4.8, to make a stand-alone appointment, or to set up joint auditor panel/local joint procurement arrangements, respectively, are considered in Section 6 of this report.
- 4.11 Opting-in to the local audit procurement by PSAA for the current arrangements was a success, with negligible internal cost of procurement in terms of time and expenditure, resulting in the appointment of a well-known, reliable, qualified, registered auditor, with whom the Council has built up a good working relationship over the appointing period, and reduced audit fees compared to previous years.

4.12 PSAA's primary aim for the procurement of audit services contracts for the next appointing period 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.

4.13 The objectives of the procurement are to maximise value for local public bodies by:

- Securing the delivery of independent audit services of the required quality.
- Awarding long term contracts to a sufficient number of firms to enable the deployment of an appropriately qualified auditing team to every participating body.
- Encouraging existing suppliers to remain active participants in local audit and creating opportunities for new suppliers to enter the market.
- Encouraging audit suppliers to submit prices which are realistic in the context of the current market.
- Enabling auditor appointments which facilitate the efficient use of audit resources.
- Supporting and contributing to the efforts of audited bodies and auditors to improve the timeliness of audit opinion delivery.
- Establishing arrangements that are able to evolve in response to changes to the local audit framework.

4.14 The PSAA scheme for the next appointing period will continue to build on the range of benefits already available for members:

- Transparent and independent auditor appointment via a third party.
- The best opportunity to secure the appointment of a qualified, registered auditor.
- Appointment, if possible, of the same auditors to bodies involved in significant collaboration/joint working initiatives, if the parties believe that it will enhance efficiency.
- On-going management of any independence issues which may arise.
- Access to a specialist PSAA team with significant experience of working within the context of the relevant regulations, to appoint auditors, manage contracts with audit firms, and set and determine audit fees.
- A value for money offer, based on minimising PSAA costs, with distribution of any surpluses to scheme members. In 2019 PSAA

returned a total £3.500m to relevant bodies, and more recently announced a further distribution of £5.600m in August 2021.

- Collective efficiency savings for the sector through undertaking one major procurement, as opposed to many smaller procurements.
- Avoids the necessity for local bodies to establish an auditor panel and undertake an auditor procurement, enabling time and resources to be deployed on other pressing priorities.
- Updates from PSAA to Section 151 Officers and Audit Committee Chairs on a range of local audit related matters, to better inform and support effective auditor-audited body relationships.

- 4.15 Although individual members would have less opportunity for direct involvement in the appointment process, other than through the LGA and/or stakeholder representative groups, this did not present the Council with any issues during the current arrangements.
- 4.16 In order for the PSAA to again be viable and to be placed in the strongest possible negotiating position, it needs councils to indicate their intention to opt-in before final contract prices are known. However, in respect of the current arrangements, the majority of eligible authorities opted-in, making it by far the most popular choice for the method by which to appoint local auditors. It therefore appears likely that PSAA's negotiating power will not be in doubt and best prices will be secured.
- 4.17 Acceptance of PSAA's invitation to opt-in means that an authority is opted-in for the duration of the compulsory appointing period. The only exception is where the authority ceases to exist, or the body ceases to fall within the classes of authorities for which PSAA is the appointing person.
- 4.18 For the avoidance of doubt, the opt-in also includes the audit of an authority's pension fund, where applicable. Pension funds are not separate legal entities from their administering local authority for audit, and are therefore not listed as relevant authorities in schedule 2 of the Local Audit and Accountability Act 2014. The auditor appointment to an opted-in local authority includes the audit of the pension fund where the authority is the administering body. The pension fund audit is subject to a separate engagement and scale audit fee, but the auditor appointment covers both the local authority and the pension fund. This applies to the Council, as administering authority for the Derbyshire Pension Fund.

PSAA Appointing Process

4.19 PSAA has supplied a form of notice of acceptance and this is attached at Appendix 2. The notice of acceptance must be sent by email to ap2@psaa.co.uk and must be received before midnight on 11 March 2022.

4.20 PSAA will confirm receipt of all notices of acceptance by e-mail.

5. Consultation

5.1 No consultation is required.

6. Alternative Options Considered

6.1 Alternative Options are set out below.

Option 2 – Make a Stand-alone Appointment

6.2 In order to make a stand-alone appointment the Council would need to set up an Auditor Panel. The members of the Panel must be made up wholly, or with a majority, of independent members, as defined by the Act. Independent members for this purpose are independent appointees. This excludes current and former Members (or officers) and their close families and friends. This means that Members would not have a majority input into assessing bids and choosing which firm of accountants to award a contract to for the Council's external audit.

6.3 Setting up an auditor panel would allow the Council to take maximum advantage of the new local appointment regime and have local input to the decision.

6.4 However, recruitment and servicing of the Auditor Panel, running the bidding exercise and negotiating the contract was estimated by the LGA, at the time of the first appointing period, to cost in the order of £0.015m plus on-going expenses and allowances.

6.5 Furthermore, the Council would not be able to take advantage of reduced fees that may be available through joint or national procurement contracts.

6.6 The assessment of bids and decision on awarding contracts would be taken by independent appointees and not solely by Members.

Option 3 - Set up a Joint Auditor Panel/Local Joint Procurement Arrangements

- 6.7 The Act enables the Council to join with other authorities to establish a Joint Auditor Panel. Again, this would need to be constituted wholly, or with 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 council under the Act. The Council would need to liaise with other local authorities to assess the appetite for such an arrangement.
- 6.8 The costs of setting up the Panel, running the bidding exercise and negotiating the contract would be shared across a number of authorities but this is unlikely to be to the same extent as would be available through opt-in to the sector-led body, the PSAA.
- 6.9 There would be greater opportunity for negotiating some economies of scale by being able to offer a larger, combined contract value to the firms.
- 6.10 The decision-making body would be further removed from being concerned with the Council's interests.
- 6.11 The choice of external auditor could be complicated where individual councils have independence issues. An independence issue occurs where the auditor has recently or is currently carrying out work such as consultancy or advisory work for that council. Where this occurs, some auditors may be prevented from being appointed by the terms of their professional standards. There is a risk that if the Panel choose a firm that is conflicted for this Council then the Council may still need to make a separate appointment with all the attendant costs and loss of economies possible through joint procurement.

7. Implications

- 7.1 Appendix 1 sets out the relevant implications considered in the preparation of the report.

8. Background Papers

- 8.1 Finance papers are held electronically by Financial Strategy, Finance & ICT, Room 137, County Hall.

9. Appendices

9.1 Appendix 1 – Relevant implications considered in the preparation of the report.

9.2 Appendix 2 – PSAA Form of Notice of Acceptance.

10. Recommendations

10.1 That Audit Committee:

- Notes the details of the requirement for the Council to procure a new external auditor for the audit of the Council's accounts for 2023-24 and the four years thereafter.
- Notes the options available in respect of how to make the appointment and recommends to Full Council that they support the preferred option of opting-in to the sector-led body, Public Sector Audit Appointments (PSAA), to undertake the procurement on behalf of the Council.
- Notes that the decision to become an opted-in authority must be made by Full Council before 11 March 2022.

11. Reasons for Recommendations

11.1 The Council Plan values commit to spending money wisely, making the best use of the resources that the Council has. Opting-in to the sector-led appointment of external auditors for the five-year appointing period commencing 1 April 2023 should achieve this by offering:

- Value for money - based on minimising PSAA costs, with distribution of any surpluses to scheme members.
- Collective efficiency savings - for the sector, through undertaking one major procurement, as opposed to many smaller procurements.
- Avoidance of the necessity for local bodies to establish an auditor panel and undertake an auditor procurement - enabling time and resources to be deployed on other pressing priorities.

11.2 The Council is committed to ensuring good financial management and compliance with applicable laws and regulations. Opting-in to the sector-led appointment of external auditors for the five-year appointing period commencing 1 April 2023 should achieve this by offering:

- Transparent and independent auditor appointment via a third party.

- The best opportunity to secure the appointment of a qualified, registered auditor.
- Appointment, if possible, of the same auditors to bodies involved in significant collaboration/joint working initiatives, if the parties believe that it will enhance efficiency.
- On-going management of any independence issues which may arise.
- Access to a specialist PSAA team with significant experience of working within the context of the relevant regulations, to appoint auditors, manage contracts with audit firms, and set and determine audit fees.

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This report has been approved by the following officers:

<p>On behalf of:</p> <p>Director of Finance and ICT Director of Legal Services and Monitoring Officer</p>	
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Implications

Financial

- 1.1 Under the preferred option set out in the report, opting-in to PSAA, the sector-led body, PSAA would consult on scale fees for the audit of the Council's 2023-24 accounts, and for the four years thereafter, once the bodies who have opted-in are finalised. The Council's external audit fee for 2020-21 is £0.097m, with a fee of £0.028m for the Pension Fund.
- 1.2 Additional fees for the 2019-20 audit, billed by an agreed fee variation, were £0.018m for the Council and £0.009m for the Pension Fund. Fee variations are determined in accordance with Section 17(2) of the Local Audit (Appointing Person) Regulations. This provides for additional fees to be charged where in PSAA's view, on the basis of information provided by the local auditor it has appointed, the work involved in a particular audit was substantially more than that envisaged by the scale fee set. Any additional fees for the 2020-21 audit will not be discussed or agreed until after the audit is completed. PSAA has published research into providing national guidance on agreeing fee variations for 2020-21 audits.
- 1.3 PSAA operates on a not-for-profit basis. The revenue it receives must cover the cost of auditors and its operating expenses. PSAA paid out surplus funds rebates to opted-in bodies, in proportion to their scale audit fees, in 2019 and 2021. The Council's 2021 rebate was £0.019m, with a rebate of £0.004m for the Pension Fund.
- 1.4 Total audit fees, including additional audit fees, have reduced over a number of years, as a result of the Council opting into the previous national procurement, when PSAA was established, and before that the procurement by its predecessor, the Audit Commission.

Legal

- 2.1 Section 7 of the Local Audit and Accountability Act 2014 (the Act) requires a relevant authority to appoint a local auditor to audit its accounts for a financial year not later than 31 December in the preceding year. Section 8 governs the procedure for appointment including that the authority must consult and take account of the advice of its auditor panel on the selection and appointment of a local auditor.

- 2.2 Section 12 makes provision for the failure to appoint a local auditor. In this event the authority must immediately inform the Secretary of State, who may direct the authority to appoint the auditor named in the direction or appoint a local auditor on behalf of the to any authority.
- 2.3 Section 17 gives the Secretary of State the power to make regulations in relation to an 'appointing person' specified by the Secretary of State. This power has been exercised in the Local Audit (Appointing Person) Regulations 2015 (SI 192) and this gives the Secretary of State the ability to enable a Sector Led Body to become the appointing person.

Human Resources

- 3.1 None.

Information Technology

- 4.1 None.

Equalities Impact

- 5.1 None.

Corporate objectives and priorities for change

- 6.1 The Council Plan values commit to spending money wisely, making the best use of the resources that the Council has.
- 6.2 The Council is committed to ensuring good financial management and compliance with applicable laws and regulations.

Other (for example, Health and Safety, Environmental Sustainability, Property and Asset Management, Risk Management and Safeguarding)

- 7.1 None.

PSAA Form of Notice of Acceptance**Appointing Period 2023-24 to 2027-28****Form of notice of acceptance of the invitation to opt in**

(Please use the details and text below to submit to PSAA your body's formal notice of acceptance of the invitation to opt into the appointing person arrangements from 2023)

Email to: ap2@psaa.co.uk

Subject: **Derbyshire County Council**

Notice of acceptance of the invitation to become an opted-in authority

This e-mail is notice of the acceptance of your invitation dated 22 September 2021 to become an opted-in authority for the audit years 2023-24 to 2027-28 for the purposes of the appointment of our auditor under the provisions of the Local Audit and Accountability Act 2014 and the requirements of the Local Audit (Appointing Person) Regulations 2015.

I confirm that **Derbyshire County Council** has made the decision to accept your invitation to become an opted-in authority in accordance with the decision making requirements of the Regulations, and that I am authorised to sign this notice of acceptance on behalf of the authority.

Name: **[insert name of signatory]**

Title: **[insert role of signatory]** (authorised officer)

For and on behalf of: **Derbyshire County Council**

Date: **[insert date completed]**