



**FOR PUBLICATION**

**DERBYSHIRE COUNTY COUNCIL**

**AUDIT COMMITTEE**

**29 November 2022**

**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 For Audit Committee to note the proposed appointment by Public Sector Audit Appointments (PSAA) of Mazars, as the external auditor of Derbyshire County Council and the Derbyshire Pension Fund for five years from 2023-24, and the Council's acceptance of the proposed appointment.

**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.
- 4.2 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**

- 4.3 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. On 22 September 2021, PSAA contacted the Council to again invite it to become an opted-in authority in accordance with the Regulations.
- 4.4 On 7 December 2021, Audit Committee:
- Noted 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.
  - Noted the options available in respect of how to make the appointment and recommended to Full Council that they support the preferred option of opting-in to the sector-led body to undertake the procurement on behalf of the Council.
  - Noted that the decision to become an opted-in authority must be made by Full Council before 11 March 2022.
- 4.1 On 2 February 2022, Full Council approved that the Council becomes an opted-in authority for the appointment of external auditors for the five-year period commencing 1 April 2023, and on 4 February 2022, PSAA were provided with the Council’s completed ‘Form of notice of acceptance of the invitation to opt-in’ for the appointing period 2023-24 to 2027-28.

## Proposed Appointment

- 4.2 On 3 October 2022, PSAA wrote to inform the Council of the outcome of its procurement to let audit contracts from 2023-24. Mazars was successful in winning a contract in the procurement, and on 17 October 2022, PSAA wrote to inform the Council that it is proposing appointing them as the auditor of Derbyshire County Council and the Derbyshire Pension Fund for five years from 2023-24.
- 4.3 This PSAA proposed appointment is welcome news and represents continuity for the audits of Derbyshire County Council and the Derbyshire Pension Fund.
- 4.4 In developing appointment proposals PSAA has considered information provided to them by both opted-in bodies and audit firms, and has had regard to and sought to balance a range of factors including:
- auditor independence, the most critical of all the factors;
  - joint/shared working arrangements and information from bodies, where it has prioritised those requests that are most relevant to the auditor's responsibilities;
  - its commitments to the firms under the audit contracts;
  - bodies' main offices and firms' geographical preferences;
  - the status of prior years' audits; and
  - continuity of auditor where appropriate.
- 4.5 Following consultation with the Audit Committee Chair and the Council's Managing Director, the Council contacted PSAA by the closing date of 14 November 2022, to confirm that it is satisfied with the proposed appointment.

## Confirmation of Auditor Appointment

- 4.9 PSAA plan to write to all bodies to confirm the final decision on the appointment of their auditor on or before 31 December 2022.

## Contract Changes

- 4.10 PSAA contracts for audit services from 2023-24 have several differences to those in place for the audits of 2018-19 to 2022-23. Key changes have been made in response to client feedback, including payment terms linked to delivery stages of an audit and additional contract management measures within those permissible with the local audit context.

- 4.11 The new contract also includes new limits on supplier liabilities as follows:
- loss of or damage to property £2,000,000 per claim;
  - loss in relation to a failure to perform the services in accordance with the Contract or any other loss caused directly by any act or omission of the supplier £10,000,000 per claim; and
  - any loss incurred arising from non-compliance with the Data Protection Legislation £5,000,000 per claim.

### **Scale Fees for 2023-24**

- 4.12 PSAA will consult formally on scale fees for 2023-24 in Autumn 2023, and will publish confirmed scale fees for 2023-24 for opted-in bodies on its website by 30 November 2023.
- 4.13 PSAA advice to bodies is to anticipate a fee increase of the order of 150% on the total fees for 2022-23. For illustrative purposes, the Council's £0.129m audit fees for the 2020-21 Derbyshire County Council audit, which was the last Derbyshire County Council audit completed (with a £0.097m scale fee and fee variations of £0.032m), could increase to give a total audit fee of £0.323m in 2023-24. The Derbyshire Pension Fund's £0.031m audit fees for the 2020-21 audit (with a scale fee of £0.022m and fee variations of £0.009m), could increase to give a total audit fee of £0.078m in 2023-24. It should be noted that the actual total fees will depend on the amount of work required.
- 4.14 PSAA has noted that the extent of this likely increase in audit fees will pose a significant funding challenge for local bodies already facing a daunting range of financial pressures. PSAA has raised this with the Department for Levelling Up, Housing and Communities (DLUHC) for consideration.

## **5. Consultation**

- 5.1 No consultation is required.

## **6. Alternative Options Considered**

- 6.1 N/A – for Audit Committee to note the report contents.

## **7. Implications**

- 7.1 No implications – for Audit Committee to note the report contents.

## **8. Background Papers**

- 8.1 N/A.

## **9. Appendices**

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

## **10. Recommendations**

That Audit Committee:

- 10.1 Notes the proposed appointment by Public Sector Audit Appointments (PSAA) of Mazars, as the external auditor of Derbyshire County Council and the Derbyshire Pension Fund for five years from 2023-24, and the Council's acceptance of the proposed appointment.

## **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 achieved 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 achieved 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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## Implications

### Financial

- 1.1 PSAA advice to bodies is to anticipate a fee increase of the order of 150% on the total fees for 2022-23. For illustrative purposes, the Council's £0.129m audit fees for the 2020-21 Derbyshire County Council audit, which was the last Derbyshire County Council audit completed (with a £0.097m scale fee and fee variations of £0.032m), could increase to give a total audit fee of £0.323m in 2023-24. The Derbyshire Pension Fund's £0.031m audit fees for the 2020-21 audit (with a scale fee of £0.022m and fee variations of £0.009m), could increase to give a total audit fee of £0.078m in 2023-24.
- 1.2 It should be noted that the actual total fees will depend on the amount of work required. 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. PSAA has published research into providing national guidance on agreeing fee variations.
- 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 Derbyshire 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. PSAA has noted that the extent of this likely increase in audit fees will pose a significant funding challenge for local bodies already facing a daunting range of financial pressures. PSAA has raised this with the Department for Levelling Up, Housing and Communities (DLUHC) for consideration.

### 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 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.