

**Open Report on behalf of Andrew Crookham - Executive Director - Resources**

Report to:	<b>Audit Committee</b>
Date:	<b>15 November 2021</b>
Subject:	<b>Auditor Appointment</b>

**Summary:**

The current contract with our external auditors ends on 31 March 2023. This report summarises the options available for procuring the next external auditor contract and includes background information to help inform the recommendation.

**Recommendation:**

It is recommended that the Audit Committee makes the following proposal to Council on 18 February 2022: that the Council opts into the national sector-led procurement and appointment of external auditors for the contract period of 1 April 2023 to 31 March 2028.

**Background**

The Legal Framework and Requirements

- 1.1 The Local Audit and Accountability Act 2014 sets out that the accounts of a relevant authority (Lincolnshire County Council is a relevant authority) must be audited in accordance with the provisions of the Act and by an auditor appointed in accordance with the Act and its provisions.
- 1.2 Under this Act, local authorities have three options with regards to the appointment of external auditors:
  - Option 1: to make a standalone appointment using an Auditor Panel as required by section 9 of the Act. The members of the panel must be wholly or a majority independent members as defined by the Act. Independent members for this purpose are independent appointees and this excludes current and former elected members (or officers) and their close families and friends. The decision to appoint remains with the Council but the Council must, under section 8 of the Act, consult and take into account the advice of the Auditor Panel on the selection and appointment of its auditor.

- Option 2: to set up joint procurement arrangements with other local authorities using a joint Auditor Panel in accordance with the Act as described under option 1.
- Option 3: to opt into the national auditor appointment arrangements whereby Public Sector Audit Appointments (PSAA) Limited undertakes the procurement and appoints external auditors to each participating authority. PSAA Limited is a not for profit company which was specified by the Secretary of State for Housing Communities and Local Government in 2016 as an “appointing person” for external audit services for local government bodies. This function arises from the Local Audit and Accountability Act 2014 and the Local Audit (Appointing Person) Regulations 2015.

1.3 The auditor appointment to an opted-in local authority includes the audit of the pension fund where the authority is the administering body.

1.4 If an authority would like to opt into the national auditor appointment arrangements, the decision to opt in must be made by full Council and the form of acceptance notice must be returned to PSAA Limited by 11 March 2022. The national procurement will result in a contract which runs for five years from 1 April 2023 to 31 March 2028.

#### The Advantages and Disadvantages of the National Auditor Appointment Arrangements

1.5 The main advantages of the national scheme are that:

- PSAA Limited has experience of doing this for the 2018 auditor appointments and can build on that experience. The PSAA is currently the appointing body for 98% of principal local authority audits ;
- PSAA Limited has technical knowledge of the evolving local audit framework and regulations which will help to inform the procurement;
- PSAA Limited has the stated aim of procuring an audit service of the required quality at a realistic market price, and to support the drive towards a long term competitive and more sustainable market;
- PSAA limited will carry out on-going contract management activity including scrutiny of fee variation proposals;
- Collective procurement is a more efficient solution which is less time consuming for both councils and auditors and creates economies of scale;
- Economies of scale are likely to provide lower cost audit fees, although given the changes in requirements from the last procurement; it seems inevitable that there will be some cost increase;
- There is minimal risk of no interest in the procurement and audit contract, which could be a risk of undertaking the procurement locally, with Audit Companies focusing on the larger contracting opportunity;
- The government has committed to supporting PSAA in focusing on market development and sustainability of local audit going forward.

- 1.6 The main disadvantages of the national scheme are that:
- There is no opportunity for LCC to be directly involved in the appointment process, although the scope of local audit is fixed as it is defined by statute and accounting and auditing codes so there would be little scope for developing a bespoke contract. It should be noted that opting for a local appointment would mean that LCC would have to take account of the recommendation of the independent panel when making the appointment;
  - Once an authority has opted in it is committed to the arrangement without any knowledge of what the costs will be.

#### Current External Auditor Appointment

- 1.7 On 16 December 2016 this Council resolved to opt into the national auditor appointment arrangements and use PSAA Limited to procure and appoint the Council's external auditor. This was the first time this option under the Act had been exercised and the resulting appointment of Mazars Limited as the Council's external auditor runs from the 2018/19 financial year to the 2022/23 financial year. The vast majority of councils opted into the first national procurement.

#### Developments with regards to External Audit since 2018/19

- 1.8 As reported to this Committee on 19 March 2021, the external audit of public bodies has been under some scrutiny in recent years. There have been a number of reviews of external audit and one of these was the Redmond Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting. One of the key findings of this review was that the local audit market had become unstable and that there was a need to revise the current fee structure to ensure that adequate resources could be deployed to carry out audit work. The government accepted a recommendation to increase audit fees and has since consulted on this. Additional funding has been pledged to cover additional fees in 2021/22.
- 1.9 In May 2021 the government published a policy paper 'Local authority financial reporting and external audit: spring update' adding to their response to the recommendations made in the Redmond Review. Recognising the lack of coherence between the different functions within the existing local audit system, the government has committed to formalising a function to provide systems leadership in local audit.
- 1.10 The government has also committed to the continuation of the PSAA being the appointing body for the next procurement round, but will be updating the Memorandum of Understanding to undertake this role. The updated MOU will reflect the expectation that the next procurement exercise includes a strong focus on market development, to support the long-term competitiveness and sustainability of the market. The government will be providing additional support to PSAA to help with this and will expect PSAA to work closely with local bodies and audit firms to deliver a positive outcome for all parties

- 1.11 It is clear that external auditors now have to undertake additional work in the course of their audits. This is partly because the updated Audit Code of Practice requires this, but also because some key risks around issues like property and pensions valuations as well as local authority financial sustainability need to be examined in more detail.

### Financial Information

- 1.12 Lincolnshire County Council's scale audit fee is £82,640. We received a fee variation charge in 2020/21 of £750 for the additional work carried out on the pension funds arising from the Guaranteed Minimum Pension issue and the McCloud legal case relating to the 2018/19 accounts.
- 1.13 We received a fee variation charge in 2021/22 of £19,293 which related to the audit of the 2019/20 accounts. This comprised £12,273 for additional work as a result of changes in regulatory audit quality expectations, £4,898 for scope changes caused by Covid-19, £1,246 for additional work on pensions due to the McCloud and Goodwin cases, and £876 for work on the Energy from Waste valuation. In total the fee in 2021/22 will therefore be £101,933.
- 1.14 It is likely that the £12,273 additional fee will continue into the remaining years of the current contract and it is assumed that the next contract will result in higher fees of a similar size. The budget for external audit fees already includes a contingency for fee variations so if our assumptions are correct then it is likely that the increased fees expected can mostly be managed without increasing the budget. If the fees increase to a higher level than this, it is likely to still be a relatively small cost in the context of the Council's overall budget.
- 1.15 Lincolnshire Pension Fund's scale audit fee is £18,750. We received a fee variation in 2019/20 of £9,000. £3,000 for additional testing in relation to the triennial valuation and £6,000 for additional work on unquoted investments in response to increased regulatory expectations. In 2020/21 we received an additional charge of £6,000, again, for additional work on unquoted investments. It is likely that the £6,000 additional fee will continue for the remaining years of the contract. These costs are charged directly to the pension fund.
- 1.16 Given the change in requirements of the work undertaken by the external auditors we are likely to see an increase in the fee charges at the end of the current arrangements. This will be regardless of the chosen option going forward, but undertaking the procurement locally increases the risk of the level of potential increase in cost.

### **Conclusion**

- 2.1 There are more advantages than disadvantages to opting into the national arrangements and for this reason the Audit Committee is asked to recommend this as a proposal to full Council to consider at its meeting on 18 February 2022.

## Consultation

### a) Risks and Impact Analysis

The scope of the external audit contract is determined by statute and by accounting and auditing regulations, and PSAA Limited will consult with the sector on issues such as contract quality and tender evaluation. This will mitigate against any contract risk.

The timeliness of delivering audits to the statutory timescale has been a widespread issue over the last two years within the current contract, and PSAA Limited has said that it wants to see the earliest possible return to a position in which virtually all local bodies are able to publish their audited accounts by the target date specified in the Accounts and Audit Regulations.

## Appendices

These are listed below and attached at the back of the report	
Appendix A	Invitation to opt into the national scheme for auditor appointments

## Background Papers

No background papers within Section 100D of the Local Government Act 1972 were used in the preparation of this report.

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