

## Audit Committee – 24 February 2023

<b>Title of paper:</b>	<b>Appointment of External Auditor</b>	
<b>Director(s)/ Corporate Director(s):</b>	Ross Brown – Corporate Director of Finance & Resources	<b>Wards affected:</b> All
<b>Report author(s) and contact details:</b>	Shail Shah – Head of Audit & Risk	
<b>Other colleagues who have provided input:</b>		
<b>Recommendation(s):</b>		
<b>1</b>	That the Committee note the appointment by Public Sector Audit Appointments Ltd (PSAA) of Grant Thornton to continue as the external auditor for the Council for five financial years from 2023/24 to 2027/28, and that notice of the appointment has been published on the Council's website as required.	

### 1 Reasons for recommendations

1.1 The Audit Committee's terms of reference include to:

- oversee internal audit and external audit, helping to ensure efficient and effective assurance arrangements are in place;

1.2 Arrangements have now been put in place for the financial years 2023/24 to 2027/28 following the process shown in Fig. 1.

### 2 Background

2.1 At the Audit Committee's meeting in November 2021 a report was brought recommending endorsement of the proposal to accept PSAA's invitation to opt into the sector-led option for the appointment of external auditors to principal local government and police bodies for five financial years from 1 April 2023.

2.2 Members accepted that this was the best option to manage risks and value for money, and in January 2022 Council agreed to procure external auditors in this way. PSAA was subsequently notified of the Council's decision to opt in.

#### **The Role of the Appointed Auditor**

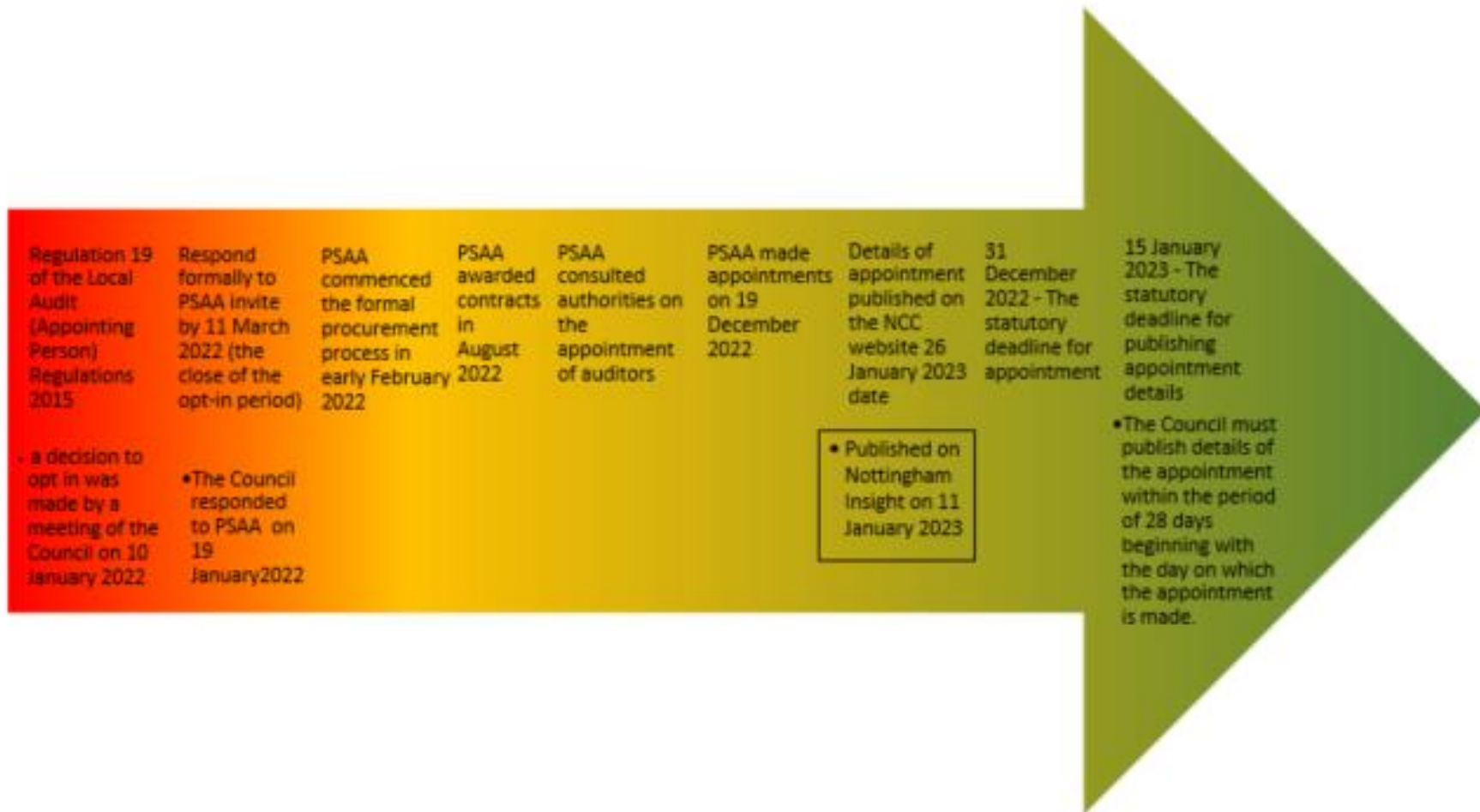
2.3 The auditor is appointed to undertake the statutory audit of accounts and Best Value assessment of the council in each financial year, in accordance with all relevant codes of practice and guidance. The appointed auditor is also responsible for investigating questions raised by electors and has powers and responsibilities in relation to Public Interest Reports and statutory recommendations.

2.4 The auditor must act independently of the council and the main purpose of the procurement legislation is to ensure that the appointed auditor is sufficiently qualified and independent.

2.5 The auditor must be registered to undertake local audits by the Financial Reporting Council (FRC) and employ authorised Key Audit Partners to oversee the work. As the report below sets out there is a currently a shortage of registered firms and Key Audit Partners.

2.6 Auditors are regulated by the FRC, which will be replaced by a new body with wider powers, the Audit, Reporting and Governance Authority (ARGA) in April 2023.

Fig 1. The process to appoint an external auditor for 2023/24 to 2027/28



- 2.7 The scope of a local audit is determined by the Code of Audit Practice (currently published by the National Audit Office it will in due course transfer to the system leader, ARGA), the format of the financial statements (specified by CIPFA/LASAAC) and the application of auditing standards currently regulated by the FRC. The requirements are mandatory; they shape the work auditors undertake and have a bearing on the actual fees required.
- 2.8 Councils therefore have very limited influence over the nature of the audit services they are procuring, the nature and quality of which are determined or overseen by third parties.

### **Current Arrangements**

- 2.9 The current auditor appointment arrangements cover the period up to and including the audit of the 2022/23 accounts. The Council opted into the 'appointing person' national auditor appointment arrangements established by Public Sector Audit Appointments (PSAA) for the period covering the accounts for 2018/19 to 2022/23. Following a national procurement exercise PSAA appointed Grant Thornton to audit the accounts for these periods. PSAA's current policy on rotation of key staff would preclude the selection of the current Key Audit Partner from 2023 and in practice PSAA prefers shorter terms for audit firm appointments too.
- 2.10 For administrative convenience, PSAA requires audit firms to bill opted-in bodies on its behalf and to act as its agents to collect fees. PSAA invoices firms at the scale fee adjusted for the firm's agreed remuneration. Firms are required to update quarterly work in progress returns with the amount of work they have completed in the quarter to establish the percentage complete. The revenue received by PSAA is to cover directly the costs of the auditors and the operating expenses of PSAA. If at the end of the period there is a remaining surplus or a shortfall, as a result of expenses being over or under-estimated, revenue is adjusted to the actual amount receivable from the opted-in bodies and payable by PSAA in total. Surpluses have been paid out to opted in bodies in recent years.

### **The scheme for 2023/24 to 2027/28**

- 2.11 The PSAA scheme provides the following:
- the appointment of a suitably qualified audit firm to conduct audits for each of the five financial years commencing 1 April 2023;
  - appointing the same auditor to other opted-in bodies that are involved in formal collaboration or joint working initiatives to the extent this is possible with other constraints;
  - managing the procurement process to ensure both quality and price criteria are satisfied. PSAA has sought views from the sector to help inform its detailed procurement strategy;
  - ensuring suitable independence of the auditors from the bodies they audit and managing any potential conflicts as they arise during the appointment period;
  - minimising the scheme management costs and returning any surpluses to scheme members;
  - consulting with authorities on auditor appointments, giving the Council the opportunity to influence which auditor is appointed;
  - consulting with authorities on the scale of audit fees and ensuring these reflect scale, complexity, and audit risk; and
  - ongoing contract and performance management of the contracts once these have been let.
  - supporting the sector-led body offers the best way of to ensuring there is a continuing and sustainable public audit market into the medium and long term.
- 2.12 PSAA will:
- seek to encourage realistic fee levels and to benefit from the economies of scale associated with procuring on behalf of a significant number of bodies;
  - continue to pool scheme costs and charge fees to opted-in bodies in accordance with the published fee scale as amended following consultations with scheme members and other interested parties (pooling means that everyone within the scheme will

benefit from the prices secured via a competitive procurement process – a key tenet of the national collective scheme);

- continue to minimise its own costs, around 4% of scheme costs, and as a not-for-profit company will return any surplus funds to scheme members. In 2019 it returned a total £3.5million to relevant bodies and in 2021 a further £5.6million was returned.

## **Implications**

2.13 The following implications were provided as part of the report to Council in 2022.

### **Financial Implications:**

- 2.14 The PSAA fees are incorporated in external audit charges.
- 2.15 There is a risk that current external audit fee levels could increase when the current contracts end. It is clear that the scope of audit has increased, requiring more audit work. There are also concerns about capacity and sustainability in the local audit market.
- 2.16 Opting into a national scheme provides maximum opportunity to ensure fees are as realistic as possible, while ensuring the quality of audit is maintained, by entering into a large scale collective procurement arrangement.

### **Legal and Procurement comments (if applicable) including risk management considerations:**

- 2.17 Section 7 of the Local Audit and Accountability Act 2014 requires a relevant Council to appoint a local auditor to audit its accounts for a financial year not later than 31 December in the preceding year.
- 2.18 Section 8 governs the procedure for appointment including that the Council must consult and take account of the advice of its auditor panel on the selection and appointment of a local auditor. Section 8 provides that where a relevant council is a local council operating executive arrangements, the function of appointing a local auditor to audit its accounts is not the responsibility of an executive of the Council under those arrangements. A notice detailing the appointment and length of the appointment must be published on the Council's website within 28 days of the appointment being made.
- 2.19 Section 12 makes provision for the failure to appoint a local auditor. The Council must immediately inform the Secretary of State, who may direct the Council to appoint the auditor named in the direction or appoint a local auditor on behalf of the Council.
- 2.20 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. In July 2016 the Secretary of State specified PSAA as the appointing person.

## **3 Background papers other than published works or those disclosing exempt or confidential information**

### **4 Published documents referred to in compiling this report**

- [PSAA directory of auditor appointments from 2023/24](#)
- [Notice of Appointment of Local Auditor from 2023-24](#)
- [About the Council - Nottingham City Council](#)
- Audit Committee 26<sup>th</sup> November 2021 Retender of External Audit for 2023/24 to 2027/28
- Council 10<sup>th</sup> January 2022 Retender of External Audit for 2023/24 to 2027/28