



## Hinckley & Bosworth Borough Council

Forward timetable of consultation and decision making

Audit Committee	25 August 2021
Council	5 October 2021

Wards affected: All

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### Arrangements for appointing External Auditors

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Report of Section 151 Officer

#### **1. Purpose of report**

- 1.1 This report summarises the arrangements for appointing External Auditors
- 1.2 The Council has a statutory responsibility to appoint an external auditor to audit its accounts. During the autumn of 2021 all local government and police bodies will need to make important decisions about their external audit arrangements for the period commencing from the financial year 2023/24.

#### **2. Recommendation**

- 2.1 That Council agree the Audit Committee's preferred option to continue to be an opted-in authority for the appointment of External Audit.

#### **3. Background to the report**

- 3.1 The Local Audit and Accountability Act 2014 (the Act) brought to a close the Audit Commission and the arrangements for the appointment of external auditors and the setting of audit fees for all local government and NHS bodies in England.
- 3.2 The Council's current external auditor Ernst & Young LLP, were appointed under a contract managed by Public Sector Audit Appoints Ltd (PSAA). PSAA was set up by the Local Government Association (LGA) with delegated authority from the Secretary of State for Communities and Local Government.

This appointment comes to end in the year 2022/23, with a new appointment being needed for the year 2023/24.

- 3.3 The Council will have to make arrangements to appoint auditors when the current contract comes to an end. There are a number of options by which this can be achieved. This requires the Audit Committee to recommend an option to full Council for the final decision to be made a decision by the full Council.

#### **Current option used for the appointment of External Audit (Audit Committee's preferred Option)**

- 3.4 As noted above, our current External Audit provider was appointed under the PSAA procurement contract. Current scale fees are based on rates negotiated by PSAA and reflect market share offered in framework contracts. If the Council wishes to remain in the PSAA framework, and allow PSAA to continue to manage the appointment of the external auditors, it can do so. PSAA are sending an to "opt in" to the PSAA scheme email in September 2021 to the Section 151 Officer, and ideally require a decision before the end of the calendar year, but the latest we can leave it is the 4 March 2022. PSAA operate a sector-wide procurement that they argue would produce better outcomes and will be less burdensome for the Council than any procurement undertaken locally. More specifically:

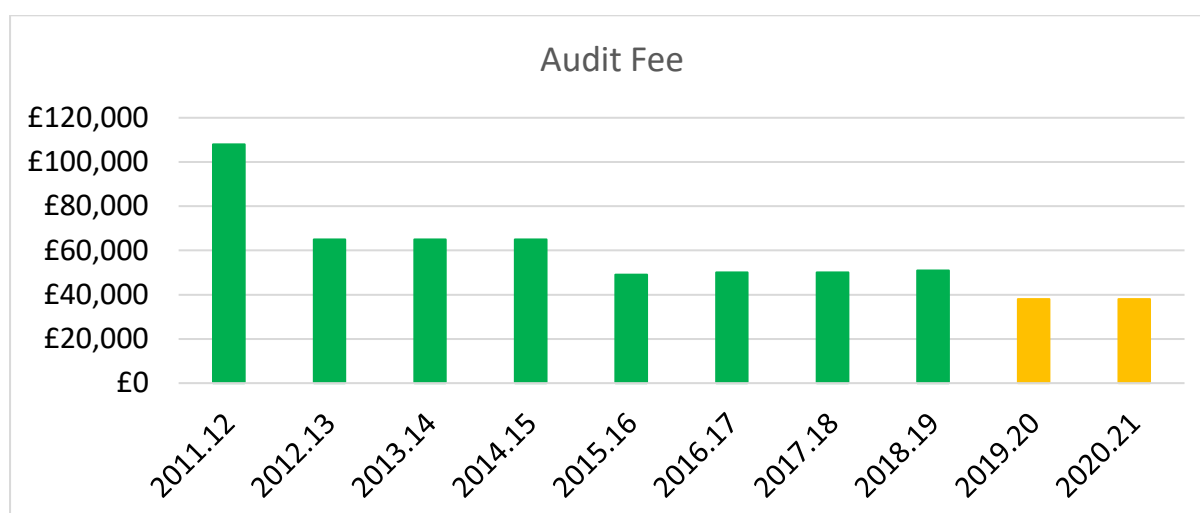
- The audit costs are likely to be lower than if the Council/Authority sought to appoint locally, as national large-scale contracts are expected to drive keener prices from the audit firms;
- Without the national appointment, the Council would need to establish a separate independent auditor panel, which could be difficult, costly and time-consuming;
- PSAA can ensure the appointed auditor meets and maintains the required quality standards and can manage any potential conflicts of interest much more easily than the Council/Authority;
- Supporting the sector-led body will help to ensure there is a vibrant public audit market for the benefit of the whole sector and this Council/Authority going forward into the medium and long term.

#### **Advantages / benefits**

- 3.17 The costs of setting up the appointment arrangements and negotiating fees would be shared across all opt-in authorities. By offering large contract values, the firms would be able to offer better rates and lower fees than are likely to result from local negotiation. Any conflicts at individual authorities would be managed by the Sector-led Body who would have a number of contracted firms to call upon. The selection process would not be ceded to locally appointed independent members. Instead a separate body is set up to act in the collective interests of the 'opt-in' authorities.

## Disadvantages / risks

- 3.18 Individual elected members will have less opportunity for direct involvement in the appointment process other than through the LGA and / or stakeholder representative groups.
- 3.19 In order for the Sector-led Body to be viable and to be placed in the strongest possible negotiating position it will need Councils to indicate their intention to opt-in before final contract prices are known.
- 3.20 There is less control over the contract length and deciding who will be the external auditors appointed.
- 3.21 In practice, the lower scale fees have not always been delivered, due to local variations, but the fees have remained much lower than prior to the PSAA involvement, and EY have delivered the lowest level of fees since 2011/12 even with local variations. Therefore the cost of Audit fees is lower than historical comparators to the last years of the Audit Commission regime, and during the transition to PSAA being established (See Graph and Table below).



	2011. 12	2012. 13	2013. 14	2014. 15	2015. 16	2016. 17	2017. 18	2018. 19	2019. .2	2020. 21
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
External Audit Fee	108	65	65	65	49	50	50	38	38	38
Variations	0	0	0	0	0	0	0	13	TBC	TBC
<b>Total Audit Fee</b>	<b>108</b>	<b>65</b>	<b>65</b>	<b>65</b>	<b>49</b>	<b>50</b>	<b>50</b>	<b>51</b>	<b>38</b>	<b>38</b>
External Auditors	PWC	PWC	PWC	PWC	EY	EY	EY	EY	EY	EY
Audit Contract	AC	AC	AC	AC	PSAA	PSAA	PSAA	PSAA	PSAA	PSAA

Note: AC= Audit Commission

## **Other Options for local appointment of External Auditors**

Option One: To make a stand-alone appointment

- 3.4 In order to make a stand-alone appointment the Council will need to set up an Auditor Panel. The members of the panel must be wholly (or a majority) of independent members as defined by the Act. Independent members for this purpose are independent appointees; this excludes current and former elected members (or officers) and their close families and friends. This means that elected members will not have a majority input to assessing bids and choosing which firm of accountants to award a contract for the Council's external audit. A new independent auditor panel established by the Council will be responsible for selecting the auditor.

Advantages / benefits

- 3.7 Setting up an auditor panel allows the Council to take advantage of the new local appointment regime and have local input to the decision. Also, the Council will have full control over which external audit company will be appointed.

Disadvantages / risks

- 3.8 Recruitment and servicing of the Auditor Panel, running the bidding exercise and negotiating the contract is estimated by the LGA to cost in the order of £15,000-£20,000 plus ongoing expenses and allowances.
- 3.9 The Council will not be able to take advantage of reduced fees that may be available through joint or national procurement contracts compared to trying to make a local appointment.
- 3.10 The assessment of bids and decision on awarding contracts will be taken by independent appointees and not solely by elected members.
- 3.11 It is highly unlikely that a lower fee will be obtained than if PSAA were used, and we may not get any interest from External Auditors not present at other local authorities. This would mean effectively having to use PSAA appointed auditors that had won regional audits in the area as firms would not want to service a small number or cluster of audits unless fees were significantly higher.

Option 2: Set up a Joint Auditor Panel/local joint procurement arrangements

- 3.11 The Council can join with other authorities to establish a joint auditor panel. Again this will need to be constituted of wholly or a majority of independent appointees (members). Further legal advice will be required on the exact

constitution of such a panel having regard to the obligations of each Council under the Act and the Council would need to liaise with other local authorities to assess the appetite for such an arrangement.

#### Advantages/benefits

- 3.12 The costs of setting up the panel, running the bidding exercise and negotiating the contract will be shared across a number of authorities.
- 3.13 There is greater opportunity for negotiating some economies of scale by being able to offer a larger combined contract value to the firms.

#### Disadvantages/risks

- 3.14 The decision-making body will be further removed from local input, with potentially no input from elected members (where a wholly independent auditor panel is used) or possibly only one elected member representing each Council, depending on the constitution agreed with the other bodies involved.
- 3.15 The choice of 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 the 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 joint auditor panel choose a firm that is conflicted for this Council, for example PWC who supply Internal Audit services, then the Council may still need to make a separate appointment with all the attendant costs and loss of economies possible through joint procurement.
- 3.16 It is highly unlikely that a lower fee will be obtained than if PSAA were used, and we may not get any interest from External Auditors not present at other local authorities. This would mean effectively having to use PSAA appointed auditors that had won regional audits in the area as firms would not want to service a small number or cluster of audits unless fees were significantly higher.

#### **4. Exemptions in accordance with the Access to Information procedure rules**

- 4.1 This report can be taken in open session

#### **5. Financial implications (AW)**

- 5.1 There is an expectation that current external fees levels are likely to increase when the current contracts ends irrespective of how appointed.
- 5.2 The cost of establishing a local or joint Auditor Panel outlined in options 1 and 2 above will need to be estimated and included in the Council's budget in 2022/23. This will include the cost of recruiting independent appointees

(members), servicing the Panel, running a bidding and tender evaluation process, letting a contract and paying members fees and allowances.

- 5.3 Opting-in to a national SLB provides some opportunity to limit the extent of any increases by entering in to a large scale collective procurement arrangement and would remove the costs of establishing an auditor panel. However, additional work is required to establish who would be included. It is likely many councils will remain with PSAA due to ease of appointment procedures.

## **6. Legal implications (MR)**

- 6.1 Local Audit and Accountability Act 2014 (Part 3) gives powers to appoint auditors. In July 2016, the 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.
- 6.2 The implications arising therefrom in relation to the audit of the council's accounts are set out in the report

## **7. Corporate Plan implications**

- 7.1 Adoption of the proposal in this paper will contribute to the achievement of the following Corporate Aim of Empowering communities

## **8. Consultation**

- 8.1 At the time of writing the report, initial views from some of the other local councils in the Leicestershire area are they will be remaining with PSAA.

## **9. Risk implications**

- 9.1 It is the council's policy to proactively identify and manage significant risks which may prevent delivery of business objectives.
- 9.2 It is not possible to eliminate or manage all risks all of the time and risks will remain which have not been identified. However, it is the officer's opinion based on the information available, that the significant risks associated with this decision / project have been identified, assessed and that controls are in place to manage them effectively.
- 9.3 There is no immediate risk to the Council, however, early consideration by the Council of its preferred approach will enable detailed planning to take place so as to achieve successful transition to the new arrangement in a timely and efficient manner.

## **10. Knowing your community – equality and rural implications**

10.1 The Financial Statements and the audit process will allow local communities and groups to review the financial performance and stewardship of the Council.

## **11. Climate implications**

11.1 The Financial statements can be used as a mechanism for the reporting of the council impact on climate change via sustainability reporting. The public sector reporting requirements on this issue are likely to move more towards those in the private sector over time. Action would be needed to introduce this non-finical element to the financial statements to report to members and local residents how the council was performing against its declared climate emergency targets.

## **12. Corporate implications**

12.1 By submitting this report, the report author has taken the following into account:

- Community safety implications
- Environmental implications
- ICT implications
- Asset management implications
- Procurement implications
- Human resources implications
- Planning implications
- Data protection implications
- Voluntary sector

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Background papers: None

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