

Audit and Risk Committee

6 December 2021

Report title	Appointment of the External Auditor	
Accountable director	Claire Nye, Finance	
Originating service	Audit	
Accountable employee	Peter Farrow Tel Email	Head of Audit 01902 554460 peter.farrow@wolverhampton.gov.uk
Report to be/has been considered by	Not applicable	

Recommendation for decision:

The Audit and Risk Committee is recommended to:

1. Recommend to Council that the Council takes up the invitation from Public Sector Audit Appointments to opt into the national scheme for auditor appointments from April 2023.

1.0 Purpose

- 1.1 To consider the options available and recommend that the Council takes up the invitation from Public Sector Audit Appointments (PSAA) to opt into the national scheme for auditor appointments from April 2023.

2.0 Background

- 2.1 The arrangement with our current external auditors Grant Thornton expires in 2022-2023, and a new external auditor (which includes the independent audit of the Council's statutory accounts and arrangements for achieving value for money) has to be appointed before the end of December 2022.
- 2.2 The secretary of State has confirmed PSAA in the role of appointing person for eligible principal bodies for the period commencing April 2023.
- 2.3 In September 2021 the Council received an invitation from PSAA to opt into the national scheme for auditor appointments from April 2023.
- 2.4 The auditor appointment to an opted-in local authority does also include the audit of the pension fund. However, the pension fund audit will be subject to a separate engagement and scale audit fee.
- 2.5 The Council previously opted into the national scheme for the appointment of its current external auditors, along with 98% of the sector. The alternative would be for the Council to procure its own external auditor.

3.0 Progress, options, discussion

- 3.1 As indicated above, if the Council does not opt into the national scheme, it would need to procure its own external auditor. However, to do this would be a lengthy and complex process and would see the Council going against the vast majority of the sector.
- 3.2 The letter from PSAA appended to this report sets out a number of reasons why accepting the national scheme to opt-in is seen as the best solution. Examples given in the letter include:
- PSAA are a not-for-profit independent company limited by guarantee incorporated by the Local Government Association offering a value for money offer based on minimising PSAA costs and the distribution of any surpluses to scheme members (which they have done in the past).
 - Collective efficiency savings for the sector through undertaking one major procurement as opposed to multiplicity of smaller procurements.
 - Avoids the necessity for local bodies to establish an auditor panel and undertake and auditor procurement, enabling time and resources to be deployed elsewhere.

- 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.

- 3.3 Under Regulation 19 of the Local Audit and Accountability Act 2014 and the Local Audit (Appointing Person) Regulations 2015 (the Regulations) a decision to become an opted-in authority must be taken by the members of an authority meeting as a whole (i.e. Full Council or equivalent).
- 3.4 Therefore, the Audit and Risk Committee is asked to recommend to Council at its next meeting that the Council opts into the national scheme.
- 3.5 The closing date to give notice to PSAA of the Council's acceptance of their invitation is Friday 11 March 2022.
- 3.6 PSAA expect to formally commence the procurement of audit services in February 2022 and at that time their procurement documentation will be available for opted-in bodies to view. Also, they plan to run a series of webinars covering specific areas of their work.

4.0 Financial implications

- 4.1 The recent Redmond Review identified that the fee structures and variation process surrounding the audit contracts administered by PSAA was insufficiently flexible and that local audit fees had reduced by 40% when compared against a 20% rise in central government and FTSE100 audit fees. This had led to difficulties in supporting the sustainability of the local audit market.
- 4.2 The review recommended that the current fee structure for local audit be revised to ensure that adequate resources are deployed to meet the full extent of local audit requirements. As part of recent consultation, the Government has committed to amend the Local Audit (Appointing Person) Regulations 2015 to provide PSAA with more flexibility to agree both standardised and local fee variations that more closely match the actual costs of audit.
- 4.3 The external audit fee agreed for the Council in 2020-2021 was just under £216,000, compared to £158,000 in 2018-2019. This is a significant increase over the last couple of years and reflects the additional work required by the regulator, taking into account local risk factors. The West Midlands Pension Fund external audit fees also rose over the same period, from £44,000 in 2018-2019 to £61,000 in 2020-2021.
- 4.4 The current budget set aside for the Council's audit fees, excluding provision for grant audit work, is £200,000. A further increase in external audit fees is anticipated for 2021-2022, though the government announced following the Redmond Review that additional funding would be made available to offset the rise in costs. A consultation process was entered into to agree the methodology for distribution of those funds. Under the proposed methodology the Council would receive in the region of £75,000 in this financial year.

- 4.5 The opt-in scheme does not include the audit arrangements for grants and housing benefit returns. PSAA has no power under the Local Audit and Accountability Act 2014 or the Regulations to make arrangements or appointments for assurance on grant claims and returns and these would require a separate local arrangement as per current practice.

[GE/25112021/Z]

5.0 Legal implications

- 5.1 The PSAA is now undertaking a procurement for the next appointing period, covering audits for 2023/24 to 2027/28. During autumn 2021 all local government bodies need to make a decision about their external audit arrangements from 2023/24. Authorities have the option to arrange their own procurement and make the appointment themselves or in conjunction with other bodies, or to join and take advantage of the national collective scheme administered by PSAA. If the Council opts to join the scheme administered by the PSAA, this will be subject to the Public Contracts Regulations 2015 and Public Procurement Regulations.

[TC/26112021/G]

6.0 Equalities implications

- 6.1 While there are no direct equalities implications arising from the recommendation in this report, the local audit process is a key part of the preparation and sign-off of the Statement of Accounts, and thereby will aid the Council in its ability to meet its equality objectives.

7.0 All other implications

- 7.1 There are no other implications arising from the recommendations in this report.

8.0 Schedule of background papers

- 8.1 Invitation letter of 22 September 2021 from Public Sector Audit Appointments.