

REPORT TITLE: Appointment of Auditors through Public Sector Audit Appointments (PSAA) Ltd

9TH JUNE 2021

REPORT OF CABINET MEMBER: Cllr Neil Cutler, Deputy Leader and Cabinet Member for Finance and Service Quality

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WARD(S): ALL

PURPOSE

At its meeting on 4th March 2021 the Audit & Governance Committee requested further background information on the role of Public Sector Audit Appointments Ltd (PSAA) in the awarding, monitoring and review of fee variations of the Council's external audit contract with EY. Members also requested information on the fees of audits for comparable bodies who had opted-out of the PSAA arrangements. Following discussions with external consultants and PSAA this report provides the requested information.

RECOMMENDATIONS:

1. That the committee notes this report in respect of the arrangements for auditor appointment.

IMPLICATIONS:

1 COUNCIL PLAN OUTCOME

- 1.1 *Your Services, Your Voice* - The preparation of the annual accounts is fundamental to open and transparent accountability for public finances. Ensuring strong financial reporting and transparent stewardship of public funds underpins the council's ability to deliver all its outcomes but in particular the priority to ensure stable council finances

2 FINANCIAL IMPLICATIONS

- 2.1 None.

3 LEGAL AND PROCUREMENT IMPLICATIONS

- 3.1 Local authorities in the UK are required to prepare their accounts in accordance with 'proper (accounting) practices' as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 (the Code). The Code specifies the principles and practices of accounting, required to prepare financial statements that give a true and fair view of the financial position and transactions of a local authority.
- 3.2 The Audit and Accounts Regulations 2015 require an authority to conduct a review, at least once a year, of the effectiveness of its system of internal control and include a statement reporting on the review alongside the Statement of Accounts.
- 3.3 The necessity to conform to these Regulations and the Code is recognised accurately in this report.

- 3.4 There are no direct legal implications.

4 WORKFORCE IMPLICATIONS

- 4.1 None

5 PROPERTY AND ASSET IMPLICATIONS

- 5.1 None

6 CONSULTATION AND COMMUNICATION

- 6.1 None

7 ENVIRONMENTAL CONSIDERATIONS

- 7.1 None.

8 EQUALITY IMPACT ASSESSEMENT

8.1 None arising from the content of the report. However, officers have regard to the considerations as set out in the Equalities Act 2010 when deciding whether an Equality Impact Assessment will be required following any specific recommendations or future decisions.

9 DATA PROTECTION IMPACT ASSESSMENT

9.1 Not required.

10 RISK MANAGEMENT

Risk	Mitigation	Opportunities
<p>Financial / VfM Fees charged by the Auditor will be considerably higher than currently.</p> <p>Management of the contract with the audit firm is done by PSAA and the Council has little say in the effectiveness or price of the contract.</p> <p>Not enough public sector organisations join the PSAA so that it is unable to deliver the efficiencies envisaged.</p>	<p>Opting-in to the sector-led approach is likely to lead to economies of scale and continue to driving down the price as a member of a larger grouping of public sector organisations.</p> <p>Continued communication with and pressure on PSAA for thorough review of fee variations.</p> <p>Continued review of the fees ahead of the opting-in decision for the next appointing period.</p>	
<p>Legal The Council fails to appoint an auditor in accordance with the new frameworks or does not achieve value for money in the appointment process.</p>	<p>Opting into the sector led approach through the PSAA provides resilience in the appointment in accordance with legislation.</p>	

11 SUPPORTING INFORMATION:

Background

11.1 In 2014 the Local Audit and Accountability Act paved the way for a new framework for the audit of local public bodies. The Audit Commission which had previously overseen local audits was abolished; going forward local bodies were to be empowered to appoint their own auditors, subject to a

range of safeguards outlined in the Act. Additionally, the Secretary of State for Communities and Local Government was given powers to specify one or more organisations to act as Appointing Persons. This followed successful lobbying by the Local Government Association (LGA), who believed it was in the sector's interests to have in place a sector-led body to procure large contracts and realise the benefits of wide-scale collaboration.

- 11.2 Public Sector Audit Appointments Limited (PSAA) was incorporated by the Local Government Association (LGA) in August 2014. In July 2016 the secretary of State for Communities and Local Government specified PSAA to take on the role of Appointing Person for principal local government and police bodies. Councils can either organise their own processes to make their own auditor appointment or they can join the collective scheme developed by PSAA.
- 11.3 In November 2016 the then Audit Committee at Winchester recommended to Full Council ([AUD178](#)) that PSAA's invitation to opt-in to the sector-led scheme was accepted and this was approved by Council in January 2017.

Local auditors eligible to carry out the audit of local government

- 11.4 The Institute of Chartered Accountants in England and Wales (ICAEW) is a supervisory body appointed by the Financial Reporting Council (FRC) and as such has a statutory duty to license and register auditors to carry out the audit of local government and health bodies. The register of persons eligible for appointment as local auditors includes partners in the following firms:-
- BDO LLP
 - Cardens Accountants LLP
 - Deloitte LLP
 - Ernst & Young LLP
 - Grant Thornton UK LLP
 - KPMG LLP
 - Mazars LLP
 - PricewaterhouseCoopers LLP

PSAA's role

- 11.5 Acting in accordance with their Appointing Person role, PSAA is responsible for appointing an eligible auditor and setting scales of fees for relevant principal authorities that have chosen to opt into its national scheme. Specifically, PSAA has a responsibility for ensuring that the audit firm delivers the following objectives:
- appointing auditors to all relevant authorities;
 - setting scales of fees, and charging rates, for the audit of accounts of relevant authorities and consulting with relevant parties in relation to those scales of fees;

- ensuring effective management of contracts with audit firms for the delivery of consistent, quality and effective audit services to relevant authorities;
 - ensuring that public money continues to be properly accounted for and protected; and
 - being financially responsible having regard to the efficiency of operating costs and transparently safeguarding fees charged to audited bodies.
- 11.6 The scale fees for individual opted-in authorities are normally based on the scale fee for the previous year, reflecting the auditor's assessment of audit risk and complexity. PSAA only expect variations from the scale fee to occur where these factors are significantly different from those identified and reflected in the fee for the previous year.
- 11.7 PSAA can approve proposed variations to the scale fee for an individual opted-in authority, to reflect changes in circumstances. This is set out in the legal framework for audit fees and variations, in the Local Audit (Appointing Person) Regulations 2015. Regulation 17(2) provides for the auditor to propose to PSAA (as the Appointing Person) that fees should be varied where the work involved in a particular audit was substantially more or less than envisaged by the appropriate scale.
- 11.8 PSAA obtain explanations for any proposed variations from the scale fee and consider the reasonableness of the explanations provided by auditors before agreeing to any variation to the scale fee.

Opted-in bodies and those with local arrangements

- 11.9 For the current appointing period, covering audits of the accounts for 2018/19 to 2022/23, there are 510 bodies opted-in and 10 organisations (of which 6 are councils) who have made their own local arrangements. Of these 6 councils, 5 are unitary / London borough / metropolitan district councils; East Hampshire District Council is the only district council in a 2-tier area.
- 11.10 East Hampshire's ISA260 Report (Annual Audit Letter) from KPMG states their fee for the audit was £61,450. By comparison, EY are proposing Winchester's 2019/20 fee be £58,049 (from the original £43,379).

12 OTHER OPTIONS CONSIDERED AND REJECTED

- 12.1 Not applicable

BACKGROUND DOCUMENTS:-

Previous Committee Reports:-

[AG047](#) Annual Audit Letter 2019/20

Other Background Documents:-

None.

APPENDICES:

None.