

SUBJECT: APPOINTMENT OF EXTERNAL AUDITOR

DIRECTORATE: CHIEF EXECUTIVE AND TOWN CLERK

REPORT AUTHOR: JACLYN GIBSON, CHIEF FINANCE OFFICER

1. Purpose of Report

- 1.1 To present to the Audit Committee the outcome of the process to appoint an external auditor for the Council with effect from 1 April 2023.

2. Executive Summary

- 2.1 The current arrangements in respect of the appointment of the Council's external auditors, currently Mazars LLP, are due to come to an end following the audit of the 2022/23 accounts.
- 2.2 The Council, in January 2022, agreed to opt into the appointing persons arrangements made by the Public Sector Audit Appointments (PSAA) for the appointment of its external auditors for period covering the accounts from 2023/24 – 2027/28.
- 2.3 Following a tender process to procure the audit services the PSAA have appointed KPMG as the Council's external auditor for five years from 2023/24, with the appointment commencing on 1 April 2023. This represents a change from the existing appointed auditor; Mazars LLP.

3. Background

- 3.1 The Local Audit and Accountability Act 2014 brought to a close the Audit Commission and established arrangements for the appointment of external auditors and the setting of audit fees for principal local government bodies.
- 3.2 The current auditor appointment arrangements cover the period up to and including the audit of the 2022/23 accounts. The Council, in 2017, agreed to opt into the 'appointing person' national auditor appointment arrangements established by PSAA for the period covering the accounts for 2018/19 to 2022/23. Following a tender process to procure the audit services the PSAA appointed Mazars LLP as the Council's external auditor.
- 3.3 In January 2022, Full Council, after consideration by the Audit Committee resolved to opt into the appointing persons arrangements made by PSAA for the appointment of external auditors for the next five-year appointing period.

4. Local auditor appointment process

- 4.1 A total of 470 bodies (99%) of eligible bodies (including local government, police

and fire bodies) opted into the sector-led approach offered by PSAA.

- 4.2 During the period April to September 2022 the PSAA managed a tender process to procure audit services. This procurement took place against the challenging backdrop of a troubled audit profession, a turbulent market and a local audit system that is facing unprecedented difficulties including large volumes of delayed audit opinions. Only ten audit suppliers are currently registered to undertake local audits in England, three of which opted not to take part in the procurement.
- 4.3 The outcome of the procurement resulted in contracts being offered to six suppliers following a competitive process that was protracted, reflecting the limited capacity available in the market. The scale of the contracts varies widely depending upon the capacity which each supplier is able to provide. Services of three existing suppliers were retained those being, Grant Thornton, Mazars and Ernst & Young, with one former supplier KPMG re-appointed and two new suppliers, Bishop Fleming and Azets Audit Services also awarded contracts. From 2023/24 the respective shares of the audits of opted-in bodies will be as follows:

	Share of PSAA's Work
Grant Thornton	36.0%
Mazars	22.5%
Ernst & Young	20.0%
KPMG	14.0%
Bishop Fleming	3.75%
Azets Audit Services	3.25%

This equates to 99.5% of the audit work detailed in the tender, however due to recent and scheduled local government reorganisations reducing in the auditor capacity required, the 99.5% is sufficient.

- 4.4 On 17 October, the Council received communication from PSAA of the intention to appoint KPMG as its auditor for five years from 2023/24, with the appointment commencing on 1 April 2023. This represents a change from the existing appointed auditor; Mazars LLP.
- 4.5 The Council had the opportunity to make representations to PSAA on the proposed appointment, with the following provided as acceptable reasons:
- There is an independence issue in relation to the firm proposed as the auditor, which had not been previously notified to PSAA;
 - There are formal and joint working arrangements relevant to the auditor's responsibilities, which had not been previously notified to PSAA; or
 - There is another valid reason, for example you can demonstrate a history of inadequate service from the proposed firm.
- 4.6 There were considered to be no reasons for the Council to make such representations on the appointment and as such the Chief Finance Officer confirmed to PSAA that the Council accepted the appointment of KPMG.
- 4.7 PSAA have subsequently confirmed the appointment of KPMG as the Council's

external auditor to audit its accounts for five years, from 2023/24 to 2027/28.

- 4.8 The appointment of KPMG as the Council's external auditor excludes the provision of an Independent Reporting Accountant, required for the certification work on the Housing Benefit subsidy which is undertaken on behalf of the Department for Work and Pensions (DWP). Neither does the arrangement cover the provision of an Independent Reporting Accountant, required for the certification work on the Pooling of Housing Capital Receipts Scheme, which is undertaken on behalf of the Department for Levelling Up, Homes and Communities (DLUHC). These requirements were not included in the scope of works for the PSAA and must be procured separately. The Council is required to undertake a separate procurement process for this element of assurance work.

5. Strategic Priorities

- 5.1 There are no direct implications for the Council's strategic priorities. The appointment of an external auditor is a statutory requirement of the Council and as such contributes towards the fitness for purpose of the Council's governance arrangements.

6. Organisational Impacts

6.1 Finance

At this stage the audit scale fees for 2023/24 are not yet known. The PSAA have stated that they will consult formally on scale fees for 2023/24 in Autumn 2023 and will publish confirmed scale fees for 2023/24 for opted-in bodies on their website by 30 November 2023. However, the PSAA announced in October 2023 that on the basis of the procurement outcome their advice to opted in bodies was to anticipate an increase of the order of 150% on the total fees for 2022/23 - noting that the actual total fees will depend on the amount of work required.

The bid prices that we received in the procurement exercise reflect a significant increase compared to the previous procurement in for the current five-year appointment period. The audit industry has faced major challenges in the intervening period. In addition, local audit faces several distinctive difficulties which have resulted in a less competitive market.

The Council's scale fee for 2022/23 is £48,403, with additional fee variations of approx. £7,100. A 150% increase in these fees would be £83,268, taking the total fee to £138,780. Provision for these increased costs have been provided for in the draft Medium Term Financial Strategy 2023-28.

An update will be provided to the Committee later in 2023 when the final scale fees are announced.

6.2 Legal Implications including Procurement Rules

Section 7 of the Local Audit and Accountability Act 2014 requires a relevant authority to appoint a local auditor to audit its accounts for a financial year not later than 31 December in the preceding year.

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 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.

The appointment of KPMG has been made under regulation 13 of the Local Audit (Appointing Person) Regulations 2015 and was approved by the PSAA Board at its meeting on 16 December 2022.

7. Risk Implications

- 7.1 There are no specific risk implications arising from this report, the Council has adopted a sector led approach, through PSAA, to the appointment of the new external auditor. The Council will now work with both it's existing and new external auditor to ensure a successful transition in a timely and efficient manner.

8. Recommendation

- 8.1 The Audit Committee is asked note the appointment by PSAA of KPMG as the external auditor for the Council for a five-year period from 1 April 2023.

Is this a key decision?

No

Do the exempt information categories apply?

No

Does Rule 15 of the Scrutiny Procedure Rules (call-in and urgency) apply?

No

How many appendices does the report contain?

None

List of Background Papers:

Appointment of external auditors, Audit Committee
14 December 2021 and Council 18 January 2022

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