
REPORT OF THE CABINET

The Cabinet met on 9 November 2021. Attendances:-

Councillor Bennett (in the Chair)
Councillors Bowdler, Claire Dowling, Maynard, Simmons and Standley

1. Appointment of External Auditors

1.1 The Public Sector Audit Appointments (PSAA) is a not-for-profit, independent company limited by guarantee incorporated by the Local Government Association in August 2014. Since 2018/19 the PSAA has been regulated to make audit appointments for local authorities. East Sussex County Council opted into these arrangements with approval by Full Council on 7 February 2017.

1.2 The PSAA has written to authorities regarding the appointment of the external auditors for the five years from 2023/24, as the current appointments will end with the 2022/23 audits. The Council is requested to confirm whether it wishes to opt into the national scheme from April 2023. The Local Audit and Accountability Act 2014 and the Local Audit (Appointing Person) Regulations 2015; Regulation 19 requires the decision to opt-in to the PSAA auditor appointment process to be taken by Full Council. The closing date for the notice of acceptance is Friday 11 March 2022.

1.3 Recent years has been a difficult environment for the provision of external audit services. A number of high profile Section 114 notices and reports of public interest, have challenged the role and quality of the services provided by external auditors. In addition, firms have struggled to recruit sufficient staff and meet statutory reporting deadlines; with the pandemic only serving to add to the fragility of service delivery. Local authorities have also seen fees increase as the firms seek to expand the work they undertake to gain the assurance required to meet increased regulatory audit requirements, plus the National Audit Office's updated Code of Practice, including an increased focus of the Value for Money assessment.

1.4 Grant Thornton (GT) are the external auditors for the Council. The audit of the accounts for 2019/20 and 2020/21 have failed to be completed on time. The 2019/20 audit opinion was not issued until 31 January 2021 (against the Covid-19 extended statutory deadline of 30 November 2020), with the 2020/21 audit opinion issued on 19 October 2021 (against the revised statutory deadline of 30 September 2021).

1.5 The Council has seen audit fees increasing. For the 2021/22 audit, the fees have increased by 72% against the PSAA approved scale fee of £64,350 to £110,850:

| | £ |
|--|---------|
| PSAA Scale Fee (from framework): | 64,350 |
| Add: | |
| Impact of 19/20 increases | 16,000 |
| Value for Money – new NAO requirements | 19,000 |
| New Auditing Standards | 11,500 |
| Fee for 2020/21 | 110,850 |

1.6 A one-off grant of £15m has been made available to support authorities with these increases but the specific allocations have yet to be announced and any longer term funding is uncertain.

1.7 The Redmond Review was commissioned in June 2019, by the then Secretary of State for Housing, Communities and Local Government, to undertake an independent review of the effectiveness of local audit and the transparency of local authority reporting. The findings report published in September 2020, proposed 23 recommendations, which are being considered by Government. A key element of the report was looking at local audit arrangements, where the most

significant finding was the lack of coherence in local audit arrangements, including the approach to procure audit. There were concerns expressed regarding the effectiveness of local audits, some of which being linked to the fee structure. The report reflected that fees are probably 25% less than they should be, which has impacted on the quality of auditors and, in particular, the level of experience and knowledge of local authorities. There are also a limited number of audit firms who come forward to bid for the work. The Redmond Report was considered by the Audit Committee on 6 November 2020.

1.8 In light of the challenges faced by external audit and the Redmond Review, the PSAA launched a consultation in June 2021 seeking views to inform the development of the national scheme for the 2023/24 onwards. The scheme prospectus, reflecting on the consultation feedback, has been published (Appendix 1) and sets out a range of benefits:

- Transparent and independent auditor appointment by a third party;
- Best opportunity to secure the appointment of a qualified, registered auditor;
- Appointment, if possible, of the same auditors to bodies involved in significant collaboration/joint working initiative. In context of Orbis, Grant Thornton are the external auditors for Brighton and Hove City Council and Surrey County Council;
- On-going management of any independence issues that may arise;
- Access to a specialist PSAA team with significant experience of working within the context of the relevant regulations to appoint auditors, managing contracts with audit firms, and setting and determining audit fees;
- A value or money offer based on minimising PSAA costs and distribution of any surpluses to scheme members. In 2019, £3.5m was returned to relevant bodies; with £5.6m announced in August 2021.
- Collective efficiency savings for the sector through undertaking one major procurement as opposed to a multiplicity of smaller procurements;
- Avoids the necessity for local bodies to establish an auditor panel and undertake an auditor procurement, enabling time and resources to be deployed on other pressing priorities;
- Updates from PSAA to Section 151 officers and Audit Committee Chairs on a range of local audit related matters to inform and support effective auditor-audited body relationships;
- Concerted efforts to work with other stakeholders to develop a more sustainable local audit market.

1.9 There are limited options available for the appointment of the external auditor from 2023/24:

- Option 1: Make a stand alone appointment
- Option 2: Set up a Joint Auditor Panel
- Option 3: Opt-in to the 2023 PSAA national scheme

1.10 Option 1: whilst option 1 provides the opportunity to have full ownership of the process, which would seek to address the challenges with the current external audit service delivery, there are risks that there is limited capacity and knowledge of the market, a limited number (if any) of audit firms will come forward and that fees will be higher.

1.11 Option 2: by joining with other councils to set up a joint independent Auditor Panel, there would be greater opportunity to negotiate some economies of scale and offer a wider contract than that available by Option 1. However, a vast proportion of local authorities opted-in to the PSAA 2018 National Scheme Prospectus. To identify and develop the connections and principles of joint working would take a significant investment of time and resources, which given the deadline of 11 March 2022, is not realistic, especially when set against the Council's other priorities.

1.12 Option 3: there are well documented issues with the audit of local authorities. Taking on board the findings of the Redmond Review and the changes that will happen in the audit sector,

CABINET

the PSAA is best placed to work with the regulators and audit firms to drive improvements in service provision.

1.13 The Chair and Vice Chair of the Audit Committee have been consulted on the PSAA Prospectus and options available. They are supportive of the recommendation to opt-in to the PSAA 2023 National Scheme Prospectus.

1.14 There are significant national challenges for the provision of external audit services. It could be argued that the PSAA has not been effective in ensuring the delivery of quality audits, through the management of contracts with the audit firms. National headlines and the Redmond Review have increased the focus on external audit. In considering, whether to opt-in to the PSAA 2023 National Scheme Prospectus is it more effective to be part of the structure (PSAA and regulators) that is working to improve the situation, or go alone and seek to procure our own external auditor, for which there is no guarantee of procuring an audit firm at an affordable price?

1.15 Considering all factors, the Cabinet recommends the County Council to approve that the Council opt-in to the national scheme for auditor appointment from April 2023 and approve the continuation of Public Sector Audit Appointments (PSAA) as the appointing persons for the Council.

1.16 The Cabinet recommends the County Council to:

☆ 1) approve that the Council opts into the national scheme for auditor appointment from April 2023; and

2) approve the continuation of Public Sector Audit Appointments (PSAA) as the appointing persons for the Council

9 November 2021

NICK BENNETT
(in the Chair)