

## **Regulation, Audit and Accounts Committee**

**8 November 2021**

### **Arrangements for appointment of an External Auditor**

#### **Report by Director of Finance and Support Services**

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## **Summary**

The Council's current external auditor is Ernst & Young LLP (EY) for both West Sussex County Council and West Sussex Pension Fund. This appointment followed full Council's approval in November 2016 to opt-in to the Public Sector Audit Appointments Limited (PSAA) arrangements for the purposes of the appointment of an external auditor.

This report outlines the options open to the Council to appoint an external auditor following the end of the current arrangement in March 2023.

## **Recommendation**

The Committee is asked to recommend to County Council the acceptance of the invitation from the Public Sector Audit Appointments Limited (PSAA) to continue to be an opt-in authority for the purposes of the appointment of an external auditor for both West Sussex County Council and West Sussex Pension Fund, for the period 1 April 2023 to 31 March 2028, under the provision of the Local Audit and Accountability Act 2014 and the requirements of the Local Audit (Appointing Person) Regulations 2015.

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## **Proposal**

### **1. Introduction**

1.1 The Council's current external auditor is Ernst & Young LLP (EY) for both West Sussex County Council and West Sussex Pension Fund. This appointment followed full Council's approval in November 2016 to opt-in to the Public Sector Audit Appointments Limited (PSAA) arrangements for the purposes of the appointment of an external auditor under the provision of the Local Audit and Accountability Act 2014 and the requirements of the Local Audit (Appointing Person) Regulations 2015. The contract was for the period 1 April 2018 to 31 March 2023.

### **2. Options for the local appointment of an External Auditor**

2.1 There are three options open to the Council to appoint an external auditor under the Local Audit and Accountability Act 2014 (the Act):

- Option 1 – To make a stand-alone appointment, which would require the Council 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 would be responsible for selecting the auditor. Setting up a panel would allow the Council to take maximum advantage of the local appointment regime and have local input to the decision. However, the panel would need to be established and a procurement exercise would need to be supported which would generate a cost and the Council would not be able to take advantage of reduced fees that may be available through joint or national procurement contracts.
- Option 2 – Set up a joint Auditor Panel/local joint procurement arrangements. The Act enables the Council to 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 would be required on the exact constitution of such a panel having regard to the obligations of each Council under the Act. Under this option, the costs of setting up the panel, running the bidding exercise and negotiating the contract will be shared across a number of authorities and there would be greater opportunity for negotiating some economies of scale by being able to offer a larger combined contract value to the firms. However, 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 possible only one elected member representing each Council, depending on the constitution agreed with the other bodies involved. In addition, 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 works 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 West Sussex County Council then we may still need to make a separate appointment with all the attendant costs and loss of economies possible through joint procurement.
- Option 3 – Opt-in to a Sector Led Body (SLB) appointed by the Secretary of State under the Act (this is our current approach with PSAA as the SLB). A SLB would have the ability to negotiate contracts with the firms nationally, maximising the opportunities for the most economic and efficient approach to procurement of external audit on behalf of the whole sector. The costs of setting up the appointment arrangements and negotiating fees would be shared across all opt-in authorities and 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 SLB who would have a number of contracted firms to call upon. The appointment process would not be ceded to locally appointed independent members. However, 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. Latest Position**

- 3.1 The Secretary of State has again confirmed PSAA in the role of the appointing person for eligible principal bodies for the period commencing April 2023 under regulation 3 of the Local Audit (Appointing Person) Regulations 2015. For the audit of the 2023/24 accounts onwards, for a five year period up to 2027/28, PSAA will appoint an auditor to relevant principal authorities that choose to opt into its national collective scheme.
- 3.2 In September 2021 PSAA invited all eligible principal local government bodies to opt-in to the national auditor appointment arrangements. The length of the compulsory appointing period is the five consecutive financial years commencing 1 April 2023. Formal acceptance to this invitation is required by 11 March 2022 and the decision to accept the invitation and to opt-in needs to be made by full Council.
- 3.3 The Redmond Review was undertaken in 2019, to consider the arrangements in place to support the transparency and quality of local authority financial reporting and external audit. One of the problems highlighted in the Redmond Review was the fragility of the local audit market. In recognition, central Government has recognised that the regulations to ensure that PSAA can set fees that better reflect the cost of undertaking the audit need to be reviewed and have recently consulted on this.
- 3.4 In addition, central Government will provide the sector additional funding in 2021/22 to support affected local bodies to meet the anticipated increase in auditor fees and to meet new burdens on councils as a result of new reporting requirements. Central Government will continue to monitor the financial impact of auditor fees on local government in future years.
- 3.5 Balancing the benefits and risks outline above, it is recommended that the Council continues with the current arrangement (Option 3), as a means of appointing External Auditors from April 2023.

#### 4. Finance & Resource Implications

4.1 The breakdown for audit fees for both West Sussex County Council and West Sussex Pension Fund for 2019/20 and 2020/21 is set out below.

4.2 West Sussex County Council audit fees

|                                                                                                                                  | Final Fee<br>2018/19 | Final Fee<br>2019/20 | Final Fee<br>2020/21 |
|----------------------------------------------------------------------------------------------------------------------------------|----------------------|----------------------|----------------------|
| Scale fee                                                                                                                        | 90,561               | 90,561               | 90,561               |
| Scale fee variation                                                                                                              | 3,000                |                      |                      |
| Planned 2019/20 recurrent fee variation reflecting underlying level of additional risk at the Council (yet to be agreed by PSAA) |                      | 66,426               | 66,426               |
| Risk based fee variations                                                                                                        |                      | 60,500               | TBC                  |
| Additional work (including IAS 19 assurance work on behalf of admitted bodies)                                                   |                      |                      |                      |
| Total fees                                                                                                                       | 93,561               | 217,487              | TBC                  |

4.3 West Sussex Pension Fund audit fees

|                                                                                                                                  | Final Fee<br>2018/19 | Final Fee<br>2019/20 | Final Fee<br>2020/21 |
|----------------------------------------------------------------------------------------------------------------------------------|----------------------|----------------------|----------------------|
| Scale fee                                                                                                                        | 20,364               | 20,364               | 20,364               |
| Scale fee variation                                                                                                              |                      |                      |                      |
| Planned 2019/20 recurrent fee variation reflecting underlying level of additional risk at the Council (yet to be agreed by PSAA) |                      | 33,533               | 33,533               |
| Risk based fee variations                                                                                                        |                      |                      |                      |
| Additional work (including IAS 19 assurance work on behalf of admitted bodies)                                                   | 5,500                | 21,500               | 9,000                |
| Total fees                                                                                                                       | 25,864               | 75,397               | 62,897               |

- 4.4 Over the last couple of years, the level of audit fees has increased significantly for both West Sussex County Council and West Sussex Pension Fund reflecting the regulatory and compliance audit requirements which were not present in the market at the time of EY's most recent bid to PSAA.
- 4.5 Option 3 is considered to provide the best value for money for the Council and Pension Fund to procure external auditors from 2023/24 onwards for a five year period.

## **5. Risk implications and mitigations**

- 5.1 The risks associated with each of the three options are set out in the body of the report.

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### **Background Papers**

None