

Report title: Update on the national scheme for local auditor appointments	
Report to Audit, Governance and Standards Committee	
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Divisions affected: All Essex	

1 Everyone's Essex

- 1.1 The Audit, Governance and Standards Committee has responsibility for all matters related to the appointment of the Council's external auditor.
- 1.2 The purpose of this report is to update the Committee on the progress of Public Sector Auditor Appointments Ltd (PSAA) in awarding the external audit contracts due to start from 1 April 2023.

2 Recommendations

- 2.1 None – the report is for information only.

3 Background

- 3.1 On the recommendation of this Committee (**AGS/01/22**), full Council agreed, on **10 February 2022**, that the Council should opt into the Public Sector Auditor Appointments Ltd (PSAA) national scheme for auditor appointments for external audit contracts commencing on 1 April 2023 (and covering the audit of accounts for the financial years 2023/24 to 2027/28).
- 3.2 The deadline for opting into the national appointing scheme was **11 March 2022**. By the deadline, **99%** of eligible bodies (**470** out of **475**) opted into the national appointing scheme. Eligible bodies include local authorities, combined authorities, police and fire bodies, national parks, passenger transport executives, waste authorities and functional bodies.
- 3.3 On 3 October 2022, the PSAA announced the outcome of its procurement of audit services for the **470** eligible bodies opted into its national scheme for the next appointing period.

- 3.4 The procurement took place against the challenging backcloth 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.
- 3.5 Only ten audit suppliers are currently registered to undertake local audits in England, three of which opted not to take part in the PSAA procurement for audit contracts commencing on 1 April 2023. Those not taking part included BDO LLP, the Council's current appointed auditor.
- 3.6 The PSAA has offered contracts to six suppliers. The scale of the contracts varies widely depending upon the capacity which each supplier is able to provide.
- 3.7 From 2023/24 the respective shares of the audits of opted-in bodies will be as follows:

	Share of PSAA's work
Grant Thornton	36.00%
Mazars	22.50%
Ernst & Young	20.00%
KPMG	14.00%
Bishop Fleming	3.75%
Azets Audit Services	3.25%

- 3.8 It is understood that the PSAA aims to confirm the appointment of named audit firms to each eligible body by **31 December 2022**.
- 3.9 The bid prices that the PSAA received in this procurement reflects a significant increase compared to its previous procurement in 2017. 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.
- 3.10 PSAA will consult, in Autumn 2023, on the proposed scale of audit fees payable by bodies in respect of the audit of 2023/24 accounts. However, at this stage, the PSAA is advising bodies is to anticipate a major re-set of total fees for 2023/24 involving an **increase** of the order of **150%** on the total fees for 2022/23. The actual total fees will depend on the amount of work required.
- 3.11 The PSAA appreciates that the extent of this likely increase in audit fees will pose a significant funding challenge for local bodies already facing a daunting range of financial pressures. The PSAA has therefore raised this concern with the Department for Levelling up, Housing and Communities (DLUHC) for consideration.

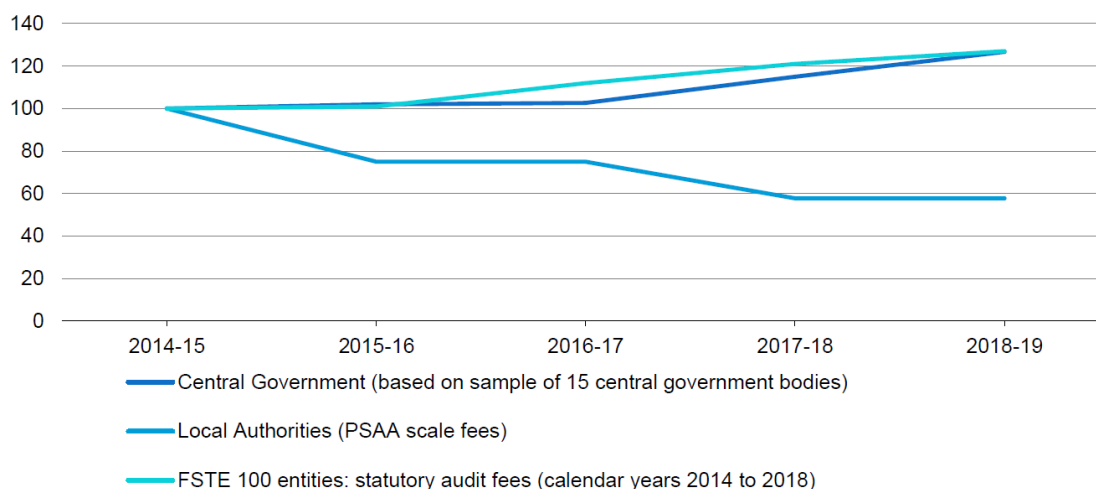
4 Policy context and Outcomes Framework

- 4.1 The external audit of the Council and Essex Pension Fund annual financial statements, and of the Council's arrangements to secure value for money (VFM) in its use of resources, provides assurance that taxpayers and pension funds have been well managed and properly accounted for; this is one of the cornerstones of public accountability.

5 Financial Implications

- 5.1 In September 2020, Sir Tony Redmond published the findings of a review into the transparency and quality of statutory audits of local authorities in England. One aspect of this review was to consider audit fees. Audit fees in the local authority sector had dropped significantly since the Audit Commission was abolished, while audit fees in other sectors had risen.

Sector by sector comparison of change in audit fees over time



Sir Tony Redmond concluded that audit fees would need to increase by between **15% to 25%** to ensure that audit quality requirements could continue to be satisfied.

- 5.2 The major reset of fees announced by the PSAA, involving an increase of the order of **150%** on the total fees for 2022/23, far exceeds the increases anticipated by Sir Tony Redmond.

- 5.3 The PSAA has recently consulted on the audit fees for the 2022/23 financial year. On the basis of this consultation, the fees for that year are expected to be built up as follows:

		Essex County Council	Essex Pension Fund
	A. Fee scale set for 2021/22	£126,265	£24,075
+	B. Fee variations for recurrent requirements in 2019/20 audits	£8,155	£3,925
+	C. Fee variations for recurrent requirements in 2020/21 audits	£TBC	£TBC
+	D. Adjustment for inflation (5.2%) (see note below)	£6,600	£1,300
+	E. Additional fees for VFM and other known auditor requirements	In the region of £22,800	In the region of £1,900
=	F. Fees for 2022/23	In the region of £163,820	In the region of £31,200

Note:

The PSAA expects to absorb the inflationary uplift in 2022/23 from its own surpluses in 2022/23, but it is assumed that this uplift will be passed on to local bodies with effect from 2023/24.

- 5.4 It is therefore possible that the annual fees payable from 2023/23 will be in the region of **£410,000** per annum for the Council and **£78,000** per annum for the Essex Pension Fund. These estimates are based on what we currently know though, so it is possible that the fees payable from 2023/24 could exceed these estimates. Any increase in audit fees above the current baseline (as shown above) would represent a new pressure for the Council that would increase its forecast budget gap for 2023/24 and later years.

6 Legal Implications

- 6.1 As the Council has opted into the statutory scheme for appointment of external auditors, ECC's auditor will be determined by Public Sector Audit Appointments Limited. Whilst the Council is likely to be consulted by PSAA it will have to accept whoever is appointed and it will have to pay the fees.

7 Appendices

- 7.1 **Appendix A:** Pen picture of successful audit firms

8 List of Background Papers

- 8.1 Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting (Redmond Review):
https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/916217/Redmond_Review.pdf
- 8.2 Report to the Audit, Governance and Standards Committee on **13 December 2021** on the National scheme for local auditor appointments (**AGS/24/21**).
- 8.3 Report to the Audit, Governance and Standards Committee on **31 January 2022** on the national scheme for local auditor appointments (**AGS/01/22**).
- 8.4 PSAA press release: PSAA Announcement of Procurement Outcome:
<https://www.psaa.co.uk/2022/10/press-release-psaa-announcement-of-procurement-outcome/>

Appendix A – Pen picture of the successful firms

Audit Firm	Pen picture
Azets Audit Services	<p>Azets is a UK top 10 audit, accounting and business advisory firm.</p> <p>The firm provides external audit, internal audit and other assurance services across the public sector and has extensive experience of auditing large Scottish councils on behalf of the Accounts Commission.</p> <p>While the firm operates from around 80 local offices spread across the UK, it delivers public sector audit using specialist teams in selected locations in the North, Midlands and London.</p>
Bishop Fleming LLP	<p>Bishop Fleming is a top 30 UK accountancy firm, providing audit, accountancy, tax and business consultancy services to both the public and private sectors.</p> <p>Bishop Fleming has extensive experience working with public sector organisations in the housing, education, charity and healthcare sectors along with a number of local authority subsidiaries.</p> <p>Their public sector audit team is led by two ICAEW registered key audit partners, both having previous experience of providing external audit services to local authorities.</p> <p>Bishop Fleming have 37 partners and around 500 staff working from 7 offices across the South West and West Midlands, who are committed to delivering the very best client experience.</p>
EY LLP	<p>Ernst & Young LLP (EY) is a multinational professional services firm with 312,000 employees based in over 150 countries worldwide.</p> <p>They provide consulting, law, strategy, tax and transactions services, and are one of the “Big Four” professional services firms.</p> <p>EY employs around 17,000 people in the UK. There are 240 staff including 14 Key Audit Partners who currently work full-time in the Government and Public Sector assurance services team, who are also able to draw from an extensive pool of specialists.</p>
Grant Thornton UK LLP	<p>Grant Thornton UK is delighted to have been reappointed as the largest supplier of local government audit.</p> <p>The public sector has played a significant role within the firm for over 30 years and we remain committed to the success of the sector.</p> <p>Our UK Public Sector Assurance team employs 440 people, including 29 Key Audit Partners and specialists in financial reporting, audit quality, and Value for Money.</p> <p>The team is dedicated to public audit work in local government and the NHS, with contracts with PSAA, Audit Scotland and over 100</p>

Audit Firm	Pen picture
	<p>health bodies.</p> <p>The Public Sector Assurance team is a regular commentator on issues facing the sector and oversees the firm's thought leadership, such as its series of publications on grants and public interest reports.</p>
KPMG LLP	<p>One of the 'Big Four' audit firms, KPMG operates in over 100 countries with over 230,000 employees providing audit, assurance, tax, consulting and advisory services to the public and private sectors. KPMG employees around 16,000 people in the UK.</p> <p>Within the public sector they have 14 active Key Audit Partners supported by a team of 100 staff and a range of specialists.</p> <p>KPMG undertakes a range of other public sector audit work including Local Audits in the NHS, central and local government audit work on behalf of NAO and Audit Scotland and a range of external audits in the education and social housing sectors.</p> <p>Prior to 2018, KPMG were appointed auditors to a range of local government bodies through previous audit procurement exercises.</p>
Mazars LLP	<p>Mazars is a large global audit and accounting firm with over 28,000 professionals in 90 countries and territories worldwide.</p> <p>In the UK the firm ranks in the top ten with 2,500 employees and 140 partners working out of 15 offices, and UK fee income in 2021 of £234m.</p> <p>The firm's dedicated public audit team has significant experience in providing external audit to public sector bodies. It comprises individuals with experience of auditing councils, combined authorities, police bodies, fire and rescue authorities, local government pension funds and other public bodies.</p> <p>In addition to its audit contract with PSAA, the firm provides services to Audit Scotland and has a substantial portfolio of NHS audits and is one of the National Audit Office's framework suppliers for central government audit.</p>

Source: PSAA