

EXTERNAL AUDIT APPOINTMENT ARRANGEMENTS
WDA/27/21

Recommendation

That:

1. Members agree to the Authority accepting the invitation to be included in the Public Sector Audit Appointments (PSAA) process for appointing an external auditor.

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Report of the Treasurer

1. Purpose of the Report

- 1.1 As a statutory local authority MRWA is required to have an external audit of its accounts. The appointment process is established by the Local Audit and Accountability Act 2014 and the Local Audit (appointing person) Regulations 2015. This report sets out a proposal for the Authority to accept an invitation take part in the Public Sector Audit Appointments Limited (PSAA) process for the appointment to be made.

2. Background

- 2.1 The Authority's external auditor is Grant Thornton LLP who were appointed as auditor from 2018-19. The appointment was made by PSAA as a part of the wider appointment of auditors across most local government and health bodies.
- 2.2 PSAA was able to make the appointment as it is recognised by the legislation as an appointing person; it had invited MRWA to become an opted-in body for appointing purposes. The invitation was accepted not least because this was seen as the most cost effective way to achieve an independent appointment of a high quality audit provider.
- 2.3 If the Authority had not accepted the invitation then it would have had to make arrangements to make its own appointment, in all likelihood by offering a tender of its own to independent audit providers. There were no guarantees that this would have given a strong and cost effective outcome and the costs of the appointment and monitoring of the appointment would have been significant.
- 2.4 The period over which the initial appointment was made comes to an end on 31 March 2023 and the PSAA has invited the Authority to join the next round of appointments for a five year period from 1st April 2023. The decision to accept the invitation from PSAA may only be taken by the Authority.

3. Public Sector Audit Appointments (PSAA)

- 3.1 Public Sector Audit Appointments Limited (PSAA) is an independent company limited by guarantee incorporated by the Local Government Association in August 2014.
- 3.2 In July 2016, the Secretary of State specified PSAA as an appointing person for principal local government and police bodies for audits from 2018/19, under the provisions of the Local Audit and Accountability Act 2014 and the Local Audit (Appointing Person) Regulations 2015. Acting in accordance with this role PSAA is responsible for appointing auditors and setting scales of fees for relevant principal authorities that have chosen to opt into its national scheme, overseeing issues of auditor independence and monitoring compliance by the auditor with the contracts they enter into with the audit firms.
- 3.3 In advance of the next round of appointments being made PSAA published its scheme prospectus on 22 September 2021, alongside formally issuing invitations to all eligible bodies to opt into the national scheme for local auditor appointments for the next appointing period. This will span the audits of accounts for the five financial years 2023/2024 to 2027/2028. The PSAA invitation to MRWA is attached at Appendix 1 to this report.
- 3.4 During Autumn 2021 all local government and police bodies will need to make important decisions about their external audit arrangements for the period commencing from the financial year 2023/24.
- 3.5 PSAA audit proposals are set out in the scheme prospectus and their procurement strategy (which can be accessed via links in Appendix 1 to the report).

Audit challenges and market conditions

- 3.6 The past few years have posed unprecedented challenges for the UK audit market. Alongside other stakeholders PSAA has learned a great deal as they have tried to address the difficulties and problems arising and mitigate risks. It has been a steep learning curve but nevertheless one which places PSAA in a strong position to continue to lead the national scheme going forward. MHCLG's Spring statement confirmed Government's confidence in PSAA to continue as appointing person, citing their strong technical expertise and the proactive work that they have done to help to identify improvements that can be made to the process.
- 3.7 PSAA the company is staffed by a team with significant experience of working within the context of the regulations to appoint auditors, managing

contracts with audit firms, and setting and determining audit fees. All of these roles are undertaken with a detailed, ongoing, and up-to-date understanding of the distinctive context and challenges facing both the sector and a highly regulated service and profession which is subject to dynamic pressures for change. Where appropriate PSAA has worked with MHCLG to change audit regulations where they are preventing efficiency.

- 3.8 PSAA's view is that the national collective, sector-led scheme stands out as the best option for all eligible bodies – especially in the current challenging market conditions. It offers excellent value for money and assures the independence of the auditor appointment. This is a view which is accepted as an accurate position in respect of audit appointments on behalf of the Authority.
- 3.9 MRWA's membership of the scheme is likely to save time and resources – time and resources which can be deployed to address other pressing priorities. MRWA can avoid the necessity to establish an auditor panel (required by the Local Audit & Accountability Act, 2014) and the need to manage our own auditor procurement, which would be expensive and technically challenging. With high levels of participation, the PSAA scheme can make a significant contribution to supporting market sustainability and encouraging realistic prices in a challenging market.

Audit scope

- 3.10 The scope of a local audit is fixed. It is determined by the Code of Audit Practice (as set out by the National Audit Office), the format of the financial statements (specified by CIPFA/LASAAC) and the application of auditing standards regulated by the Financial Reporting Council (FRC). These factors apply to all local audits irrespective of whether an eligible body decides to opt into PSAA's national scheme or chooses to make its own separate arrangements.
- 3.11 The scope of public audit is wider than for private sector organisations. For example, for 2020/21 onwards it involves providing a new commentary on the body's arrangements for securing value for money, as well as dealing with electors' enquiries and objections, and in some circumstances issuing statutory recommendations and even public interest reports.

Audit independence

- 3.12 Auditors must be independent of the bodies they audit to enable them to carry out their work with objectivity and credibility, and to do so in a way that commands public confidence. Part of PSAA's work is that they will continue to make every effort to ensure that auditors meet the relevant

independence criteria at the point at which they are appointed, and to address any identified threats to independence which arise from time to time. PSAA will also monitor any significant proposals for auditors to carry out consultancy or other non-audit work with the aim of ensuring that these do not undermine independence and public confidence.

- 3.13 The scheme will also endeavour to appoint the same auditor to bodies involved in formal collaboration/joint working initiatives, if the parties consider that a common auditor will enhance efficiency and value for money.

Audit standards

- 3.14 In accordance with the 2014 Act, audit firms must be registered with one of the chartered accountancy institutes – currently the Institute of Chartered Accountants in England and Wales (ICAEW) – acting in the capacity of a Recognised Supervisory Body (RSB). The quality of their work will then be subject to inspection by either or potentially both the RSB and the FRC. Currently there are fewer than ten firms registered to carry out local audit work.
- 3.15 PSAA will take a close interest in the results of RSB and FRC inspections and the subsequent plans that firms develop to address any areas in which inspectors highlight the need for improvement. PSAA will also focus on the rigour and effectiveness of firms' own internal quality assurance arrangements, recognising that these represent some of the earliest and most important safety nets for identifying and remedying any problems arising. To help inform their scrutiny of both external inspections and internal quality assurance processes, PSAA will invite regular feedback from both audit committee chairs and chief finance officers of audited bodies.

Audit fees

- 3.16 Audit fees must ultimately be met by individual audited bodies. The prices submitted by bidders through the procurement will be the key determinant of the value of audit fees paid by opted-in bodies.
- 3.17 PSAA's view is that the most likely way to secure competitive arrangements in a suppliers' market is to work collectively together as a sector.
- 3.18 PSAA will seek to encourage realistic fee levels and to benefit from the economies of scale associated with procuring on behalf of a significant number of bodies. PSAA will also continue to seek to minimise their own

costs (which represent approximately 4% of overall scheme costs). PSAA is a not-for-profit company and any surplus funds will be returned to scheme members. For example, in 2019 PSAA returned a total £3.5million to relevant bodies and, more recently, we announced a further distribution of £5.6m in August 2021. (MRWA's share of the recent distribution was £4,460.)

- 3.19 PSAA will continue to pool scheme costs and charge fees to opted-in bodies in accordance with a published fee scale as amended from time to time following consultations with scheme members and other interested parties. Pooling is a key tenet of the national collective scheme.
- 3.20 Additional fees (fee variations) are part of the statutory framework. They only occur if auditors are required to do substantially more work than anticipated, for example, if local circumstances or the Code of Audit Practice change or the regulator (the FRC) increases its requirement on auditors.
- 3.21 It is important to emphasise that by opting into the national scheme MRWA will be able to take assurance that PSAA review and robustly assess each fee variation proposal in line with statutory requirements. They draw on their technical knowledge and extensive experience in order to assess each submission, comparing with similar submissions in respect of other bodies/auditors before reaching a decision on whether they are approved.
- 3.22 The PSAA process offers no guarantee that the existing auditor will continue in their appointment, but that may also be the outcome.

4. Risk Implications

- 4.1 The risks to the Authority of accepting the invitation from PSAA are considered significantly lower than by taking steps to make the audit appointment without support from PSAA.

5. HR Implications

- 5.1 There are no new HR implications

6. Environmental Implications

- 6.1 There are no new environmental implications

7. Financial Implications

- 7.1 There are no financial implications immediately associated with this report. The future costs of the external auditor will become clearer when the appointments process is nearer its conclusion. It is considered likely that the costs of the audit will increase as the accounting standards and the auditing standards continue to increase.

8. Legal Implications

- 8.1 The Authority is required to have an external auditor appointed under the Local Audit and Accountability Act 2014 and the Local Audit (appointing person) Regulations 2015. PSAA are recognised as an appointing person under the legislation and so MRWA may accept the invitation to be part of their appointment process.

9. Conclusion

- 9.1 MRWA is required to have an external auditor appointed to it.
- 9.2 PSAA is recognised as an appointing person, with all the expertise required to make and manage the appointment of an external auditor.
- 9.3 If MRWA were to make its own appointment the process may be both expensive and technically challenging.
- 9.4 Members are asked to approve the acceptance of the invitation from PSAA to take part in their external auditor appointment process.

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The background documents to this report are open to inspection in accordance with Section 100D of The Local Government Act 1972 - Nil.