

11. ARRANGEMENTS FOR APPOINTMENT OF EXTERNAL AUDITOR (JW)

1. Purpose of the report

To inform Members of the three options open to the Authority for the future appointment of external auditors and for Members to approve the preferred option.

Key issues

The report considers the three options open to the Authority for appointment of an external auditor for the five consecutive financial years commencing on 1 April 2023, and recommends Option 3 as the most cost effective Option. This decision can only be made by an Authority meeting, as required by statute.

Recommendations

2. **1. That Members approve the Peak District National Park Authority opting into the national audit appointment arrangements of Public Sector Audit Appointments (PSAA) for appointment of the Authority's external auditors for five financial years from 1 April 2023 onwards (2023/24 Accounts).**

How does this contribute to our policies and legal obligations?

3. The appointment of the Authority's external auditor for five years from 1 April 2023 onwards must be made under the provisions of the Local Audit and Accountability Act 2014 ("the 2014 Act") and is required to be confirmed by 31 December 2022. The Local Audit (Appointing Person) Regulations 2015 (the 2015 Regulations) require that a principal authority may only make the decision to opt into the appointing person arrangement by the members of the Authority meeting as a whole.

Background

4. The 2014 Act brought to a close the Audit Commission and established transitional arrangements for the appointment of external auditors and the setting of audit fees for all local government and NHS bodies in England. In July 2016 the Secretary of State specified PSAA as an appointing person for principal local authorities and police bodies for audits from 2018/19. This formalised the interim arrangements that ended for the accounts for 2017/18. Because of its size the Authority is regarded as a principal Local Authority body.

In October 2016, the Authority approved the Peak District National Park Authority opting into the national audit appointment arrangements of PSAA for the appointment of the Authority's external auditors for the 2018/19 accounts onwards. This is known as the first appointing period for PSAA and acting in accordance with the role of appointing person PSAA was responsible for appointing an auditor and setting scale fees for the appointing period which covered the financial years 2018/19 to 2022/23.

The Authority's current external auditor is Mazars, this appointment having been made under the current PSAA agreement.

Following the closure of the Audit Commission local authorities have benefited from reductions in scale fees (£10,209 in 2018/19 down from £13,259 in 2017/18). However, there have been some increases in fees for additional work for the last 3 years audits. £1,500 in 2018/19, £5,972 in 2019/20 and £9,518 provisionally notified for 2020/21.

5. When the current appointing period comes to an end on 31 March 2023 the Authority will be able to move to local appointment of its external auditor. There are three options by which this can be achieved, with one option (Option 3 set out below) considered to offer the clearest advantage to this Authority due to the fact that current fees are based on discounted rates offered by the firms in return for substantial market share. It is therefore in the interests of the Authority to seek to be party to any joint procurement arrangements as the contracts expect to collectively cover over 470 local government bodies and will offer maximum economies of scale.

The scope of external audits will still be specified nationally: the National Audit Office (NAO) is responsible for writing the Code of Audit Practice which all firms appointed to carry out the Authority's audit must follow. The nature of the services are highly specialised therefore PSAA will follow a restricted procurement procedure. Not all accounting firms will be eligible to compete for the work as they will need to demonstrate that they have the necessary financial standing, technical capability, skills and experience and those shortlisted will be invited to tender.

Proposals

6. Options for local appointment of External Auditors

There are three options open to the Authority under the 2014 Act, with an auditor appointment required to be made by 31 December 2022:-

Option 1 To make a stand-alone appointment

In order to make a stand-alone appointment the Authority will need 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.

Conclusion on Option 1

Although setting up an auditor panel allows the Authority to take advantage of the new local appointment regime and make its own local selection, operating an auditor panel and running a tendering exercise will incur operating costs, will need officer support and guidance, and with the Authority being so small, any advantage in reduced fees which may be available through joint or national procurement contracts will be lost: so this option is not recommended. It is also considered that there is no particular advantage in a locally selected auditor, as the standards to which the audit must be done are centrally determined.

Option 2 Set up a Joint Auditor Panel/local joint procurement arrangements

The Act enables the Authority to join with other authorities to establish a joint auditor panel, constituted on a similar basis to Option 1.

Conclusion on Option 2

The costs of setting up a panel are shared, and there is a greater opportunity for negotiating some economies of scale by being able to offer a larger combined contract value to the firms, although the panel arrangements would become more complex as there is a need for the panel to be aware of potential conflicts when some auditor firms might be barred from external audit work if they have performed consultancy work for some councils/authorities. This is considered to be a better option than Option 1, in that it could offer some economies of scale, but the costs and complexities may outweigh this benefit. During the previous appointing period there were discussions at officer level, amongst the larger public bodies affected, to determine whether there is an appetite for running a joint procurement that will include the eight Derbyshire districts/boroughs, Derbyshire County Council, Derby City Council, the Peak District National Park Authority, the Office of the Police and Crime Commissioner and the Derbyshire Fire and Rescue Service (i.e. Option 2). However, whilst this was seen as a viable alternative, all felt that there were significant benefits from joining a larger scale procurement exercise.

Option 3 Opt-in to a sector led body

Following lobbying by the Local Government Association (LGA) and demonstrable support from across the sector, the Secretary of State for Communities and Local Government specified PSAA as the appointing person in July 2016. The LGA achieved its objective of establishing a national sector led body to deliver efficient and effective external arrangements for the benefit of all authorities who have opted in to this arrangement.

Conclusion on Option 3

The overwhelming majority of councils and other relevant bodies decided to opt in to the national scheme for the five-year period from 2018/19 to 2022/23. PSAA completed a procurement of audit services to cover this period starting with the audit of accounts for 2018/19. PSAA has an option to extend the contracts for a further two year period to a total of seven years if it chooses to do so.

The procurement in 2017 enabled PSAA to appoint auditors to all councils and other bodies that opted in following a full consultation on the proposed auditor appointments. As PSAA is a not-for-profit body it was also able to pass on the reduction in the winning firms' bids by reducing audit fees. The Authority's fees were reduced to £10,209 in 2018/19 from £13,259 in 2017/18.

PSAA is preparing for the second appointing period which will span the five consecutive financial years from 1 April 2023, covering the audits of accounts for the financial years 2020/23 to 2027/28.

The costs of setting up the appointment arrangements and negotiating fees will be shared across all opt-in authorities. By offering large contract values the firms will be able to offer better rates and lower fees than are likely to result from local negotiation. Any conflicts at individual authorities will be managed by PSAA who would have a number of contracted firms to call upon.

Option 3 is therefore recommended to Members for adoption and Members are asked to approve this Authority opting in to the auditor appointment arrangements being led by PSAA.

The date by which principal local government bodies will need to opt in is 11 March 2022. The aim is to consult with opted in bodies on proposed auditor appointments during late summer/autumn 2022. Confirmation of all of the auditor appointments will take place by the 31 December 2022 deadline.

The stated top priority of PSAA is to make independent auditor appointments at the best possible prices. In September 2021 PSAA formally invited all eligible bodies to the national auditor appointment arrangements for the audit years 2023/24 to 2027/28. This is why a report is being brought to the Authority now.

Are there any corporate implications members should be concerned about?

7. **Financial:** Despite the increases for additional work undertaken by the external auditors over the last three years, Option 3 is still considered to be the best financial option for this Authority.
8. **Risk Management:** Option 3 is considered to represent the lowest risk to the Authority.
9. **Sustainability:** Option 3 represents the most financially sustainable option.
10. **Equality:** No direct implications
11. **Climate Change:** No direct implications
12. **Background papers** None

Appendices None

Report Author, Job Title and Publication Date

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