

Meeting: Audit Committee

Date: 27th November 2024

Wards affected: All Wards in Torbay

Report Title: External Audit Fees and Future Options

Cabinet Member Contact Details:

Councillor Alan Tyerman, Alan.Tyerman@torbay.gov.uk

Director/Assistant Director Contact Details:

Paul Matravers, Head of Corporate Finance, paul.matravers@torbay.gov.uk

1. Purpose of Report

- 1.1 At the meeting of Overview & Scrutiny Board on 7th August 2024, the agenda item in respect of the 2024/25 Q1 Budget Monitoring included an update on the audit of the Council's statement of accounts.
- 1.2 The Director of Finance provided an update on the national issues regarding the backlog of external audit and the strain on the sector. In addition, a discussion was held with respect to the audit fees applicable and how the fee for the audits were set.
- 1.3 This report provides details in respect of the request from the Overview and Scrutiny Board that the Audit Committee review the Public Sector Audit Appointments (PSAA) Framework for External Audit and explore future options and report back to the Overview and Scrutiny Board.

2. Recommendation(s) / Proposed Decision

That audit committee note the report which details:

- a. the review of the Public Sector Audit Appointments (PSAA) Framework for External Audit
- b. the future options available to the Council on the delivery of the annual audits

3. Introduction

- 3.1 As per the Local Audit and Accountability Act 2014 legislation, annually the Council is required to publish draft Statement of Accounts (unaudited) and audited Statement of Accounts by dates set in legislation.
- 3.2 In terms of the auditing of the accounts and the selection of the company who undertake this piece of work, the council has the option of appointing its own auditors or to sign up to the Public Sector Audit Appointments (PSAA) Framework for External Audit. Further details in respect of these options are detailed in **section 6**.
- 3.3 The Council chose to 'opt in' to the national scheme for appointing auditors in 2017. The opt in was for a 5 year period and Council approved the decision to opt in for a further 5 years in December 2021.
- 3.4 Under the national scheme the PSAA board approved the appointment of Grant Thornton (UK) LLP to audit the accounts of Torbay Council for a period of five years, covering the accounts from 1 April 2023 to 31 March 2028. This appointment is made under regulation 13 of the Local Audit (Appointing Person) Regulations 2015.
- 3.5 In addition to the audit of the Statement of Accounts audits are undertaken on a number of other areas not all of which fall within the national auditor appointment scheme. The areas are:
- Certification of Housing Benefit Subsidy
 - Teachers Pension Scheme Certification
 - Harbour Audit

4. The role of the PSAA

- 4.1 Public Sector Audit Appointments Limited (PSAA) was incorporated by the Local Government Association (LGA) in August 2014.
- 4.2 PSAA is a not-for-profit company limited by guarantee without share capital. The company's sole member and guarantor is the Improvement and Development Agency (IDeA), which is a subsidiary of the Local Government Association (LGA). PSAA is operationally independent of both organisations.
- 4.3 In July 2016, the Secretary of State for Housing Communities and Local Government 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.

- 4.4 Acting in accordance with this role PSAA is responsible for appointing an auditor and setting scales of fees for relevant principal authorities that have chosen to opt into its national scheme.
- 4.5 PSAA has a responsibility to deliver the following objectives:
- appointing auditors to all relevant authorities;
 - setting scales of fees, and charging fees, for the audit of accounts of relevant authorities and consulting with relevant parties in relation to those scales of fees;
 - ensuring effective management of contracts with audit firms for the delivery of consistent, quality and effective audit services to relevant authorities;
 - ensuring that public money continues to be properly accounted for and protected;
 - being financially responsible having regard to the efficiency of operating costs and transparently safeguarding fees charged to audited bodies;

5. Becoming an opted-in authority

- 5.1 In accordance with the Local Audit and Accountability Act 2014 and the Local Audit (Appointing Person) Regulations 2015 (the Regulations), PSAA formally invited all eligible principal local government bodies to become opted-in authorities.
- 5.2 The length of the appointing period covered by the opt-in invitation is for the audit of the accounts for the five consecutive financial years from 1 April 2023. A total of 475 bodies eligible to join the scheme at the time of the opt-in period in 2021, 470 (99%) took the decision to opt in.
- 5.3 The objective of the opt-in option was that the sector work together in a co-ordinated, collaborative scheme at a time when the local audit market is facing unprecedented challenges and risks affecting the supply of audit services and the delivery of timely audit opinions.

6. Options to appoint an external auditor

- 6.1 There were three ways to appoint an auditor for the five financial years from 2023/24:
- undertake an individual auditor procurement and appointment exercise;
 - undertake a joint audit procurement and appointing exercise with other bodies, those in the same locality for example; or
 - join PSAA's sector led national scheme.
- 6.2 All of the above options required a local auditor to be appointed not later than 31 December in the financial year preceding the financial year of the accounts to be audited. For the audit

of the accounts of the 2023/24 financial year, the local auditor had to be appointed by 31 December 2022.

Individual or joint procurement (options 1 and 2)

- The legislation requires the establishment of an independent auditor panel. Guidance on auditor panels was issued by CIPFA in 2017 for local government bodies: CIPFA guidance on auditor panels.

PSAA's national scheme (option 3)

By joining the scheme, bodies can:

- avoid the necessity to establish an independent auditor panel (detailed requirements specified by the Local Audit & Accountability Act, 2014);
- avoid the need to manage their own auditor procurement;
- benefit from PSAA undertaking a robust process to validate fee variation proposals; and
- assuming a high level of participation, be able to support market sustainability and encourage realistic prices in a challenging market.

7. Audit Scale Fee Setting and Review

- 7.1 The duty to specify scales of fees is one of PSAA's statutory functions as the appointing person. When setting the scale fee, there is a consultation with opted-in authorities, relevant representative associations of local authorities and relevant bodies of accountants. Other key stakeholders are also consulted to ensure that the consultation is as comprehensive and as productive as possible.
- 7.2 The fee scale is set each year based on the fee scale applicable for the previous year, adapted where possible for changes in audit requirements. Auditors may subsequently find it necessary to carry out more or less audit work than the level envisaged in the scale fee in order to give their audit opinion. This may be because after the fee scale was set requirements changed, or it may be due to changes in local circumstances.
- 7.3 The regulations allow for more or less fees to be payable where substantially more or less work is required. Additional or reduced fees are evaluated under the fee variations process and are subject to PSAA approval. Where the change in audit work is required on an ongoing basis, the scale fee is updated to reflect the change.
- 7.4 Non-recurrent changes the scale fee are dealt with through one-off fee variations on an annual basis. The PSAA approve proposed variations to the scale fee for an individual opted-in authority, to reflect changes in circumstances.
- 7.5 The PSAA obtain updated fee information from appointed auditors, and explanations for any proposed variations from the scale fee, on a regular basis. Consideration of the

reasonableness of the explanations provided by auditors is reviewed before agreeing to any variation to the scale fee.

- 7.6 Scale fees are based on the expectation that the Council can provide the auditor with complete and materially accurate financial statements, with supporting working papers, within agreed timeframes.

8. Future Options available to the Council

- 8.1 As the Council has 'opted in' to the national scheme for appointing auditors for the period covering 1 April 2023 to 31 March 2028, there are no options to 'change' the auditors who undertake the main audit of the Statement of Accounts before the 31 March 2028. The Council will continue to feed into the annual consultation regarding the scale fee.
- 8.2 There is an option to review the other areas which require an annual audit but which are not included in the national scheme to seek value for money, these audits are detailed in 3.5.
- 8.3 The Council recently tested the market in respect of the audit of the Teachers Pension Fund and appointed a different body to undertake the audit. This resulted in a saving for the Council and the audit was undertaken in line with plan and delivered efficiently.
- 8.4 The Council can undertake the same exercise on the audit in respect of the Certification of Housing Benefit Subsidy to understand if there are alternatives to the current provider whilst ensuring that the required outcomes are delivered and value for money considered.
- 8.5 The Council will undertake this review with the provider being in place to undertake the 2025/26 Housing Benefit Subsidy audit.

9. Tackling Climate Change

- 9.1 Not applicable

10. Associated Risks

- 10.1

11. Identify the potential positive and negative impacts on specific groups

- 11.1

	Positive Impact	Negative Impact & Mitigating Actions	Neutral Impact
Older or younger people			X
People with caring Responsibilities			X
People with a disability			X
Women or men			X
People who are black or from a minority ethnic background (BME) (Please note Gypsies / Roma are within this community)			X
Religion or belief (including lack of belief)			X
People who are lesbian, gay or bisexual			X
People who are transgendered			X
People who are in a marriage or civil partnership			X
Women who are pregnant / on maternity leave			X
Socio-economic impacts (Including impact on child poverty issues and deprivation)			X
Public Health impacts (How will your proposal impact on the general health of the population of Torbay)			X

12. Cumulative Council Impact

12.1 Not applicable

13. Cumulative Community Impacts

13.1 Not applicable