

Agenda Item

REPORT OF Finance Manager and Section 151 Officer

To: Audit & Governance

Subject: Update on the Appointment of External Auditors for the period 2023/24 – 2027/28

Date: 25th October 2022

Reference:

PURPOSE OF REPORT:

To update members on the progress in appointing external auditors for the period 2023/24 – 2027/28.

1. Background

The current auditor appointment arrangements cover the period up to and including the audit of the 2022/23 accounts. The Council having previously opted into the ‘appointing person’ national auditor appointment arrangements established by Public Sector Audit Appointments (PSAA) for the period covering the accounts for 2018/19 to 2022/23.

In a report to Full Council on the 22nd January 2022 members agreed with the recommendation from Audit and Governance Committee of the 18th January 2022 that Torridge opt into the PSAA procurement of external audit services for the period 23/24 to 27/28.

Much has changed in the local audit market since audit contracts were last awarded in 2017. At that time the audit market was relatively stable, there had been few changes in audit requirements, and local audit fees had been reducing over a long period. 98% of those bodies eligible opted into the national scheme and attracted very competitive bids from audit firms. The resulting audit contracts took effect from 1 April 2018.

As a result of a series of financial crisis and failures in the private sector this led to a review of the role of auditors and the focus and value of their work. Various reviews of the “effectiveness of audit” were undertaken in the wake of these failures.

The Kingman review led to a drive for the Financial Reporting Council (FRC) to deliver measurable improvements in audit quality. Essentially this resulted in audit firms undertaking additional work to gain deeper levels of assurance. This additional work led to audits not being completed in accordance with publication deadlines, and additional costs to Councils by the fee variations. The situation has been accentuated by auditor recruitment and retention challenges.

An example of the fee variations incurred by Torridge Council over and above the original base scale fee is shown overleaf. As is demonstrated the actual costs at £53k are 67% higher than the original base scale fee. These fee variations are recurrent i.e. the Council is incurring these costs annually over the original scale fee each audit.



Original Scale Fee	£31,792
Fee Variations	
Pension valuation	£2,188
Property valuation	£2,188
Value for Money	£9,000
Increased FRC challenge	£3,125
ISA 540 Accounting Estimates	£2,100
Other	£2,900
subtotal	£21,501
Revised total	£53,293

2. Report

Procurement of External Audit for the period 2023/24 to 2027

On the 3rd October 2022 the PSAA announced the outcome of its procurement of audit services for 470 local government, police and fire bodies (99% of eligible bodies having opted into the national procurement). PSAA have offered contracts to six companies following the competitive bidding process. The split of audit work allocated by PSAA is as shown below, and the previous percentages for those firms undertaking the audits for 18/19 to 22/23.

	23/24 – 27/28	18/19 – 22/23
Audit Firm		
Grant Thornton	36%	40%
Mazars	18%	22.5%
Ernst & Young	30%	30%
Deloitte		6%
BDO		6%
KPMG	14%	
Bishop Fleming	3.75%	
Azets Audit Services	3.25%	

The PSAA press release of the 3rd October 2022 indicated that Councils should expect an increase of 150% on their 2022/23 costs. **For Torridge this would be a £75k increase in its external audit fees.**

The PSAA press release states they recognise that this will be a significant financial challenge to local authorities. They have raised concerns on behalf of the local authority sector with DLUHC.



3.

Financial Implications

As detailed within the report

Human Resources Implications

Nothing specific from this report.

Sustainability Implications

n/a

Equality/Diversity

Nothing specific from this report.

Risk Management

The report highlights the financial risk to the Council of this increase financial pressure.

Compliance with Policies and Strategies

This is associated with Torridge's Risk Strategy.

4. CONCLUSIONS

Clearly the procurement process undertaken by the PSAA has resulted in a significant financial challenge to the Council at a time when it is facing increased financial pressures arising from the Housing crisis and the costs of the living. These increased costs will be captured as the Medium Term Financial Strategy is updated. In light of the funding challenges faced by Central Government at a national level it would not be prudent to expect any central government support towards these increased audit costs.

5. RECOMMENDATIONS

The report is for noting only

SUPPORTING INFORMATION

Consultations: Date of Consultation –12 October 2022
 Officers Consulted –
 Chief Executive
 Head of Communities
 Monitoring Officer

Contact Officer: David Heyes– Finance Manager & Section 151 Officer

Background Papers:

