



Audit, Risk & Assurance Committee

Date	18 January 2022
Report title	Appointment of External Auditors
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Report has been considered by	N/A

Recommendation(s) for action or decision:

Audit, Risk & Assurance Committee is recommended to:

- (1) approve that WMCA opts into Public Sector Audit Appointments' national scheme for external auditor appointments for the 5 year appointing period commencing 1 April 2023.

1.0 Purpose

- 1.1 This report has been prepared to seek approval for WMCA to opt into the Public Sector Audit Appointments national scheme for auditor appointments for the 5 years commencing 1 April 2023.

2.0 Background

- 2.1 Since the abolition of the Audit Commission in 2015, local authorities have had the choice of procuring and appointing their own External Auditors or opting into a national scheme operated by Public Sector Audit Appointments (PSAA).
- 2.2 WMCA opted into the national scheme in 2017 along with the majority of bodies eligible; 484 bodies out of the 494 eligible took the decision to opt in including all seven of WMCA's Constituent Authorities. For audits of accounts from 2018/19 onwards, PSAA appointed Grant

Thornton as WMCA's external auditor for the duration of a five-year appointing period. The current appointing period ends on 31 March 2023 and a decision is now required to determine whether WMCA opts into the national scheme again from 1 April 2023.

- 2.3 If WMCA determines not to opt-into the national scheme, alternative arrangements would need to be made. Two options exist:
- 1) Establishing a stand-alone Auditor Panel to make the appointment on behalf of the authority;
 - 2) To commence work on exploring the establishment of local joint procurement arrangements with other local authorities.
- 2.4 The preferred option is to opt-in to the PSAA's national scheme as it is considered that this offers the best value for money and assures the appointment of suitably qualified and independent auditor.
- 2.5 In 2017/18 the deadline for issuing audit opinions was brought forward from 30 September to 31 July. Since this point there has been a reduction in the number of local government audit opinions delivered on time, with significant reductions from 2018/19 onwards. This downward trend accelerated during the COVID-19 pandemic, with only 45% of 2019/20 audits completed by the extended deadline of 30 November 2020 and, most recently, only 9% of 2020/21 audits completed by the extended deadline of 30 September 2021.
- 2.6 The Department for Levelling Up, Housing and Communities (DLUHC) therefore issued a package of measures designed to improve local audit delays on 16 December 2021. These measures are summarised in an appendix to this report for members further information.

3.0 Public Sector Auditor Appointments

- 3.1 In the past, auditors were appointed by the Audit Commission under the Audit Commission Act 1998. When the Audit Commission was abolished in 2015, the existing external audit contracts were transferred to PSAA.
- 3.2 PSAA is an independent not-for-profit company limited by guarantee and was established by the Local Government Association. PSAA is now specified as an appointing person under the provisions of the Local Audit and Accountability Act 2014 and the Local Audit (Appointing Person) Regulations 2015.
- 3.3 WMCA agreed to opt-into the national appointment scheme for the first appointment period which commenced on 1 April 2018 and ends on 31 March 2023. A decision on whether to opt-into the national scheme needs to be made by 11 March 2022. WMCA has a duty to appoint new external auditors before the end of December 2022 in readiness.
- 3.4 There are advantages and disadvantages for each of the options. The main benefit of opting into the national scheme is that it offers good value for money and assures the appointment of a suitably qualified and independent auditor. The two alternative options noted in paragraph 2.3 overleaf would be considerably more resource intensive to implement and could lead to higher costs owing to:
- the requirement to establish an Audit Panel and undertake a procurement exercise;
 - the lack of ability to offer a material contract value to the market; and
 - the lack of appetite for a joint procurement.

3.5 WMCA's influence in specifying the external audit service is also severely limited. The National Audit Office is responsible for the Code of Audit Practice which all firms must follow. The scope of public sector audit is also wider than for private sector organisations. For example, the external auditor is required to form a conclusion on the authority's arrangements for securing value for money as part of the annual audit process.

3.6 It is therefore recommended that WMCA opts into the PSAA national scheme as it is considered that this offers the best value for money and assures the appointment of suitably qualified and independent auditor.

4.0 Financial Implications

4.1 The anticipated costs of external audit arrangements are contained within WMCA's draft budget for 2022/23 onwards. The anticipated total audit fees for the 2020/21 audit year are approximately £67,000, including the cost of additional value for money audit work under the new National Audit Office Code.

5.0 Legal Implications

5.1 The appointment of an external auditor is a statutory requirement.

6.0 Equalities Implications

6.1 Not applicable.

7.0 Inclusive Growth Implications

7.1 Not applicable.

8.0 Geographical Area of Report's Implications

8.1 Not applicable.

9.0 Other Implications

9.1 Not applicable.

10.0 Schedule of background papers

10.1 Not applicable

Department for Levelling Up, Housing and Communities (DLUHC)

Summary of ‘Measures to improve local audit delays’ publication – issued on 16 December 2021

Section 1: Measures relating to audit firms and timely completion of audit

- Financial Reporting Council to publish updated Key Audit Partner guidance by spring 2022, including new routes for an experienced Registered Individual to become a Key Audit Partner.
- Work with CIPFA to further develop the proposal for a new local audit training diploma in local government financial reporting and management aimed at different levels of auditor, and a new technical advisory service that could provide support to firms, and in particular new entrants.

Section 2: Measures relating to local bodies and quality of accounts preparation

- DLUHC to provide further funding of £45 million over the course of next Spending Review period to support local bodies with the costs of strengthening their financial reporting, new burdens related to appointment of independent members and other recommendations set out in Sir Tony Redmond’s independent review of local authority financial reporting and external audit and increased auditing requirements.
- Chartered Institute of Public Finance and Accountancy (CIPFA) to publish strengthened guidance on audit committees by April 2022. The guidance will emphasise the role that audit committees should have in ensuring accounts are prepared to a high standard, alongside broader changes including appointment of independent members. Following consultation, consider making the guidance, committees and the independent member statutory.
- DLUHC to provide via the Local Government Association sector grant for a number of targeted training events for audit committee chairs.

Section 3: Proposed measures relating to accounting and audit requirements

- National Audit Office rolling over of amendments to 20/21 Auditor Guidance Note 03 and 07 to allow for altering the timing of elements on the Value for Money arrangements work and enable more focus on fully delivering opinions on the financial statements.
- CIPFA and the Local Authority Scotland Accounts Advisory Committee (LASAAC) is undertaking a project to improve the presentation of local authority accounts to inform the development of the 22/23 Accounting Code and comply with International Financial Reporting Standards and statutory accounting principles.
- Her Majesty’s Treasury to undertake a thematic review of financial reporting valuations for non-investment properties to inform development of the Accounting Code from 22/23 onwards.
- The government has asked CIPFA/LASAAC to consider the merits of a time-limited change to the Accounting Code for 21/22.
- Delaying implementation of standardised statements of service information and associated audit requirements.

Section 4: Longer term measures to help stabilise the market and address long term supply issues

- PSAA to progress their proposed procurement strategy for the next round of local audit contracts from 2023/24.
- Extending the deadline for publishing audited local authority accounts to 30 November 2022 for 21/22 accounts and the 30 September date for 5 years from 2023/24 – 2027/28.
- National Audit Office to prepare for a re-laying of the Code of Audit Practice 2020 in parliament, so that it will apply for the whole of the next appointing period.
- Developing an industry-led workforce strategy, working with the system leader and audit firms, to consider the future pipeline of local audits, and associated questions related to training and qualifications.

The full publication can be viewed at the following link:

<https://www.gov.uk/guidance/measures-to-improve-local-audit-delays>