

**Bolsover District Council**

**Council**

**3 November 2021**

**APPOINTING AUDITORS 2023-2028**

**Report of the Assistant Director of Finance & Resources**

**Classification:** This report is public

**Report By:** Assistant Director of Finance and Resources

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**PURPOSE / SUMMARY**

To inform Council of the decision required of whether Bolsover District Council should opt-in to the national arrangement for the procurement of external audit or procure external audit services independently.

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**REPORT DETAILS**

- 1 Background** *(reasons for bringing the report)*
  - 1.1 An audit is the review of an organisation's financial statements. It is carried out by a qualified, independent person who gives an opinion on whether those statements have been prepared in accordance with the specified requirements.
  - 1.2 Auditors of local public bodies also provide opinions on other aspects of the bodies' expenditure – such as arrangements for securing value for money and whether the body is a going concern.
  - 1.3 Local audit is an essential tool for giving assurance that bodies are spending public money efficiently and effectively.
  - 1.4 The Local Audit and Accountability Act 2014, set out a new framework which required local bodies to appoint their own auditors. They had previously been appointed by the Audit Commission which was effectively abolished by the Act.
  - 1.5 The framework requires local bodies to appoint their own auditor at least once every five years. They will need to consult and take into account the advice of an independent panel. They will be required to publish information about the appointment of an auditor within 28 days of making an appointment.

## **2. Details of Proposal or Information**

### **2.1 The national scheme for appointing local auditors**

In July 2016, the Secretary of State specified Public Sector Audit Appointments (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.

2.2 Acting in accordance with this role, PSAA takes responsibility for appointing an auditor and setting scales of fees for relevant principal authorities that have chosen to opt-in to its national scheme. 98% of eligible bodies made the choice to opt-in for the five-year period commencing in April 2018. We were amongst those who opted in.

2.3 The national scheme timetable for appointing auditors from 2023/24 means we now have to decide whether to opt-in to the national scheme for the period 2023/2024 to 2027/2028.

### **2.4 The Local Government Association's view**

The following are excerpts from a letter received from the Chairman of the LGA to all English Principal Councils on 23 September 2021.

2.5 The national framework remains the best option councils can choose. There are many reasons for favouring the national arrangements and we think those reasons have become more compelling since 2016/17 when councils were last asked to make this choice.

2.6 The way external audit has operated over the last couple of years has been extremely disappointing. A lack of capacity in the audit market has been exacerbated by increased requirements placed on external auditors by the audit regulator. There is also a limited number of firms in the market and too few qualified auditors employed by those firms. This has led to a situation where many audits have been delayed and dozens of audit opinions remain outstanding from 2019/20 and 2020/21. Auditors have also been asking for additional fees to pay for extra work.

2.7 As the client in the contract, a council has little influence over what it is procuring. The nature and scope of the audit is determined by codes of practice and guidance and the regulation of the audit market is undertaken by a third party, currently the Financial Reporting Council. Essentially, councils find themselves operating in what amounts to a suppliers' market and the client's interest is at risk of being ignored unless we act together.

2.8 Everyone, even existing suppliers, agrees that the supply side of the market needs to be expanded, which includes encouraging bids from challenger firms. Public Sector Audit Appointments Ltd (PSAA), the body nominated by the Government to run the national arrangements, has suggested various ways this could be done, but these initiatives are much more likely to be successful if a large number councils sign up to the national scheme.

2.9 It is therefore vital that councils co-ordinate their efforts to ensure that the client voice is heard loud and clear. The best way of doing this across the country is to sign up to the national arrangement.

2.10 To summarise, the same arguments apply as at the time of the last procurement:

- A council procuring its own auditor or procuring through a joint arrangement means setting up an Audit Panel with an independent chair to oversee the procurement and running of the contract.
- The procurement process is an administrative burden on council staff already struggling for capacity. Contract management is an ongoing burden.
- Procuring through the appointing person (PSAA) makes it easier for councils to demonstrate independence of process.
- Procuring for yourself provides no obvious benefits:
  - The service being procured is defined by statute and by accounting and auditing codes
  - Possible suppliers are limited to the small pool of registered firms with accredited Key Audit Partners (KAP).
  - Since the last procurement it is now more obvious than ever that we are in a 'suppliers' market' in which the audit firms hold most of the levers.
- PSAA has now built up considerable expertise and has been working hard to address the issue that have arisen with the contracts over the last couple of years:
  - PSAA has the experience of the first national contract. The Government's selection of PSAA as the appointing person for a second cycle reflects MHCLG's confidence in them as an organisation.
  - PSAA has commissioned high quality research to understand the nature of the audit market.
  - It has worked very closely with MHCLG to enable the government to consult on changes to the fees setting arrangements to deal better with variations at national and local level, hopefully resulting in more flexible and appropriate Regulations later this year.

### **3 Reasons for Recommendation**

3.1 It is considered by the Council's Section 151 Officer that opting-in to the national scheme will be in the best interests of this Council.

### **4 Alternative Options and Reasons for Rejection**

4.1 Members could decide not to opt-in to the national scheme. However, as discussed in paragraph 1.15, there are many disadvantages to deciding to

procure our own external audit, including all the extra work and administration that comes with it for no obvious benefit.

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## RECOMMENDATIONS

1. That Council agrees to accept the invitation to become an opted-in authority for the audit years 2023/2024 to 2027/2028 for the purposes of the appointment of our auditor under the provisions of the Local Audit and Accountability Act 2014 and the requirements of the Local Audit (Appointing Person) Regulations 2015.

Approved by the Portfolio Holder - Cllr Clive Moesby, Executive Member for Finance

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## IMPLICATIONS

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**Finance and Risk:**            Yes             No

**Details:**

There are no additional financial implications arising from this report. It is felt the benefits from opting-in to the national scheme far outweigh any risks. Audit and Corporate Overview Scrutiny Committee will be kept informed as we go through the procurement process.

On Behalf of the Section 151 Officer

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**Legal (including Data Protection):**            Yes             No

**Details:**

The Local Audit and Accountability Act 2014 and the Local Audit (Appointing Person) Regulations 2015. A decision to become an opted-in authority must be taken in accordance with the Regulation 19, i.e. by the members of Full Council.

On Behalf of the Solicitor to the Council

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**Staffing:**            Yes             No

**Details:**

There are no staffing implications arising from this report.

On behalf of the Head of Paid Service

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## DECISION INFORMATION

<b>Decision Information</b>	
<p><b>Is the decision a Key Decision?</b>  A Key Decision is an executive decision which has a significant impact on two or more District wards or which results in income or expenditure to the Council above the following thresholds:</p> <p><b>BDC:</b>  Revenue - £75,000 <input type="checkbox"/> Capital - £150,000 <input type="checkbox"/></p> <p><b>NEDDC:</b>  Revenue - £100,000 <input type="checkbox"/> Capital - £250,000 <input type="checkbox"/></p> <p><input checked="" type="checkbox"/> <i>Please indicate which threshold applies</i></p>	No
<p><b>Is the decision subject to Call-In?</b>  (Only Key Decisions are subject to Call-In)</p>	No
<p><b>District Wards Significantly Affected</b></p>	None
<p><b>Consultation:</b>  Leader / Deputy Leader <input type="checkbox"/> Cabinet / Executive <input type="checkbox"/>  SAMT <input type="checkbox"/> Relevant Service Manager <input type="checkbox"/>  Members <input checked="" type="checkbox"/> Public <input type="checkbox"/> Other <input type="checkbox"/></p>	<p>Yes</p> <p>Details:  Chair of Audit and Corporate Overview  Scrutiny Committee</p>

**Links to Council Ambition (BDC)/Council Plan (NED) priorities or Policy Framework including Climate Change, Equalities, and Economics and Health implications.**

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## DOCUMENT INFORMATION

Appendix No	Title
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<p><b>Background Papers</b> (These are unpublished works which have been relied on to a material extent when preparing the report. They must be listed in the section below. If the report is going to Cabinet (NEDDC) or Executive (BDC) you must provide copies of the background papers)</p>	
None	