

## EAST SUSSEX FIRE AUTHORITY

<b>Panel</b>	Scrutiny & Audit Panel
<b>Date</b>	10 November 2022
<b>Title of Report</b>	Appointment of External Auditors
<b>By</b>	Duncan Savage - Assistant Director of Resources/Treasurer
<b>Lead Officer</b>	Duncan Savage – Assistant Director of Resources / Treasurer

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<b>Background Papers</b>	Scrutiny & Audit Panel meeting 26 May 2016 (Item 026) – Changes to the arrangements for the appointment of External Auditors Scrutiny & Audit Panel meeting 2 February 2017 (Item 069) – Appointment of External Auditors Fire Authority 14 February 2017 (Item 972) – Appointment of External Auditors Fire Authority 9 December 2021 (Item 78) – Appointment of External Auditors
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<b>Appendices</b>	<ol style="list-style-type: none"><li>1. PSAA – outcome of external audit procurement – 03/10/2022</li><li>2. PSAA – consultation on auditor appointment for 2023/24 – 17 October 2022</li></ol>
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### Implications

<b>CORPORATE RISK</b>		<b>LEGAL</b>	✓
<b>ENVIRONMENTAL</b>		<b>POLICY</b>	
<b>FINANCIAL</b>	✓	<b>POLITICAL</b>	
<b>HEALTH &amp; SAFETY</b>		<b>OTHER (please specify)</b>	
<b>HUMAN RESOURCES</b>		<b>CORE BRIEF</b>	
<b>EQUALITY IMPACT ASSESSMENT</b>			

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<b>PURPOSE OF REPORT</b>	To set out Public Sector Audit Appointment's (PSAA's) proposals for appointing the external auditor to the Authority for the accounts for the five-year period from 2023/24 and also the likely impact on audit fees.
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<b>EXECUTIVE SUMMARY</b>	The current contract with PSAA for the appointment of the Authority's external auditors ends on 31 March 2023 (with the audit of the 2022/23 accounts).
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At its meeting on 9 December 2021 the Fire Authority agreed to opt in to the PSAA scheme for the next five year period.

PSAA has now completed its procurement process and proposes to appoint Ernst & Young (EY LLP) as the Authority's auditors from 2023/24. EY LLP are the Authority's current auditors.

PSAA has advised that the Authority's audit fee for 2023/24 is likely to rise by 150% to approximately £125,000. This will create a pressure of approximately £60,000 on the Authority's revenue budget, unless the Government increases its existing grant for the additional costs resulting from the Redmond Report accordingly.

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## **RECOMMENDATION**

The Panel is recommended to:

- (i) note the outcome of PSAA's procurement process;
- (ii) agree the PSAA proposal to appoint EY LLP as the Authority's external auditors for a further five years;
- (iii) note the expected increase in audit fees and the resultant pressure on the Authority's revenue budget should the Government not increase the external audit grant; and
- (iv) delegate authority to the Assistant Director Resources/Treasurer to put in place any arrangements necessary to give effect to this decision.

## **BACKGROUND**

- 1.1 Following the disbandment of the Audit Commission and the introduction of the Local Audit and Accountability Act 2014, relevant local authorities including the Fire Authority are responsible for appointing their own external auditors. Subsequently under the Local Audit (Appointing Persons) Regulations 2015, Public Sector Audit Appointments Limited (PSAA) was established as an appointing body.
- 1.2 Under the Local Audit and Accountability Act 2014 the Authority has a number of options for appointing its auditors:
  - To appoint its own auditor, which requires it to follow the procedure set out in the Act (including the establishment of an independent Auditor Panel).

- To act jointly with other authorities to procure an auditor following the procedures in the Act (including the establishment of an independent Auditor Appointment Panel).
  - To opt into the national auditor appointment scheme administered by a body designated by the Secretary of State as the 'appointing person'. The body currently designated for this role is Public Sector Audit Appointments Limited (PSAA).
- 1.3 The current auditor appointment arrangements cover the period up to and including the audit of the 2022/23 accounts. The Authority opted into the 'appointing person' national auditor appointment arrangements established by PSAA for the period covering the accounts for 2018/19 to 2022/23. Following a procurement exercise PSAA appointed EY LLP as the Authority's external auditors for that period.
- 1.4 At its meeting on 9 December 2021 the Fire Authority agreed to opt in to PSAA for the next five year period. In total 470 (99%) of the 475 bodies eligible to do so opted in to the PSAA scheme.
- 1.5 PSAA subsequently carried out a procurement exercise, the strategy for which was informed by the findings of the Redmond Report and a consultation with opted in bodies. The outcome of the procurement exercise was announced on 3 October 2022 and the full press release is included in Appendix 1. The main outcomes are as follows:
- PSAA has offered contracts to six suppliers. It has retained the services of three existing suppliers, Grant Thornton, Mazars and Ernst & Young (EY LLP), welcomed former supplier KPMG back to the market, and is entering into contracts with two new suppliers, Bishop Fleming and Azets Audit Services;
  - The bid prices that PSAA received in this procurement reflected a significant increase compared to its previous procurement in 2017. At this stage PSAA's advice to bodies is to anticipate a major re-set of total fees for 2023/24 involving an increase of the order of 150% on the total fees for 2022/23 (scale fee plus variations). The actual total fees will depend on the amount of work required.
- 1.6 Subsequently on 17 October 2022 PSAA wrote to the Authority confirming that it proposes to appoint EY LLP as the Authority's external auditors for the five year period from 2023/24 (see Appendix 2) and asking the Authority to make representations if it believes that there is a reason why the appointment should not be made, for example:
- If there is an independence issue in relation to the firm proposed as the auditor, which had not previously been notified to PSAA; or
  - If there are formal and joint working arrangements relevant to the auditor's responsibilities which had not previously been notified to PSAA.

The view of Officers is that there are no relevant grounds on which the Authority should object to EY LLP's appointment.

## **2. ALTERNATIVE OPTIONS**

2.1 As noted in paragraph 1.1 the Authority does have other options under the Local Audit & Accountability Act 2014, however these alternatives are not considered viable for the following reasons:

- The Authority does not have an existing Panel that would fulfil the requirements of an independent Auditor Panel and it would take considerable time and effort to recruit one;
- The market is limited with only 10 firms accredited to carry out local public audit. These are the same firms who had the opportunity to bid for the PSAA contract;
- It would take as a minimum two to three months to conduct a compliant procurement exercise once a specification had been developed and would require officer resource to support it;
- It is unlikely that an approach to the market by one, relatively small, audited body would result in a better outcome in terms of cost or quality;
- The statutory requirement is for each local public body to have appointed its auditors by the 31 December of the financial year preceding the start of the relevant audit period, i.e. by 31 December 2022 in this case, which would give insufficient time both to appoint an independent Auditor Panel and conduct a compliant procurement exercise;
- The Authority has already opted into the PSAA scheme for 2023/24 onwards.

### **3 FINANCIAL IMPLICATIONS**

3.1 Following its press release on 3 October and subsequent correspondence with officers, PSAA has indicated that the cost of our external audit for 2023/24 will be of the order of £125,000. We expect the audit fee for 2022/23 to be around £40,000 based on a scale fee of £23,690 and variations consistent with previous years. The Government has provided an additional grant of £12,212 for 2022/23 and the following two years, based on the New Burdens doctrine to fund all of the financial impacts of the Redmond Report. Clearly that grant is insufficient to fund the additional cost of the current external audit fee, let alone the proposed new fees and the other potential costs of Redmond e.g. the appointment and payment of independent audit committee members. PSAA has said that it will raise the matter with Government. Officers have already raised the matter both with the Home Office and the NFCC and will raise with local MPs when we meet with them in November. As things stand the Authority had already increased its budget for external audit fees by £30,000 which will partially mitigate the increase, but assuming that the grant from Government is not increased then the new fees will result in an additional unfunded pressure of approximately £60,000.

### **4. LEGAL IMPLICATIONS**

4.1 The Local Audit and Accountability Act 2014 (the Act):

- Section 7 - requires a relevant authority to appoint a local auditor to audit its accounts for a financial year not later than 31 December in the preceding year.

- Section 8 - governs the procedure for appointment including that the authority must consult and take account of the advice of its auditor panel on the selection and appointment of a local auditor.
- Section 12 - makes provision for the failure to appoint a local auditor: the authority must immediately inform the Secretary of State, who may direct the authority to appoint the auditor named in the direction or appoint a local auditor on behalf of the authority.
- Section 17 - gives the Secretary of State the power to make regulations in relation to an 'appointing person' specified by the Secretary of State. This power has been exercised in the Local Audit (Appointing Person) Regulations 2015 (SI 192) and this gives the Secretary of State the ability to enable a Sector Led Body to become the appointing person.

## **5. CONCLUSION & RECOMMENDATIONS**

- 5.1 The Authority has already opted in to the PSAA scheme for 2023/24 onwards and there are no viable alternatives despite the expected significant increase in audit fees. PSAA proposes to re-appoint EY LLP as the Authority's external auditors. The Authority has established a good working relationship with the EY LLP team and there are no conflicts of interest or other grounds which would justify a challenge to their appointment. The Panel is therefore recommended to approve the PSAA proposal.

**Press release: PSAA Announcement of Procurement Outcome**

3 October 2022

Today Public Sector Audit Appointments Ltd (PSAA) announces the outcome of its procurement of audit services for the 470 local government, police and fire bodies (99% of eligible local bodies) that have opted into its national scheme for the next appointing period spanning the audits from 2023/24 to 2027/28.

The procurement has taken place against the challenging backdrop of a troubled audit profession, a turbulent market and a local audit system that is facing unprecedented difficulties including large volumes of delayed audit opinions. Only ten audit suppliers are currently registered to undertake local audits in England, three of which opted not to take part in this procurement.

We have offered contracts to six suppliers following a competitive process that was protracted reflecting the limited capacity available in the market. The scale of the contracts varies widely depending upon the capacity which each supplier is able to provide.

We are pleased to retain the services of three existing suppliers, Grant Thornton, Mazars and Ernst & Young, to welcome former supplier KPMG back to the market, and to be entering into contracts with two new suppliers, Bishop Fleming and Azets Audit Services. [Please refer to the [pen portraits below](#) provided by each of the successful firms]

From 2023/24 the respective shares of the audits of opted-in bodies will be as follows:

	<b>Share of PSAA's work</b>
Grant Thornton	36.0%
Mazars	22.5%
Ernst & Young	20.0%
KPMG	14.0%
Bishop Fleming	3.75%
Azets Audit Services	3.25%

We have awarded contracts for a total of 99.5% of the audit work detailed in our tender, which was issued in April 2022. We have now been able to take into account the impact of recent and scheduled local government reorganisations which has resulted in a marginal reduction in the auditor capacity required to meet our needs, so 99.5% of the original capacity sought is sufficient.

The bid prices that we received in this procurement reflect a significant increase compared to our previous procurement in 2017. The audit industry has faced major challenges in the intervening period. In addition local audit faces several distinctive difficulties which have resulted in a less competitive market.

In Autumn 2023 PSAA will consult on the proposed scale of audit fees payable by bodies in respect of the audit of 2023/24 accounts. (Our consultation on the proposed 2022/23 scale recently closed on 30 September). At this stage our advice

to bodies is to anticipate a major re-set of total fees for 2023/24 involving an increase of the order of 150% on the total fees for 2022/23. The actual total fees will depend on the amount of work required.

We appreciate that the extent of this likely increase in audit fees will pose a significant funding challenge for local bodies already facing a daunting range of financial pressures. We have raised this concern with DLUHC for consideration.

Awarding new contracts will help to maintain the system for the next five years, recognising that robust local audit is particularly vital in difficult times. It will also buy time for critical local audit system and framework changes to be developed and implemented.

In our view there need to be radical changes in the local audit system. Our hope is that those changes will include reductions in the volume of work which auditors are required to undertake before arriving at their opinion on the financial statements, enabled by a combination of revisions to the accounting and auditing requirements. In our view a more proportionate audit is an absolute pre-requisite to achieve a more sustainable audit system.

Steve Freer, Chair of PSAA, said,

*“The outcomes of our procurement reflect the backcloth of a troubled audit profession, a challenged local audit system and a sellers’ market. We are relieved to have succeeded in securing sufficient capacity to meet local bodies’ needs for the five years commencing 2023/24. Unfortunately, we simply do not have levers to mitigate the very significant increase in audit fees anticipated in twelve months’ time. We have therefore requested Government to give urgent consideration to providing further special support to local bodies to help fund the expected dramatic increase in audit fees.*

*Even after a significant reset of fees, the local audit system is likely to continue to face enormous problems. The position has become far more stressed since the Redmond Review undertook its work in 2019 and 2020. Recruitment and retention and regulatory risks are now even more pronounced. In our view we need a radical examination of the measures necessary to restore order and confidence in local audit, followed by urgent decision making and rapid implementation.”*

## **Pen pictures of the successful firms**

### **Azets Audit Services**

Azets is a UK top 10 audit, accounting and business advisory firm. The firm provides external audit, internal audit and other assurance services across the public sector and has extensive experience of auditing large Scottish councils on behalf of the Accounts Commission. While the firm operates from around 80 local offices spread across the UK, it delivers public sector audit using specialist teams in selected locations in the North, Midlands and London.

### **Bishop Fleming LLP**

Bishop Fleming is a top 30 UK accountancy firm, providing audit, accountancy, tax and business consultancy services to both the public and private sectors. Bishop Fleming has extensive experience working with public sector organisations in the housing, education, charity and healthcare sectors along with a number of local

authority subsidiaries. Their public sector audit team is led by two ICAEW registered key audit partners, both having previous experience of providing external audit services to local authorities.

Bishop Fleming have 37 partners and around 500 staff working from 7 offices across the South West and West Midlands, who are committed to delivering the very best client experience.

### **EY LLP**

Ernst & Young LLP (EY) is a multinational professional services firm with 312,000 employees based in over 150 countries worldwide. They provide consulting, law, strategy, tax and transactions services, and are one of the “Big Four” professional services firms. EY employs around 17,000 people in the UK. There are 240 staff including 14 Key Audit Partners who currently work full-time in the Government and Public Sector assurance services team, who are also able to draw from an extensive pool of specialists.

### **Grant Thornton UK LLP**

Grant Thornton UK is delighted to have been reappointed as the largest supplier of local government audit. The public sector has played a significant role within the firm for over 30 years and we remain committed to the success of the sector. Our UK Public Sector Assurance team employs 440 people, including 29 Key Audit Partners and specialists in financial reporting, audit quality, and Value for Money. The team is dedicated to public audit work in local government and the NHS, with contracts with PSAA, Audit Scotland and over 100 health bodies. The Public Sector Assurance team is a regular commentator on issues facing the sector and oversees the firm’s thought leadership, such as its series of publications on grants and public interest reports.

### **KPMG LLP**

One of the ‘Big Four’ audit firms, KPMG operates in over 100 countries with over 230,000 employees providing audit, assurance, tax, consulting and advisory services to the public and private sectors. KPMG employs around 16,000 people in the UK. Within the public sector they have 14 active Key Audit Partners supported by a team of 100 staff and a range of specialists. KPMG undertakes a range of other public sector audit work including Local Audits in the NHS, central and local government audit work on behalf of NAO and Audit Scotland and a range of external audits in the education and social housing sectors. Prior to 2018, KPMG were appointed auditors to a range of local government bodies through previous audit procurement exercises.

### **Mazars LLP**

Mazars is a large global audit and accounting firm with over 28,000 professionals in 90 countries and territories worldwide. In the UK the firm ranks in the top ten with 2,500 employees and 140 partners working out of 15 offices, and UK fee income in 2021 of £234m. The firm’s dedicated public audit team has significant experience in providing external audit to public sector bodies. It comprises individuals with experience of auditing councils, combined authorities, police bodies, fire and rescue authorities, local government pension funds and other public bodies. In addition to its audit contract with PSAA, the firm provides services to Audit Scotland and has a substantial portfolio of NHS audits and is one of the National Audit Office’s framework suppliers for central government audit.

### **Formal communication to the chief finance officer of East Sussex Fire Authority consulting on the body's proposed auditor appointment from 2023/24**

#### **Background**

PSAA is responsible for appointing an auditor to eligible bodies that have chosen to opt into our national auditor appointment arrangements.

#### **About the proposed appointment**

Under regulation 13 of the Appointing Persons Regulations we must appoint an external auditor to each opted-in body having consulted on our proposal.

On 3 October 2022 we wrote to inform you of the outcome of our procurement to let audit contracts from 2023/24. **Ernst & Young** was successful in winning a contract in the procurement, and we propose appointing this firm as the auditor of East Sussex Fire Authority for five years from 2023/24.

Ernst & Young LLP (EY) is a multinational professional services firm with 312,000 employees based in over 150 countries worldwide. They provide consulting, law, strategy, tax and transactions services, and are one of the "Big Four" professional services firms. EY employs around 17,000 people in the UK. There are 240 staff including 14 Key Audit Partners who currently work full-time in the Government and Public Sector assurance services team, who are also able to draw from an extensive pool of specialists.

In developing appointment proposals we have considered information provided to us by both opted-in bodies and audit firms, and have had regard to and sought to balance a range of factors including:

- auditor independence, the most critical of all the factors;
- joint/shared working arrangements and information from bodies, where we have prioritised those requests that are most relevant to the auditor's responsibilities;
- our commitments to the firms under the audit contracts;
- bodies' main offices and firms' geographical preferences;
- the status of prior years' audits; and
- continuity of auditor where appropriate.

We have sought to accommodate as many requests as we can but that has not been possible in all cases - another consequence of the current, challenging local audit market.

Further information on the [auditor appointment process](#) is available on our website.

#### **Responding to this consultation**

The consultation will close at **midnight on Monday 14 November 2022**. If you are satisfied with the proposed appointment, please confirm this by [email to ap2@psaa.co.uk](mailto:ap2@psaa.co.uk).

#### **Process for objecting to the proposed auditor appointment**

If you wish to make representations to us about the proposed auditor appointment, please send them by [email to ap2@psaa.co.uk](mailto:ap2@psaa.co.uk) to arrive by **midnight on Monday 14 November 2022**.

Your email should set out the reasons why you think the proposed appointment should not be made, for example:

1. there is an independence issue in relation to the firm proposed as the auditor, which had not previously been notified to us; or
2. there are formal and joint working arrangements relevant to the auditor's responsibilities which had not previously been notified to us.

We will consider all representations in detail and will respond by Tuesday 22 November 2022. If we accept your representation, we will consult you on an alternative auditor appointment.

### **Confirmation of Auditor Appointment from 2023/24**

Our plan is to write to all bodies to confirm the Board's final decision on the appointment of the auditor on or before 31 December 2022.

**Please note:** we will assume East Sussex Fire Authority is satisfied with the proposed appointment if we do not receive a response to this email.

### **Contract changes from 2023/24**

Our contracts for audit services from 2023/24 have several differences to those in place for the audits of 2018/19 to 2022/23. Key changes made in response to client feedback include payment terms linked to delivery stages of an audit and additional contract management measures within those permissible with the local audit context. [Our webinar of 16 March 2022](#) provides more information about the new arrangements.

The new contract also includes new limits on supplier liabilities as follows:

- loss of or damage to property £2,000,000 per claim;
- loss in relation to a failure to perform the services in accordance with the Contract or any other loss caused directly by any act or omission of the supplier £10,000,000 per claim; and
- any loss incurred arising from non-compliance with the Data Protection Legislation £5,000,000 per claim.

If you would like more information about the new liability provisions, please contact us.

### **Scale fees for 2023/24**

We will consult formally on scale fees for 2023/24 in Autumn 2023, and will publish confirmed scale fees for 2023/24 for opted-in bodies on our website by 30 November 2023. As indicated in our recent press release which announced the procurement outcome our advice to bodies is to anticipate an increase of the order of 150% on the total fees for 2022/23 (so a £100k 2022/23 total audit fee (scale fee plus fee variations) could become £250k 2023/24 total audit fee - noting that the actual total fees will depend on the amount of work required).

We issue a [Statement of Responsibilities](#) (SOR) that sets out the responsibilities of both auditors and audited bodies. This document serves as the formal terms of engagement between auditors appointed by us and audited bodies. It summarises where the different responsibilities of auditors and of the audited body begin and end.

**Further information**

If you have any questions about our consultation process, please email us at [ap2@psaa.co.uk](mailto:ap2@psaa.co.uk).

Yours sincerely

Tony Crawley, Chief Executive, PSAA