EAST SURREY SHADOW AUDIT AND GOVERNANCE COMMITTEE

MEETING DATE: 6 JULY 2026

REPORT OF CABINET MEMBER: ANDY BURTON (PORTFOLIO HOLDER FOR FINANCE AND RESOURCES)

LEAD OFFICER: NIKKI O'CONNOR, INTERIM CHIEF FINANCE OFFICER, SECTION 151

SUBJECT: APPROACH TO THE APPOINTMENT OF AN EXTERNAL AUDITOR FOR EAST SURREY COUNCIL

Purpose of the Report:

This report sets out proposals for appointing the Council's external auditor for the accounts audit for the three-year period 2027/28 to 2029/30.

Surrey County Council and the District and Borough Councils in Surrey have opted into the 'appointing person' national auditor appointment arrangements, established by Public Sector Audit Appointments (PSAA), for the period covering the external audit of the councils' accounts for 2023/34 to 2027/28. PSAA recently extended the current national auditor appointment arrangements for a further two-year period to cover the audits of local bodies for 2028/29 and 2029/30 through mutual agreement with the appointed audit firms. The existing arrangements therefore cover the audit of the existing councils' accounts for 2026/27, the final year they will produce accounts.

East Surrey Council has the right to join the national scheme. To ensure consistency and ease of administration in the procurement and appointment of an auditor, it is recommended that East Surrey Council opt in to the national auditor appointment arrangements through PSAA (soon to become the Local Audit Office) for the period 2027/28 to 2029/30.

Recommendations:

The Audit and Governance Committee recommends to East Surrey Shadow Council:

1. To opt in to Public Sector Audit Appointments (PSAA) sector-led option for the appointment of external auditors to principal local government and police bodies from 2027/28.
2. To authorise the Interim Chief Finance Officer, as the authorised officer, to sign and return the opt in notice to PSAA and s151 Officer for successor frameworks under the Local Audit Office.

Regulation 19 of the Local Audit (Appointing Person) Regulations 2015 requires that a decision to opt in must be made by a meeting of the full Council.

Reason for Recommendations:

To comply with the Council's duty under the Local Government Audit and Accountability Act 2014, to appoint an auditor to audit its accounts for each financial year.

Options, including alternatives (if any)

Option 1: Opt in to the PSAA Framework (Recommended)

The national offer provides the appointment of an independent auditor with limited administrative cost to the council and will achieve value for money on audit fees. Opting into the PSAA framework will also be consistent with the current approach taken by Surrey County Council and the District and Borough Councils in Surrey, ensuring that audit knowledge is retained and transferred to East Surrey Council. It is worth noting that around 98% of Councils nationally have opted into the PSAA framework.

This recommended option also negates the need for a tendering process to appoint an external auditor ensuring we are transitioning to the new authority on a safe and legal basis.

The recommended approach is therefore to opt in to the national auditor appointment scheme.

Option 2: Do not opt in to the PSAA Framework (not Recommended)

A decision to not opt in to the PSAA framework would require the establishment of an independent auditor panel to make a stand-alone appointment. As set out in the report, members of the panel must be wholly or a majority of independent members as defined by the Act. This means that elected members will not have a majority input to assessing bids and choosing which audit firm to award a contract for the Council's external audit.

Alternatively, the Act enables the Council to join with other authorities to establish a joint auditor panel. Again, this will need to be constituted of wholly or a majority of independent appointees. Further legal advice would be required on the exact constitution of such a panel having regard to the obligations of each Council under the Act and the Council would need to liaise with other local authorities to assess the appetite for such an arrangement.

These would be more resource-intensive processes to implement for the Council, and without the bulk buying power of the sector-led procurement would be likely to result in a more costly service. It would also be more difficult to manage quality and independence requirements through a local appointment process. The council is unable to influence the scope of the audit and the regulatory regime inhibits the council's ability to affect quality.

The Council and its auditor panel would need to maintain ongoing oversight of the contract. Local contract management cannot, however, influence the scope or delivery of an audit.

Summary:

Background

1 Under the Local Government Audit & Accountability Act 2014 ("the Act"), the council is required to appoint an auditor to audit its accounts for each financial year. The council has three options;

- To appoint its own auditor, which requires it to follow the procedure set out in the Act.

- To act jointly with other authorities to procure an auditor following the procedures in the Act.
- To opt in to 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). From 1 April 2027, the responsibilities of PSAA Ltd will transfer to the Local Audit Office.

2 In order to opt in to the national scheme, a council must make a decision at a meeting of the full Council.

The Appointed Auditor

3 The auditor appointed by PSAA will undertake the statutory audit of accounts and provide the Value for Money assessment of the council's arrangements in each financial year, in accordance with all relevant codes of practice and guidance. The appointed auditor is also responsible for investigating questions raised by electors and has powers and responsibilities in relation to Public Interest Reports and statutory recommendations.

4 The auditor must act independently of the council and the main purpose of the Act is to ensure that the appointed auditor is sufficiently qualified and independent.

5 The auditor must be registered to undertake local audits by the Financial Reporting Council (FRC) and employ authorised Key Audit Partners to oversee the work.

6 Auditors are currently regulated by the FRC however, their responsibilities will pass to the Local Audit Office during 2026/27.

7 Councils therefore have very limited influence over the nature of the external audit services they receive, as audit arrangements are determined or overseen by third parties.

Appointment by the Council or jointly

8 The Council may elect to appoint its own external auditor under the Act, which would require the Council to:

- Establish an independent auditor panel to make a stand-alone appointment. The auditor panel would need to be set up by the Council itself, and the members of the panel must be wholly, or a majority, of independent members as defined by the Act. Independent members for this purpose are independent appointees, excluding current and former elected members (or officers) and their close families and friends.
- Manage the contract for its duration, overseen by the Auditor Panel.

9 Alternatively, the Act enables the Council to join with other authorities to establish a joint auditor panel. Again, this will need to be constituted of wholly or a majority of independent appointees. Further legal advice would be required on the exact constitution of such a panel having regard to the obligations of each Council under the Act and the Council would need to liaise with other local authorities to assess the appetite for such an arrangement. It is understood that the majority of councils (98%) nationally are already opted-in to the national

scheme and, whilst East Surrey Council could form a joint auditor panel, the scope for finding more than two partners may be limited.

The national auditor appointment scheme

10 PSAA is specified as the ‘appointing person’ for principal local government under the provisions of the Act and the Local Audit (Appointing Person) Regulations 2015. PSAA let five-year audit services contracts in 2022 for the period covering audits of the accounts from 2023/24 to 2027/28. In 2025, through mutual consent with the appointed audit firms, the appointing period and audit contracts were extended by 2 years to also cover the audits for 2028/29 and 2029/30.

11 PSAA is a not-for-profit organisation whose costs are around 4% of the scheme with any surplus distributed back to scheme members.

12 In summary, the national opt-in scheme provides the following:

- the appointment of a suitably qualified audit firm to conduct audits
- appointing the same auditor to other opted-in bodies that are involved in formal collaboration or joint working initiatives to the extent this is possible with other constraints; PSAA have stated that for consistency, they will seek to appoint an auditor to East Surrey Council that has existing audit knowledge of either Surrey County Council or the District and Borough Councils in Surrey.
- managing the procurement process to call off their established framework;
- ensuring suitable independence of the auditors from the bodies they audit and managing any potential conflicts as they arise during the appointment period;
- minimising the scheme management costs and returning any surpluses to scheme members;
- consulting with authorities on auditor appointments, giving the Council the opportunity to influence which auditor is appointed;
- consulting with authorities on the scale of audit fees and ensuring these reflect scale, complexity, and audit risk; and
- ongoing contract and performance management of the contracts once these have been let.

Local Audit Reform

13 In recent years there have been significant issues in the local audit system. The system has faced significant backlog of outstanding unaudited accounts at local authorities covering multiple financial years. These issues have arisen due to a combination of:

- Specific financial and governance issues at individual authorities
- A shortage of capacity and skills within local authority finance teams, along with recruitment and retention issues
- A shortage of capacity and skills within audit firms to deliver local government audits
- Financial reporting changes
- Changes in professional auditing standards
- Fragmented roles and responsibilities in relation to local audit across a number of regulatory bodies

14 To address these issues, the Government has introduced Local Audit Reform and a programme of audit backstop dates to clear the backlog and enable a

greater focus on recent accounts to re-establish audit assurance. Local Audit Reform will create a Local Audit Office, which will provide vital oversight and streamline the audit system. The Local Audit Office will incorporate the role and function of PSAA as well as regulatory oversight and standards setting. The Local Audit Office will take responsibility for the backstop programme.

15 The backstop programme established a five-year programme to rebuild audit assurance. It has resulted in many disclaimed audit opinions both on the accounts and in relation to value for money arrangements. 2024/25 was the second year of the backstop programme. Within Surrey, the County Council and four District and Borough councils have published unqualified audited accounts for 2024/25 by the backstop deadline of 27 February 2026 and seven District and Borough Councils have published disclaimed audit opinions. The date to publish unaudited accounts for 2025/26 to 2027/28 is 30 June each year, with audited accounts for 2025/26 required by 31 January 2027, 2026/27 accounts by 30 November 2027 and 2027/28 accounts by 30 November 2028. The Finance Workstream within the Devolution and Local Government Re-organisation Implementation Programme is monitoring existing councils progress against these deadlines, to put plans in place to ensure that East Surrey Council complies with the statutory deadlines from 2026/27 onwards. The new Councils will be responsible for the 2026/27 accounts of the legacy councils.

Consultation:

16 Whilst no formal consultation has been carried out on this proposal, the Finance Workstream have consulted with the Chief Finance Officers (S151 Officers) of the existing councils in Surrey, who support the recommendation.

Risk Management and Implications:

17 The principal risks are that the Council:

- Fails to appoint an auditor in accordance with the requirements and timing specified in local audit legislation.
- Does not achieve value for money in the appointment process.

18 These risks are considered best mitigated by opting into the sector-led approach through PSAA.

Financial and Value for Money Implications:

19 PSAA set the core audit scale fee nationally, following consultation with opted in authorities, key stakeholders and other relevant bodies. Scale fees are published on the PSAA website. Fee variations may apply depending on changes in accounting and audit standards and the auditor’s assessment of the level of audit work required at each Council, following audit planning and risk assessment and taking into account local circumstances. PSAA notify

each opted in body of their core scale fee prior to the start of the financial year.

20 Each existing Council in Surrey holds a budget for external audit fees. The 2025/26 scale fees for Surrey Councils are listed as follows:

Council	**Auditor**	**Scale Fee**
Surrey County Council	Ernst & Young	£428,073
Elmbridge Borough Council	Grant Thornton	£169,716
Epsom and Ewell Borough Council	Grant Thornton	£174,679
Guildford Borough Council	Grant Thornton	£260,797
Mole Valley District Council	Grant Thornton	£194,636
Reigate and Banstead	Grant Thornton	£168,537
Runnymede Borough Council	Grant Thornton	£222,349
Spelthorne Borough Council	Grant Thornton	£228,498
Surrey Heath Borough Council	Grant Thornton	£157,230
Tandridge District Council	Grant Thornton	£170,813
Waverley Borough Council	Grant Thornton	£182,074
Woking Borough Council	Grant Thornton	£335,384
Total		**£2,692,786**

21 Published scale fees for recently formed new unitary councils in Northamptonshire and Cumbria range from £725,000 to £822,000, suggesting that a saving may be achievable for East Surrey Council based on existing fees.

22 The actual scale fees for 2026/27 and 2027/28 have not yet been published.

Section 151 Officer Commentary:

23 East Surrey Council will operate in a very challenging financial environment, with significant budgetary pressures from increasing demand and costs of service delivery, coupled with limited financial resources and reducing government funding. East Surrey Council will be increasingly reliant on Council Tax as the primary source of income.

24 Decisions made by the sovereign councils in East Surrey and the East Surrey Shadow Authority will need to consider the ongoing financial impact and ensure that expenditure does not exceed the resources available. It is vital that significant importance is placed on effective financial management and medium-term financial sustainability to achieve a balanced budget position and protect service delivery.

25 The officer recommendation to opt in to the PSAA external audit framework enables East Surrey to meet the requirement to appoint an external auditor, without needing to set up an independent panel that is likely to be both time consuming and result in higher costs. The PSAA procurement awards long term contracts to a sufficient number of firms to enable the appointment of appropriately qualified, independent audit teams to every participating body. The national approach to procurement of external audit encourages audit suppliers to submit prices which are realistic in the context of the current market, drives economies of scale in audit fees, provides effective contract management support and contributes the efforts of audited bodies and auditors to improve the timeliness of audit opinion delivery.

Legal Implications (Monitoring Officer Commentary):

26 Section 7 of the Local Audit and Accountability Act 2014 requires a relevant Council to appoint a local auditor to audit its accounts for a financial year not later than 31 December in the preceding year.

27 Section 8 governs the procedure for appointment including that the Council must consult and take account of the advice of its auditor panel on the selection and appointment of a local auditor. Paragraph 1 of Schedule 3 provides that where a relevant Council is a local Council operating executive arrangements, the function of appointing a local auditor to audit its accounts is not the responsibility of an executive of the Council under those arrangements.

28 Section 12 makes provision for the failure to appoint a local auditor. The Council must immediately inform the Secretary of State, who may direct the Council to appoint the auditor named in the direction or appoint a local auditor on behalf of the Council.

29 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. In July 2016 the Secretary of State specified PSAA as the appointing person.

30 Regulation 19 of the Local Audit (Appointing Person) Regulations 2015 requires that a decision to opt in to the national auditor appointment scheme must be made by Full Council. To comply with this regulation it is necessary for the Audit Committee to make the recommendation to Council.

Workforce Implications:

31 This commentary is provided by Surrey County Council Director of People and Change in the capacity of People, Workforce and Culture Workstream Lead.

32 There are no workforce implications as a result of this report. External Audit Services are fully commissioned services that by law, need to be independent of the Councils. Once appointed, the external auditors will undertake an independence review to ensure that there are no related party interests between the audit team and senior officers of the Council. East Surrey Council will need to ensure that it retains capacity within its finance function to adequately service the external audit of its accounts and respond to auditor queries to achieve an unqualified audit opinion.

Equality and Diversity:

33 There are no Equality and Diversity considerations arising from this report.

What Happens Next:

34 If the Audit Committee and then Council agree the recommendation to opt into the PSAA national auditor appointment arrangements, the Interim Chief Finance Officer will complete and send the 'Opt in' form. It is anticipated that PSAA will appoint an auditor to East Surrey Council by around January 2027.

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