

# SALISBURY CITY COUNCIL

## Report

**Subject:** Changes to External Audit and Accounting Arrangements  
**Committee:** Full Council  
**Date:** 4 March 2024  
**Author:** Steve Bishop, Responsible Finance Officer

---

### 1. **Report Summary**

- 1.1. This report summarises the consequences of a statutory change in the Council's accounting and auditing status resulting from its annual gross income and gross expenditure exceeding £6.5m.
- 1.2. One of the consequences is the need to change external auditor for the 2024/25 accounting year. This report recommends how the Council should procure its new external auditor.

### 2. **Policy Considerations**

- 2.1. The statutory requirements for effective accounting and auditing arrangements are an integral part of the Council's systems of internal control and governance which ensure sound financial stewardship of public money.

### 3. **Background Information:**

- 3.1. The Council's gross income and gross expenditure exceeded £6.5m in 2022/23 for the first time. The Council will do so again this year and has budgeted to do so next year. Under the Local Audit and Accountability Act 2014 any parish council doing so for three consecutive years triggers a change in its status, losing its 'smaller authority' designation and joining the same accounting and auditing regime as 'principal authorities'. The Council is the first parish council in the country to do so.
- 3.2. The accounting and auditing regime for smaller authorities revolves around the production and external audit of a relatively simple Annual Governance and Accountability Return (AGAR). This year, 2023/24, will be the Council's final AGAR year.
- 3.3. In the third consecutive year of exceeding the £6.5m threshold an authority must produce full annual accounts compliant with International Financial Reporting Standards (IFRSs), the UK accounting Statements of Recommended Practice (SORPs) and the Chartered Institute of Public Finance and Accountancy (CIPFA)'s Code of Practice on Local Authority Accounting (CoPoLAA), similar to larger public sector bodies. The 'full code' accounts will be far longer and more complex than the AGAR, necessitating changes in the Council's account preparation workload as well as a change of external auditor.

### Changes in accounts preparation

- 3.4. The Council's Responsible Finance Officer (RFO) is project-managing the Council's transition from AGAR regime to full code accounts. The RFO is working with the Council's internal auditor, current external auditor, CIPFA and other partner organisations to effect the necessary changes as smoothly as possible. He will update the Finance and Governance Committee at each meeting in order for councillors to monitor progress.
- 3.5. The RFO believes he has sufficient personnel resources within his department to manage this project, catch up with the current backlog in regular financial routines and deliver an improving, effective financial service to the Council. He has identified several immediate cost pressures which are being met.

### Changes to external auditor

- 3.6. The Council's current external auditor, PKF Littlejohn LLP was allocated by the Smaller Authorities Audit Appointments (SAAA), which is the independent sector-led organisation responsible for the appointment and contract management of external auditors to smaller authorities.
- 3.7. By triggering a change of status away from 'smaller authority' the Council also triggers a move away from the SAAA for external auditor provision. PKF Littlejohn LLP will therefore cease being the Council's external auditor once the audit of the 2023/24 AGAR has concluded.
- 3.8. The Council will need to appoint new external auditors, either by opting into collective provision arranged by the SAAA equivalent for principal authorities, the Public Sector Audit Appointments (PSAA), or, by opting out and directly procuring an auditor itself.
- 3.9. There is a national shortage of external audit firm partners and personnel available for signing off principal authority audits, for example there is a backlog of over 730 public sector audit opinions still not signed off. Against this backdrop, if the Council decided to opt out of the PSAA and try to procure an auditor directly itself, it would be considered to be a relatively small, unknown and therefore high-risk client. There would be a high risk of procurement failure, incurring statutory wrath and reputational damage.
- 3.10. If the Council chooses to opt into the PSAA arrangement, the PSAA would be responsible for allocating external auditors to the Council and so it would carry the procurement risk. The RFO recommends this option to the Council.
- 3.11. There is a significant cost pressure next year for this statutory change in external auditor. The likely annual audit fee is estimated by the PSAA to be £60,000 in 2024/25 (irrespective of the invoices being paid in 2025/26) which will exceed the Council's £30,000 Audit Fees budget for 2024/25.
- 3.12. It is likely that special independently verified valuations work will also be required around the end of this financial year in order to provide robust opening balances for 2024/25 which the new external auditor can rely upon. The RFO is currently identifying these requirements and will be able to estimate resulting costs soon.

**4 Recommendation:**

- 4.1 The Council determines to opt into the PSAA audit regime in order to be allocated an external auditor and authorises the RFO to make the appropriate arrangements.

**5 Background Papers:**

None.

**6 Implications:**

- 6.1 . **Financial:** As shown in this report
- 6.2 . **Legal:** External audit is a statutory requirement and failure to make suitable arrangements would be a breach of legislation.
- 6.3 . **Personnel:** Nil in relation to this report
- 6.4 . **Environmental Impact:** Nil in relation to this report
- 6.5 . **Equalities Impact Statement:** Nil in relation to this report