

Cabinet

Thursday, 2 December 2021

Council

Tuesday, 14 December 2021

Report of the Portfolio Holder for Finance and Customer Services

Appointment of External Auditor - Re: Accounts Commencing 2023/2024

Exempt Information

None.

Purpose

To advise Members of the options, process and legislative requirement to appoint External Auditors for the Accounting Periods from 2023/24 and to seek Member endorsement of the recommended option for Council approval.

Recommendations

That Cabinet endorse:

1. That Council approve that the Authority opts into the appointing person arrangements made by the Public Sector Audit Appointments (PSAA) for the appointment of External Auditors, and
2. That the Executive Director Finance confirms our interest in undertaking the opt in process following ratification by Council and has delegated powers in relation to the appointment process.

Executive Summary

Local Authorities are required under legislation to appoint their own External Auditors for the Accounts 2023/24 (when the current contract expires). The Local Audit and Accountability Act 2014 requires Local Authorities to decide between opting from one of the following two options available, namely

1. Utilising the Public Sector Audit Appointments (PSAA), under the appointing persons regime, Local Audit (Appointing Person) Regulations 2015, or
2. Running our own procurement exercise.

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

The Audit & Governance Committee at the meeting on 28th October 2021 endorsed this approach.

Options Considered

Option 1: Sector led Procurement Exercise Utilising PSAA

This is the least resource demanding of the two options available to the Authority. The use of PSAA provides for a procurement exercise undertaken on a larger scale than an Authority led procurement exercise and will ensure that the most competitive rates are obtained. This will result in a larger interest from the Audit Sector Partners and result in a reduced cost for undertaking the procurement exercise (establishing an audit panel, advertising and interview costs) as procurement exercise costs will be shared by the number of Authorities opting for this option.

Option 2: Running our own procurement exercise

This would require the establishment of an auditor panel and conduct our own procurement exercise. Undertaking our own procurement exercise will involve disproportionate use of resources (cost and management time) and would not deliver economies of scale/bulk buying power which the sector led procurement process would deliver. In light of the benefits that the sector led procurement option undertaking our own procurement exercise is not recommended.

For the reasons stated above Option 1 is recommended option as it provides the best opportunity to deliver Value for Money.

Resource Implications

Option 1 provides the most cost effective procurement option. Cost of undertaking our own procurement process would be higher than the PSAA route and offers greater opportunity in achieving a lower audit base fee due to economies of scale and buying power available under joint procurement.

Until the procurement exercise is completed it is not possible to identify the financial impact of the process and Audit Fees for 2023/2024. However, as stated the PSAA option should deliver a reduced cost than Option 2 as there is greater opportunity through using PSAA than any increase will be minimised with better quality options.

Legal/Risk Implications Background

The principal risks are that the Authority:

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

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

The process as set out above and the recommendation should ensure compliance with the Local Audit and Accountability Act 2014.

Equalities Implications

None.

Sustainability Implications

None.

Background Information

The Council opted-in to the last procurement exercise undertaken by PSAA in 2017, as agreed by Full Council on 13th December 2016 and under this agreement External Audit services have been supplied through the PSAA procurement route for the accounts since 2018/19. This arrangement will end for the accounts for 2022/23 and PSAA is undertaking the next procurement exercise for the external audit of the accounts from 2023/2024 for a period of 5 years. The PSAA invitation letter is attached as **Appendix 1**.

A decision to become an opted-in authority must be taken in accordance with the Regulations, that is by the members of an authority meeting as a whole, i.e. in Full Council. An eligible body that has decided to join the scheme must inform PSAA by returning the Form of Acceptance Notice (issued with the opt-in invitation) no later than midnight on Friday 11th March 2022.

The PSAA has provided further information in the form of a Prospectus which is attached at **Appendix 2**.

The LGA has also provided further information with links to the PSAA website containing the procurement strategy and FAQs) in relation to procuring External Auditor services through PSAA and a number of 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.
- it is the best opportunity to secure the appointment of a qualified, registered auditor - there are only nine accredited local audit firms, and a local procurement would be drawing from the same limited supply of auditor resources as PSAA's national procurement
- 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.

Report Author

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List of Background Papers

Appendices

Tamworth Borough Council PSAA Invitation – Appendix 1

PSAA Prospectus – Appendix 2