



Audit and Standards Committee Report

Report of:	Eugene Walker Executive Director of Resources, Local Authority Section 151 Officer
Date:	23 Sept 2021
Subject:	External Audit Re-procurement
Author of Report:	David Phillips Head of Strategic Finance
Summary:	The purpose of the report is to communicate the factors to be considered when re-procuring the Council's external audit provision.
Recommendations:	The Audit and Standards Committee endorses the decision to opt-in to PSAA re-procurement.
Background Papers:	None
Category of Report:	OPEN

Statutory and Council Policy Checklist

Financial Implications
Covered within the report
Legal Implications
NO
Equality of Opportunity Implications
NO
Tackling Health Inequalities Implications
NO
Human rights Implications
NO
Environmental and Sustainability implications
NO
Economic impact
NO
Community safety implications
NO
Human resources implications
NO
Property implications
NO
Area(s) affected
None
Relevant Co-operative Executive Portfolio Leader
Cate McDonald
Relevant Scrutiny Committee if decision called in
Not applicable
Is the item a matter which is reserved for approval by the City Council?
YES
Press release
NO

Purpose of this Report

1. The purpose of the following report is to discuss the factors to be considered by the Audit and Standards Committee when deciding which method to use to re-procure the Council's external audit service.
2. The Council will need to consider the options available and put in place new arrangements in time to make the re-appointment. The deadline for this appointment is end January 2022 if the Council decides to remain with the PSAA national procurement (see below

Introduction and Background

3. The Local Audit and Accountability Act 2014 brought the Audit Commission to a close and established transitional arrangements for the appointment of external auditors and the setting of audit fees for all local government and NHS bodies in England.
4. The Council's current external auditor is Ernst and Young (EY), one of the "big four" international auditing firms, under a contract managed by Public Sector Audit Appointments Limited (PSAA).
5. The scope of the audit will still be specified nationally, the National Audit Office (NAO) is responsible for writing the Code of Audit Practice which all firms appointed to carry out the Council's audit must follow. Not all accounting firms will be eligible to compete for the work as they will need to demonstrate that they have the required skills and experience, and be registered with a Registered Supervising Body approved by the Financial Reporting Council.
6. External auditors are also required to undertake their work in accordance with International Auditing Standards. Specifically, they are required to communicate any relevant matters relating to the audit to those charged with governance.

Options for local appointment of External Auditors

7. There are three broad options open to the Council under the Local Audit and Accountability Act 2014 (the Act). These options are:
 - Continue to take part in the national procurement undertaken by PSAA
 - Procure individually

- Seek to carry out a joint procurement along with (probably) neighbouring local authorities and / or SCR.

Option One PSAA

8. In conjunction with around 98% of all local authorities, the Council opted-in to the national procurement arrangement run by Public Sector Audit Appointments (PSAA) in 2017, covering the audits of the Council's 2018/19 to 2022/23 accounts.

Advantages/benefits

- a) The costs of setting up the appointment arrangements and negotiating fees will be shared across all opt-in authorities.
- b) By offering large contract values, the firms should be able to offer better rates and lower fees than are likely to result from local negotiation.
- c) Any conflicts of interest at individual authorities would be managed by PSAA who would have a number of contracted firms to call upon.
- d) The appointment and subsequent audit is demonstrably independent of the Council.
- e) Utilise PSAA expertise in compiling the tender, to undertake all the procurement process, so there would be no costs or resource requirements from the Council. Also PSAA commit to the on-going contract management, QA of contract delivery, and agreement of additional fee requests. Given the Council's current budgetary position, FCS officers would prefer not to devote time to an external audit appointment process.
- f) PSAA manage any subsequent fee disputes, and can apply their knowledge from other clients to determining a reasonable fee.
- g) Supports the LA collective national procurement process.

Disadvantages/risks

- a) Individual elected members will have less opportunity for direct involvement in the appointment process other than through the LGA and/or stakeholder representative groups.
- b) In order for the national process to be run, Councils have to indicate that they wish to opt-in by end January 2022.
- c) The re-procurement exercise in 2017 resulted in very considerable reductions in audit fees. However the auditing firms have not been able to deliver audits for these fees, resulting in increases in fees. Appointing as part of a smaller group or individually might make the firms more reluctant to ask for fee increases, or at least the Council might have more influence over fee negotiations as these would be directly with the firm.

Option Two Procure individually

9. Legislation requires that to procure individually the Council must set up an Auditor Panel. The panel must consist of wholly or a majority of independent members as defined by the Act, and must be chaired by an independent member. Independent members for this purpose are independent appointees, this excludes current and former elected members (or officers) and their close families and friends. This means that elected members will not have a majority input in assessing bids and choosing to which firm to award the contract for the Council's external audit. The new independent auditor panel would be responsible for selecting the auditor.

Advantages/benefits

- a) Setting up an auditor panel allows the Council to take maximum advantage of the new local appointment regime and have some local input to the decision.

Disadvantages/risks

- a) Recruitment and servicing of the Auditor Panel, running the bidding exercise and negotiating the contract is estimated by the LGA to cost in the order of £15,000 plus on-going expenses and allowances.
- b) The Council will not be able to take advantage of the benefits of scale and reduced fees that could be available through joint or national procurement contracts.
- c) The assessment of bids and decision on awarding contracts will be taken by independent appointees and not solely by elected members. Hence our members do not control the process or appointment.
- d) The external audit market has become very challenging, with firms unable to recruit staff. Often audited bodies nationally in the public and private sector have found that they have at most one bidder for their audit. Consequently single-procurement risks having very little or no choice of audit provider.

Option Three Procure jointly

10. 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 (members). Further legal advice will 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 public authorities locally to assess the appetite for such an arrangement. Soundings with other local authorities so far have indicated that they are not keen to opt for a joint procurement, as they doubt the benefits would be worth the additional time and procurement costs needed.

Advantages/benefits

- a) The costs of setting up the panel, running the bidding exercise and negotiating the contract will be shared across a number of authorities.
- b) There is greater opportunity for negotiating some economies of scale by being able to offer a larger combined contract value to the firms.

Disadvantages/risks

- a) The decision-making body will be further removed from local input, with potentially no input from elected members where a wholly independent auditor panel is used, or possibly only one elected member representing each council, depending on the constitution agreed with the other bodies involved.
- b) There will be the usual delays and time needed to negotiate and agree joint provision with other LA bodies, with the danger if agreement is not met, that the Council is then too late to opt-in to the PSAA arrangements.
- c) The choice of auditor could be complicated if individual councils have independence issues. An independence issue occurs where the auditor has recently or is currently carrying out work, such as consultancy or advisory work for a council. Where these issues occur, some auditors may be prevented from being appointed by the terms of their professional standards. There is a risk that if the joint auditor panel choose a firm that is conflicted for this Council, then the Council may still need to make a separate appointment with all the attendant costs and loss of economies possible through joint procurement.
- d) The problems in obtaining a range of auditing firms prepared to bid, as discussed under Option Two, are unaltered by this arrangement.
- e) Lack of enthusiasm for this approach from other LAs contacted.

11. For the last procurement exercise, after considering the above factors, the Committee decided that opting in to the PSAA national procurement exercise was the best approach. 98% of other local authorities (and Fire, Police etc bodies) decided likewise, so PSAA was the overwhelming choice of the sector. There have been some frustrations arising from this decision, mainly that the auditing firms have not been able to honour the prices at which they tendered. However given the current fragility of the audit market, the considerable time and effort involved in tendering individually or in a small group, the additional demonstrable independence of the national process, and the benefits of acting as a collective sector in the audit market, it is the view of officers that we should again opt-in to the PSAA process.

The Way Forward

12. The Audit and Standards Committee is requested to indicate whether it endorses opting in to the national PSAA procurement, or whether wishes

officers to explore the alternative options. If PSAA is chosen, then this route must be endorsed by Full Council by end January 2022.

Financial Implications

13. There are no financial implications arising from the recommendations set out in this report, other than (i) the potential procurement and ongoing Audit Panel costs unless PSAA is chosen, and (ii) the normal ongoing costs of paying for the subsequent external audits.

Equal Opportunities Implications

14. There are no equal opportunities implications arising from the recommendations set out in this report.

Property Implications

15. There are no property implications arising from the recommendations set out in this report.

Recommendations

16. It is recommended:

- Option One PSAA re-procurement is adopted.

David Phillips
Head of Strategic Finance

23 September 2021

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