

Appointment of External Auditors from 2023/24

Report of the Treasurer

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1 Purpose of Report

This report informs the Committee of the next round of external auditor appointments, and asks the Committee to consider the options available and recommend the preferred option to the Fire Authority.

2 Recommendations

The Committee is asked to consider the options available for external auditor appointment from 1 April 2023 and recommend a preferred approach to the Fire Authority.

3 Background

In December 2016, the Audit and Performance Management Committee received a paper regarding the appointment of external auditors for a period of five years from 1 April 2018. The Local Audit and Accountability Act 2014 brought to a close the Audit Commission 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.

At the end of the transitional arrangements, public bodies were asked to specify their preferred method of appointing external auditors, and the Fire Authority selected appointment using a sector led body.

A sector led body has the opportunity to negotiate contracts with firms nationally, maximising the opportunity for the most economic and efficient approach for procurement of external audit on behalf of the whole sector.

Public Sector Audit Appointments Ltd (PSAA), a sector led body set up by the Local Government Association, were selected by the Ministry of Housing, Communities and Local Government (MHCLG) to undertake the appointment of external auditors in this national scheme.

The scheme was designed to save time and resources for local government bodies and, through collective procurement, secure the best prices without compromising on audit quality.

4 Appointing Process from 2023/24

MHCLG has recently confirmed that PSAA will continue in its role as the Appointing Person for the next appointment of external auditors.

During the present contract period there have been some big issues affecting local government audit:

- The audit industry is under heavy scrutiny.
- There is great regulatory pressure to improve audit quality.
- Audit resources are stretched, and other factors cause delay.
- Delayed local audit opinions are a huge unresolved concern.
- Local government audit's focus is being questioned.
- Additional work means additional fees are needed.
- Regulations need updating.

The PSAA scheme aims to secure the delivery of an audit service of the required quality for every opted in body at a realistic market price and to support the drive towards a long term competitive and more sustainable market for local public audit services. PSAA plan to provide:

- transparent and independent auditor appointment;
- ongoing management of any independence issues;
- proportionate PSAA costs and redistribution of any surpluses;
- independent scrutiny of every additional fee proposal;
- a sector led collaborative scheme as the way to get the best deal for the sector;
- dedicated, experienced team;
- key updates to all Section 151 officers and Audit Committee Chairs;
- avoid the need to establish an auditor panel and undertake an auditor procurement;
- same auditor appointment to significant collaborations or joint working initiatives.

The proposed contract duration is five years, with an option to extend for a further one or two years with supplier agreement using a single tender, restricted procedure. A dynamic purchasing system will be run in parallel to provide an option for some or all subsequent auditor appointments and there will be between seven and ten contract lots; sizes to be determined but the largest being 20 - 25% of the market to reflect a balance of geography and blend of authority types.

Procurements will adopt 80% quality, 20% price weighting; attach a 4% evaluation weighting to social value; assess quality and support market sustainability.

The drive for audit quality has resulted in auditors needing more assurance, and the additional work has driven higher fees in line with the statutory framework. Although fees have increased, the PSAA are concerned that some of the lowest fees may be insufficient to deliver a Code of Audit Practice compliant audit. Realistic fee levels are a vital requirement for supporting market sustainability, and so they are considering introducing a minimum scale fee to ensure that the actual costs are covered at all audits. It is anticipated that the introduction of a minimum fee would impact a relatively small number of audits.

Indicative timescales for the process are as follows:

8 July 2021	Consultation on the draft prospectus will close
July to August 2021	PSAA Board will consider all feedback to finalise prospectus and procurement strategy
September 2021	Eligible bodies will be invited to join PSAA's national scheme (will require a decision by the Fire Authority)
March 2022	Deadline for eligible bodies to notify PSAA of their decision to opt in, and procurement will commence
June 2022	PSAA will award new contracts where possible and determine if there is a need to extend current ones to enable PSAA to meet its statutory duty to appoint to all opted in bodies
December 2022	PSAA Board will confirm auditor appointments for 2023/24

5 Options

Procurement via PSAA is the recommended approach but there are two other options available to the Authority.

Option one: To make a standalone appointment

In order to make a stand-alone appointment the Authority will need to set up an Auditor Panel. 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, this excludes current and former elected members (or officers) and their close families and friends.

Advantages/benefits

Setting up an auditor panel allows the Authority to take maximum advantage of the new local appointment regime and have local input to the decision, although this local input will be completely independent of the Authority.

Disadvantages/risks

Recruitment and servicing of the Auditor Panel, running the bidding exercise and negotiating the contract was estimated in 2016, by the Local Government Association (LGA) to cost in the order of £15,000 plus on-going expenses and allowances, it is probably higher now.

The Authority will not be able to take advantage of reduced fees that may be available through joint or national procurement contracts.

The assessment of bids and decision on awarding contracts will be taken by independent appointees and not solely by elected members.

Option 2: Set up a Joint Auditor Panel or local joint procurement arrangements

The Act enables the Authority 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 Authority under the Act. The Authority would need to liaise with other local authorities to assess the appetite for such an arrangement.

Advantages/benefits

The costs of setting up the panel, running the bidding exercise and negotiating the contract will be shared across several authorities.

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

Depending on the constitution agreed with the other bodies involved, the opportunity for local input to the decision-making body will be limited. This could be only one elected member representing each Authority or, potentially, no input from elected members where a wholly independent auditor panel is used.

The choice of auditor could be complicated where individual Authorities 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 the Authority. Where this occurs, 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 with this Authority then the Authority may still need to make a separate appointment with all the attendant costs and loss of economies possible

6 Conclusion

The Authority will need to take action to implement arrangements for the appointment of external auditors from April 2023. In order that more detailed proposals can be developed, the Authority is asked to consider the preferred approach.

The sector led body approach offers best value to authorities by reducing set-up costs and having the potential to negotiate lowest fees whilst helping to sustain the external audit sector.

7 Financial Implications

Existing external audit fee levels are to increase when the current contracts end – the Authority’s current external audit fees are £26,000

Opting-in to a national Sector Led Body provides maximum opportunity to limit the extent of any increases by entering into a large-scale collective procurement arrangement and would remove the costs of establishing an auditor panel.

There will be no fee to join the sector led arrangements. The audit fees that opted-in bodies will be charged by the sector led body will cover the costs of appointing auditors. The LGA believes that audit fees achieved through block contracts will be lower than the costs that individual authorities will be able to negotiate. In addition, by using the Sector Led Body, authorities would avoid both the procurement process and the legal requirement to set up a panel of independent members.

8 Legal Comment

Section 7 of the Local Audit and Accountability Act 2014 (the Act) 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.

PSAA Ltd is an independent company set up by the Local Government Association in August 2014. In July 2016, the Secretary of State for Communities and Local Government specified PSAA Ltd as an appointing person under regulation 3 of the Local Audit (Appointing Person) Regulations 2015. MHCLG has confirmed the continuation of PSAA as the Appointing Person for the 2023 exercise. This means that PSAA Ltd can make auditor appointments for audits of the accounts from 2023/24 of principal authorities (including fire authorities) that choose to opt into its arrangements. Appointments for 2023/24 must be made by 4 March 2022.

The overall procurement and management of service contracts of audit services for opted-in authorities will be managed by PSAA Ltd. PSAA Ltd will run the tendering exercise, and will evaluate bids and award contracts, whilst consulting authorities on individual auditor appointments.

Audit firms appointed under the Scheme will be required to deliver audits compliant with the National Audit Office (NAO) Code of Audit Practice.

9 Initial Impact Assessment

An Initial Impact Assessment has been completed.

10 Appendices

There are no appendices with this report.

11 Background Papers

Audit & Performance Management Committee

8 December 2016

Report 8 – Confirmation of Arrangements for Appointment of External Auditors

Audit & Performance Management Committee

15 September 2016

Report 8 – Changes to Arrangements for Appointment of External Auditors