

Meeting Audit Committee

Portfolio Area Resources

Date 10th November 2021



APPONTMENT OF EXTERNAL AUDITORS – OPTING IN TO THE PUBLIC SECTOR AUDIT APPOINTMENTS (PSAA) PROCESS

NON KEY DECISION

1 PURPOSE

1.1 Local Authorities are required under legislation to appoint their own External Auditors. The Local Audit and Accountabilities Act 2014 requires Local Authorities to decide between opting from one of the following two options available:

1. The Council running its own procurement exercise.
2. Utilising the Public Sector Audit Appointments (PSAA), under the appointing persons regime (Local Audit (Appointing Person) Regulations 2015).

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

2 RECOMMENDATIONS

2.1 That Members agree:

- i. That the Committee recommends to Council that the Council will opt into the appointing arrangements made by the Public Sector Audit Appointments

(PSAA) for the appointment of External Auditors covering the period April 2023 to March 2028; and

ii. That the Executive Director Finance (S151) confirms the Council's interest in undertaking the opt-in appointing process following ratification by Council.

3 BACKGROUND

- 3.1 Public Sector Audit Appointments Limited (PSAA) was incorporated by the Local Government Association (LGA) in August 2014. PSAA is a company limited by guarantee without share capital and is a subsidiary of the Improvement and Development Agency (IDeA) which is wholly owned by the LGA.
- 3.2 In July 2016, the Secretary of State for Housing Communities and Local Government specified PSAA as an appointing person for principal local government and police bodies for audits from 2018/19, under the provisions of the Local Audit and Accountability Act 2014 and the Local Audit (Appointing Person) Regulations 2015.
- 3.3 Acting in accordance with this role PSAA is responsible for appointing an auditor and setting scales of fees for relevant principal authorities that have chosen to opt into its national scheme.
- 3.4 PSAA has a responsibility for ensuring that the company delivers the following objectives:
- Appointing auditors to all relevant authorities;
 - Setting scales of fees, and charging fees, for the audit of accounts of relevant authorities and consulting with relevant parties in relation to those scales of fees;
 - Ensuring effective management of contracts with audit firms for the delivery of consistent, quality and effective audit services to relevant authorities;
 - Ensuring that public money continues to be properly accounted for and protected;
 - Being financially responsible having regard to the efficiency of operating costs and transparently safeguarding fees charged to audited bodies; and
 - Leading its people as a good employer, ensuring that it continues to be fit-for-purpose; motivating and supporting its staff; and communicating with them in an open, honest and timely way.
- 3.5 The Council opted-in to the last procurement exercise undertaken by PSAA in 2017 and under this agreement External Audit services have been supplied through the PSAA procurement route for the accounts since 2018/2019. This arrangement will end for the accounts for 2022/2023 and PSAA is undertaking the next procurement exercise for the external audit of the accounts from 2023/2024 for a period of 5 years. As Members will know, the Council's auditors are Ernst & Young.

- 3.6 In September 2021, the PSAA issued their invitation to all principal local government organisations (including police and fire bodies) to confirm that they wished to opt into the next national scheme for auditor appointments which will commence in April 2023 and run until March 2028.
- 3.7 The PSAA has also published its strategy for the procurement of audit services contracts for the second appointing period. Their stated aim is 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.
- 3.8 A decision to become an opted-in authority must be taken in accordance with the Regulations (i.e., by agreement at Full Council). To become an opted-in authority, the form of acceptance notice has to be completed and returned to PSAA by 11 March.
- 3.9 The Local Government Association (LGA) 'supports the appointing person arrangements and encourages as many eligible bodies as possible to opt in. It believes the national scheme remains the best option councils can choose. In its view, there are many reasons for favouring the national arrangements and those reasons have become more compelling since 2016/17 when councils were last asked to make this choice.'

4 REASONS FOR RECOMMENDED COURSE OF ACTION AND OTHER OPTIONS

4.1 Option 1: Make a Stand-Alone Appointment through a Council Auditor Panel

- 4.1.1 The 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. This option would provide the Council with the scope to select panel members with an appropriate skill set and understanding of the Council's particular circumstances and would enable the panel to make an informed choice as to the most suitable audit firm for Stevenage Borough Council, minimising the risk of incurring unnecessary costs of appointment.
- 4.1.2 However, it is unlikely that this approach would be the best means of securing the appointment of a suitable external auditor. A local procurement would be drawing from the same limited supply of auditor resources as PSAA's national procurement scheme, and the larger firms may consider a single authority contract too small to bid for. In addition, both the procurement process and the ongoing contract management would be additional administrative burdens for the Council.
- 4.1.3 Therefore, self-procuring 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).

4.1.4 This option is therefore not recommended.

4.2 Option 2: Opt-in to the PSAA Arrangements

4.2.1 There is no fee levied directly by the PSAA to the local authorities for appointing auditors or for managing the arrangements. These costs are instead recovered through audit fees set by PSAA. The company is staffed by a team with significant experience of working within the context of the Regulations to appoint auditors, manage contracts with audit firms, and set and determine audit fees. Many of them have transferred from predecessor bodies such as the Audit Commission.

4.2.2 The Scale Fee for the Council's audit has remained fixed for the past three years at £49,283 per annum. However, there have been fee increase requests since the 2017/18 audit. Members should note that the issues with the 2019/20 audit will cause a fee variation.

4.2.3 The PSAA has worked closely with the LUCLG to enable the Government to consult on changes to the fee setting arrangements to deal better with variations at national and local level, which may result in more flexible and appropriate Regulations later this year.

4.2.4 It should however be noted that under the current PSAA regime only 9% of local government audits for last year (2020/21) were completed by the end of September. This is a sharp reduction on the 45% filed on time for 2019/20, and is the third successive year where the number of accounts produced on schedule has reduced.

4.2.5 Sir Tony Redmond's review, published in September 2020, has highlighted that the current fee structure does not enable auditors to comply with their contractual obligations. He said an increase in fees must be considered, given the fact that so many audits fail to meet statutory deadlines.

4.2.6 When appointment options were last considered by Audit Committee and Council, the PSAA route was considered the most attractive.

4.2.7 This option is therefore recommended.

5 IMPLICATIONS

5.1 Financial Implications

Opting in provides the most cost effective procurement option. The cost of the Council undertaking its own procurement process would be higher than the PSAA route. Opting in offers greater opportunity to achieve a lower audit base fee due to economies of scale and buying power available under joint procurement. As at April 2021, 540 public sector bodies were opted in to the PSAA.

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 lower cost compared to self-procuring as there is greater opportunity through using PSAA and any increase will be minimised with better quality options.

5.2 **Legal Implications**

None.

5.3 **Risk Implications**

The principal risks are that the Council:

- 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 the PSAA.

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

5.4 **Other Corporate Implications**

The appointment of External Auditors is a key part of the Council's overall governance and control strategy.

BACKGROUND DOCUMENTS

None.

APPENDICES

None.