

Audit Committee – 22 November 2021

Retender of External Audit Contract: National Scheme for External Auditor appointments with Public Sector Audit Appointments (PSAA) as the ‘appointing person’

Ward(s): All

Portfolios: Lead Portfolio – Finance (Leader of the Council), All

Purpose: Review

1. Aim

- 1.1 To consult Audit Committee on the preferred approach to appointing our external auditor for the five years commencing 1 April 2023, prior to reporting to Council in January 2022.

2. Summary

- 2.1 This report sets out the proposals for appointing the external auditor to the council for five years commencing 1 April 2023. A sector-wide procurement conducted by PSAA will produce better outcomes and will be less burdensome for the Council than any procurement undertaken locally. More specifically:

- The audit costs are likely to be lower than if the Council sought to appoint locally, as national large-scale contracts are expected to drive keener prices from the audit firms;
- Without the national appointment, the Council would need to establish a separate independent auditor panel, which could be difficult, costly and time-consuming;
- PSAA can ensure the appointed auditor meets and maintains the required quality standards and can manage any potential conflicts of interest much more easily than the Council;
- Supporting the sector-led body will help to ensure there is a vibrant public audit market for the benefit of the whole sector and this Council going forward into the medium and long term.

- 2.2 If the Council is to take advantage of the national scheme for appointing auditors to be operated by PSAA, it needs to accept the invitation by Friday 11 March 2022 and requires the approval of full Council.

3. Recommendations:

- 3.1 The Audit Committee considers the proposal to accept the Public Sector Audit Appointments’ (PSAA) invitation to ‘opt in’ to the sector led option for the

appointment of external auditors for five financial years commencing 1 April 2023, subject to approval of full Council in January 2022.

4. Report detail – know

- 4.1 The Local Audit and Accountability Act 2014 (the Act) 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. In July 2016 PSAA were specified by the Secretary of State as an appointing person under regulation 3 of the Local Audit (Appointing Person) Regulations 2015. The appointing person is sometimes referred to as the sector led body and PSAA has wide support across local and central government. PSAA was originally established to operate the transitional arrangements following the closure of the Audit Commission under powers delegated by the Secretary of State. PSAA is an independent, not-for-profit company limited by guarantee, wholly owned by the Improvement and Development Agency (IDeA) which is wholly owned by the LGA.
- 4.2 The Act also set out the arrangements for the appointment of auditors for subsequent years. Local bodies have options to arrange their own procurement and make the appointment themselves or in conjunction with other bodies, or they can join and take advantage of the national collective scheme administered by PSAA for each appointing period.
- 4.3 PSAA is responsible for:
- appointing auditors to local public bodies, including councils, police and crime commissioners, chief constables, fire and rescue authorities and other relevant principal local government bodies;
 - setting scales of fees, and charging fees, for the audit of accounts of relevant bodies;
 - overseeing the delivery by its appointed auditors of consistent, high-quality and effective external audit services to opted-in bodies; and,
 - ensuring effective management of contracts with audit firms for the delivery of external audit services to opted-in bodies.
- 4.4 Walsall opted into the national scheme for the current appointing period which ends in 2022/23. 2020/21 was the second year of the current appointing period during which PSAA was responsible for audits carried out in 478 opted-in bodies (98% of eligible bodies).
- 4.5 PSAA published its scheme prospectus on 22 September 2021, alongside formally issuing invitations to all eligible bodies to opt into the national scheme for local auditor appointments for the next appointing period. This will span the audits of accounts for the five financial years 2023/2024 to 2027/2028. The formal invite letter is attached to this report.
- 4.6 PSAA is inviting the Council to opt in, along with all other authorities, so that PSAA can enter into a number of contracts with appropriately qualified audit firms and appoint a suitable firm to be the Council's auditor. The principal benefits from such an approach are as follows:

- PSAA will ensure the appointment of a suitably qualified and registered auditor;
- PSAA will monitor contract delivery and ensure compliance with contractual, audit quality and independence requirements;
- Any auditor conflicts at individual authorities would be managed by PSAA who would have a number of contracted firms to call upon;
- It is expected that the large-scale contracts procured through PSAA will bring economies of scale and attract keener prices from the market than a smaller scale competition;
- The overall procurement costs would be lower than an individual smaller scale local procurement;
- The overhead costs for managing the contracts will be minimised through a smaller number of large contracts across the sector;
- There will be no need for the Council to establish alternative appointment processes locally, including the need to set up and manage an 'auditor panel';
- The new regime provides both the perception and reality of independent auditor appointments through a collective approach; and
- A sustainable market for audit provision in the sector will be easier to ensure for the future.

4.7 The proposed fees for appointing period are not known until the procurement process has been completed, as the costs will depend on proposals from the audit firms. 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 audit must follow. Not all audit firms will be eligible to compete for the work, they will need to demonstrate that they have the required skills and experience and be registered with a Registered Supervising Body.

Other options

4.8 If the Council did not opt in there would be a need to establish an independent auditor panel. In order to make a stand-alone appointment the auditor panel would need to be set up by the Council itself. 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. This means that elected members will not have a majority input to assessing bids and choosing which audit firm to award a contract for the Council external audit.

4.9 Alternatively 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 would 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 local authorities to assess the appetite for such an arrangement.

4.10 Neither of these options are recommended. Both these options would be more resource-intensive processes to implement and without the bulk buying power of the

sector led procurement, would be likely to result in a more costly service. It would also be more difficult to manage quality and independence requirements through a local appointment process.

The way forward

- 4.11 Regulation 19 of the Local Audit (Appointing Person) Regulations 2015 requires that a decision to opt in must be made by a meeting of the Council. The Council then needs to formally respond to PSAA's invitation in the form specified by PSAA by 11 March 2022.
- 4.12 PSAA will commence the formal procurement process after this date and will consult with authorities on the appointment of auditors so that it can make an appointment by the statutory deadline of December 2022.

5. Financial Implications

- 5.1 The Council's current external auditor is Grant Thornton, this appointment having been made under a contract led by PSAA.
- 5.2 The Council's current external audit fees, for the audit of its main financial statements, for 2020/21 was £166k. The proposed fee under the new contract starting 1 April 2023 and for the subsequent years are not yet known. PSAA costs are currently 4% of overall scheme costs.
- 5.3 There is a risk that current external fees levels could increase when the current contracts end in 2018. Opting-in to a national scheme provides maximum opportunity to ensure fees are as low as possible, whilst ensuring the quality of audit is maintained by entering in to a large scale collective procurement arrangement.
- 5.4 If the national scheme is not used some additional resource will be needed to establish an auditor panel and conduct a local procurement. Until a procurement exercise is completed it is not possible to state what, if any, additional resource may be required for audit fees for 2023/24 onwards.

6. Reducing Inequalities

- 6.1 Effective governance arrangements ensure a focus on delivering of Corporate Plan objectives, a key driver of which is reducing inequalities.

7. Decide

- 7.1 Audit Committee are asked to consider the proposal to accept the Public Sector Audit Appointments' (PSAA) invitation to 'opt in' to the sector led option for the appointment of external auditors for five financial years commencing 1 April 2023, subject to approval of full Council in January 2022.

8. Respond

- 8.1 Audit Committee's views will be included within the report to Council in January 2022.

9. Review

- 9.1 Audit Committee will be kept apprised of the procurement and appointment process.

Background papers

The Local Audit and Accountability Act 2014

Local Audit (Appointing Person) Regulations 2015

Invitation letter from PSAA to opt into national framework 22 September 2021

PSAA Scheme Prospectus (available at [Prospectus 2023 and beyond – PSAA](#))

PSAA Procurement Strategy (available at [Procurement Strategy – PSAA](#))

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