



<u>Committee and Date</u>	<u>Item</u>
Audit Committee 16 th September 2021 10:00am	
Council 23 rd September 2021	<u>Public</u>

CHANGES TO ARRANGEMENTS FOR APPOINTMENT OF EXTERNAL AUDITORS

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1 Synopsis

- 1.1 Audit Committee are asked to consider and propose the most efficient and effective way of procuring an External Auditor from April 2023, to Council for their consideration and final decision.
- 1.2 The Council has been asked by the PSAA for an indication of the preferred approach in order that it can invest resources in providing appropriate support to councils. The SLB approach offers best value to councils by reducing set-up costs and having the potential to negotiate lowest fees whilst helping to sustain the external audit sector.

2 Executive Summary

- 2.1 On the 21st July 2016, Council agreed with the Audit Committee's proposal that Shropshire Council support the Local Government Association (LGA) in setting up a National Sector Led Body to appoint external auditors. A formal decision from Council to "opt-in" to the Public Sector Audit Appointments Ltd (PSAA) national auditor appointment arrangements was then made on the 15th December 2016. The Council elected to remain in the appointment arrangements for a period of five years, commencing 1 April 2018. The PSAA is looking to procure future contracts and the Council is again being asked if they wish to procure the external auditor through this arrangement.
- 2.2 There are three options open to the Council; purchasing through the Sector Led Body (SLB), the PSAA; making a standalone appointment; or an appointment jointly with other procurement partners. The Council will need to consider the options available and put in place new arrangements in time to make a first appointment by 31 December 2022. Greatest economies of scale will come from the maximum number of councils acting collectively and opting-in to a SLB. The Council is asked to consider whether it is interested in the option of opting in to the SLB, the PSAA for a further period, or wishes to seek an alternative approach.

3 Recommendations

Audit Committee:

- 3.1. Members are requested to consider their preferred approach of the options set out below and provide Council with their comments on these:
- a) Using the Sector Led Body, the PSAA by indicating an option to "opt-in"
 - b) Establishing a stand-alone Auditor Panel to make the appointment on behalf of the Council.
 - c) Commencing work on exploring the establishment of local joint procurement arrangements with neighbouring authorities.

The recommendation is that option a is selected.

Council:

- 3.2 The relevant option chosen by Audit Committee will be inserted here and the Council will be asked to consider and endorse their preferred approach. A further report will be brought to Council on this, including details of any costs that will need to be included in the budgets.

REPORT

4 Risk Assessment and Opportunities Appraisal

- 4.1 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. Section 8 governs the procedure for appointment including the requirement for the authority to consult and take account of the advice of its auditor panel on the selection and appointment of a local auditor. Section 8 provides that, where a relevant authority is a local authority operating executive arrangement, the function of appointing a local auditor to audit its accounts is not the responsibility of an executive of the authority.
- 4.2 Section 12 makes provision for the failure to appoint a local auditor: the authority must immediately inform the Secretary of State, who may direct the authority to appoint the auditor named in the direction or appoint a local auditor on behalf of the authority.
- 4.3 Section 17 gives the Secretary of State the power to make regulations in relation to an 'appointing person' specified by the Secretary of State. This power has been applied in the Local Audit (Appointing Person) Regulations 2015 (SI 192) and this gives the Secretary of State the ability to enable a Sector Led Body to become the appointing person.
- 4.4 The Secretary of State has enabled PSAA Ltd to be an appointing person for local auditors under a national scheme.
- 4.5 The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998. There are no direct

environmental, equalities, consultation or climate change consequences of this proposal.

5 Financial Implications

- 5.1 Existing external fee levels are to increase when the current contracts end. The Council's annual external audit fees for the 2020/21 audit were c£167,000.
- 5.2 Opting-in to a national Sector Led Body (SLB) provides maximum opportunity to limit the extent of any increases by entering a large-scale collective procurement arrangement and remove the costs of establishing an auditor panel. There will not be a 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 LGA¹ believes that audit fees achieved through block contracts will be lower than the costs that individual authorities would be able to negotiate. In addition, by using the SLB, councils will avoid having to undertake their own procurement and the legal requirement to set up a panel of independent members.
- 5.3 PSAA Ltd commit to ensure that fee levels are carefully managed by securing competitive prices from firms and by minimising their own costs. Any surplus funds will be returned to scheme members under the articles of association and memorandum of understanding with the Department for Communities and Local Government and the LGA.
- 5.4 PSAA Ltd expect annual operating costs to be lower than current costs because they expect to employ a smaller team to manage the scheme. They are intending to fund an element of the costs of establishing the scheme, including the costs of procuring audit contracts, from local government's share of their current deferred income. This is considered appropriate because the new scheme will be available to all relevant principal local government bodies.
- 5.5 Contracts are likely to be awarded at the end of June 2022 and, at this point, the overall cost and therefore the level of fees required will be clear. They will consult on the proposed scale of fees in autumn 2022 and publish the fees applicable for 2023/24 in March 2023.

6 Climate Change Appraisal

- 6.1 This report does not directly make decisions on energy and fuel consumption; renewable energy generation; carbon offsetting or mitigation; or on climate change adaptation. Therefore, minimal if no effect. Purchasing through one body may reduce travel for procurement shortlisting interviews and discussions where completed in person.

7 Background

- 7.1 On the 21st July 2016, Council agreed with the Audit Committee's proposal that Shropshire Council support the Local Government

¹ Local Government Association

Association (LGA) in setting up a National Sector Led Body to appoint external auditors. This was done and a formal decision from Council to "opt-in" to the Public Sector Audit Appointments Ltd (PSAA) national auditor appointment arrangements was then made on the 15th December 2016. The Council elected to remain in the appointment arrangements for a period of five years, commencing 1 April 2018. The Council's current external auditor under this arrangement is Grant Thornton.

7.2 More recently it has been confirmed that the PSAA will continue as the appointing Person for the next appointment. 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.

7.3 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.

7.4 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 ran 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 c20 to 25% of the market to reflect a balance of geography and blend of authority types.

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

7.6 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.

7.7 Indicative timescales for the process are as follows:

8 th 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 Full Council, or equivalent decision maker)
January 2022	Deadline for eligible bodies to notify PSAA of their decision to opt in
February 2022	Procurement will commence
June 2022	PSAA Board 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

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

Option one: To make a standalone appointment

7.9 In order to make a stand-alone appointment the Council 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. This means that elected members will not have a majority input to assessing bids and choosing which firm of accountants to award a contract for the Council's external audit. A new independent auditor panel established by the Council will be responsible for selecting the auditor.

Advantages/benefit

7.10 Setting up an auditor panel allows the Council 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 Council.

Disadvantages/risks

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

- 7.12 The Council will not be able to take advantage of reduced fees that may be available through joint or national procurement contracts.
- 7.13 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/ local joint procurement arrangements

- 7.14 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. The Council would need to liaise with other local authorities to assess the appetite for such an arrangement.

Advantages/benefits

- 7.15 The costs of setting up the panel, running the bidding exercise and negotiating the contract will be shared across several authorities.
- 7.16 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

- 7.17 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 Council or, potentially, no input from elected members where a wholly independent auditor panel is used.
- 7.18 The choice of auditor could be complicated where 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 the Council. 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 Council then the Council may still need to make a separate appointment with all the attendant costs and loss of economies possible

8 Conclusion

- 8.1 The Council 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 Council/Committee is asked to consider the preferred approach.
- 8.2 The Council has been asked by the PSAA for an indication of the preferred approach in order that it can invest resources in providing appropriate support to councils. The SLB approach offers best value to

councils by reducing set-up costs and having the potential to negotiate lowest fees whilst helping to sustain the external audit sector.

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)

<https://www.psaa.co.uk/about-us/appointing-person-information/appointing-period-2023-24-2027-28/prospectus-2023-and-beyond/>

<https://www.psaa.co.uk/about-us/appointing-person-information/appointing-period-2023-24-2027-28/market-engagement-june-2021/>

15 December 2016 Council - Changes to the arrangements for appointment of External Auditors

24 November 2016 Audit Committee – Changes to the arrangements for appointment of External Auditors

21 July 2016 Council - Changes to the arrangements for appointment of External Auditors

23 June 2016 Audit Committee - Changes to the arrangements for appointment of External Auditors

Cabinet Member (Portfolio Holder)

Lezley Picton, Leader of the Council and Brian Williams, Chairman of the Audit Committee

Local Member: All

Appendices: None