

Brighton & Hove City Council

Council

Agenda Item 72

Subject: Re-procurement and Appointment of External Auditors

Date of meeting: 3 February 2020:
25 January 2022: Audit & Standards Committee

Report of: Chief Finance Officer

Contact Officer: Name: Nigel Manvell
Tel: 01273 293104
Email: nigel.manvell@brighton-hove.gov.uk

Ward(s) affected: All

For general release

1 Purpose of the report and policy context

- 1.1 The Local Audit and Accountability Act 2014 brought to a close the Audit Commission service 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.
- 1.2 At its meeting on 10 January 2017, the Audit & Standards Committee considered a report outlining three options for the procurement of future audit arrangements, namely: to make a Direct Appointment, to make a Joint Appointment with another public sector body, or to opt-in to a national, sector-led scheme through Public Sector Audit Appointments Ltd, a special purpose company of the Local Government Association (LGA). The Audit & Standards Committee approved the preferred option of opt-in to the sector-led body and recommended this course of action to Full Council on 26 January 2017.
- 1.3 This was approved and the Council formally opted-in to the tender process leading to the appointment of the external auditor on a five-year term. The initial five-year term concludes with the audit of accounts for the financial year 2022/23 and therefore it is necessary to put in place arrangements to run the procurement and appointment process for the 2023/24 audit with appointments being made on or before 1 April 2023.

2 Recommendations

That Audit & Standards Committee:

- 2.1 Notes the requirements relating to the appointment of an External Auditor to the Council for the 2023/24 audit.
- 2.2 Notes the letter of invitation from PSAA for the Council to opt-in to the national scheme for auditor appointments (Appendix 1).
- 2.3 Recommends that Council formally agree to opt-in to the national scheme and adopt PSAA as the appointing person for the Council for the appointment of auditors for the period 2023/24 to 2027/28.

- 2.4 Recommends that the Council delegates to the council's Chief Finance Officer the authority to take all steps necessary or incidental to give effect to the decision in para 2.3 above.

That Council:

- 2.1 Formally approves the Council's opt-in to the national scheme and its adoption of PSAA as the appointing person for the Council for the appointment of auditors for the period 2023/24 to 2027/28; and
- 2.2 Delegates to the council's Chief Finance Officer the authority to take all steps necessary or incidental to give effect to the decision in para 2.1 above.

3 Context and background information

- 3.1 By virtue of section 7 of the Local Audit and Accountability Act 2014 (the Act), the Council is required to appoint an independent auditor to audit its accounts for a financial year not later than 31 December in the preceding year. Such an appointment can be for more than one year but the maximum term of the appointment is five years. The current contract arrangements end with the audit of the 2022/23 financial statements and therefore the first financial year subject to a new contract will be the financial year 2023/24.
- 3.2 The Act and the Local Audit (Appointing Person) Regulations 2015 (the Regulations) enable authorities to choose to allow another body (specified by the Secretary of State) to make the auditor appointment to the authority. If the Council elects to use (i.e., opt-in to) a specified body to make its local auditor appointment, the authority must, within 28 days of being notified of the appointment, publish a notice containing specified details of the appointment.
- 3.3 Working with government, the Local Government Association (LGA) has managed this process through creation of its Public Sector Audit Appointments Ltd (PSAA) company, a not for profit organisation set up to manage the current appointment arrangements, which saw audit arrangements transition from the outgoing Audit Commission in 2017. PSAA now manage the vast majority of audit contracts in England for both the NHS and Local Government.
- 3.4 In considering the appointment options back in 2017, three options were available and the advantages and disadvantages of each were considered by the Committee. The options included Direct Appointment, Joint Appointment with another public sector body, or opt-in to the national, sector-led scheme through Public Sector Audit Appointments Ltd. To recap, the advantages and disadvantages of the recommended option (i.e., to opt-in to the national scheme) were and remain as follows:

Advantages/Benefits of Opt-in to the Sector-led Appointment

- 3.5 The significant costs of setting up the appointment arrangements, drawing up the detailed specification (which has now changed substantially) and negotiating fees is shared across all opt-in authorities. 98% of all authorities (well over 300) opted-in last time around.

- 3.6 By offering large, nationwide contract values, the audit firms are able to offer better rates and lower fees than would be likely to result from local, direct or joint appointment.
- 3.7 Any conflicts at individual authorities would be managed by the sector-led body who would have a number of contracted firms to call upon to undertake independent reviews or remedies.
- 3.8 The appointment process would be led by a specialist, dedicated body set up to act in the collective interests of the 'opt-in' authorities.

Disadvantages/Risks of Opt-in to the Sector-led Appointment

- 3.9 Individual elected members will have less opportunity for direct involvement in the appointment process other than through LGA and/or stakeholder representative groups.
- 3.10 In order for the sector-led body to be visible and to be placed in the strongest possible negotiating position, the sector-led body will need councils and other authorities to indicate their intention to opt-in before final contract prices are known.

Changes to the Appointment Process

- 3.11 Since the last appointment process there have been two main changes to the Appointing Person Regulations laid before Parliament on 21 October 2021. The first is that PSAA must notify local authorities of their individual Scale Fees by 30 November each year preceding the year of audit; previously this was much later on 31 March.
- 3.12 Secondly, the regulations give PSAA much greater control over fee variations. Previously, any new or changed financial reporting or audit standards that resulted in additional testing by the auditor could be charged for by the auditor outside of the national contract arrangements. This often led to high additional charges, unregulated by PSAA and with limited oversight. The new regulations allow PSAA to negotiate fee variations for changes in requirements affecting the whole sector. This should result in much lower price variations.

Improving the Quality of Local Government Audit

- 3.13 There has been some negative press in recent years regarding the quality of Local Government audits by external audit firms. In 2018/19 approximately 57% of audits were completed by the statutory publication date but this reduced to 45% in 2019/20 and just 9% in 2020/21. The pandemic has almost certainly affected performance in the latter years, however, locally the experience has been more positive as follows:
- The accounts were completed and certified by the publication date in 2018/19 (31 July).
 - Despite the pandemic, in both 2019/20 and 2020/21 the Statement of Accounts were also considered by the Audit & Standards Committee prior to, and were published by, the statutory publication date (30 November and 30 September respectively). Although there were a small number of audit queries outstanding at the reporting and publication dates, these were

resolved satisfactorily shortly after the publication dates and did not result in any material changes to the statement of accounts in either year.

- 3.14 In June 2019, Sir Tony Redmond was asked to undertake an independent review of the effectiveness of the new local audit arrangements and the transparency of local authority financial reporting. The guiding principles for the review were ones of accountability and transparency. The findings and outcome of the Redmond Review were reported to the Audit & Standards Committee on 12 January 2020. Some of the recommendations are still under consideration by the Government, however, one of the key findings was that the fee structure needed to be revised to reflect the true cost of audit to audit firms. The Government recognized this and provided £15 million nationally in 2021/22 (and ongoing) to support an improved quality of audit and cover changes to audit requirements and the new Value for Money (VFM) testing regime. BHCC has received £62,935 from this allocation which closely matches the auditor's fee variation of £65,000 for the 2020/21 audit.

4 Analysis and consideration of alternative options

- 4.1 A full analysis of the three appointment/procurement options is provided at Appendix 2. In such a highly regulated market where only the larger firms are likely to be able to meet the requirements of the appointment process and specification, having a sector-led body negotiating on behalf of all opted-in authorities provides a much greater opportunity to manage and influence the market and negotiate prices and standards.
- 4.2 Note, there is no 'in-house' option available as external auditors must be independent from the authority.

5 Community engagement and consultation

- 5.1 No specific consultation has been undertaken locally in relation to the appointment options, however, the LGA and PSAA Ltd have undertaken various surveys and consultations with local authorities and have shared the results of these with the Chairs of Audit & Standards Committees and Chief Finance Officers. These have generally focused on obtaining feedback and views from local authorities aimed at improving the appointment process, strengthening contract management and improving the quality of audits.
- 5.2 The likely value of the contracts is unknown but could be around £175,000 per annum (including rebates) or around £875,000 over the 5 years. This is below the Member Procurement Advisory Board (PAB) threshold of £1m. However, even had the value exceeded £1m, Audit & Standards Committee is considered to be a more appropriate body to consider the options as it has both a relationship with and understanding of the work of the external auditor, including receiving reports on the outcome of the annual audit process and approval of the Statement of Accounts. It also previously determined the appointment route in 2017.

6 Conclusion

- 6.1 The Local Audit and Accountability Act 2014 allows another body to make auditor appointments on behalf of local authorities if preferred. PSAA Ltd, an LGA company, provides a sector-led procurement and appointment process that is expected to achieve considerably better value for money than a local

appointment process and at considerably lower cost to the council. The appointment would be for 5 years for the period 2023/24 to 2027/28.

- 6.2 Given that 98% of authorities previously opted-in, which therefore provides substantial influence and negotiating power over the market to PSAA Ltd, the council is recommended to continue to opt-in to the national, sector-led appointment process.

7 Financial implications

- 7.1 There is a risk that current external fee levels could increase significantly when the current contracts end in 2023. Remaining opted-in to the national collective scheme is expected to provide the best opportunity to secure value for money by ensuring fees are as competitive as possible through the large scale, collective procurement arrangement.
- 7.2 If the national collective scheme is not preferred, additional resources will be required to establish a Local Auditor Panel and conduct a local procurement. Until a procurement exercise is completed it is not possible to predict with any accuracy what additional resources or costs may be incurred for a local procurement.

Finance officer consulted: James Hengeveld Date consulted: 23/12/21

8 Legal implications

- 8.1 Section 7 of the Local Audit and Accountability Act 2014 requires every council to appoint a local auditor to audit its accounts for a financial year not later than 31 December in the year before the financial year which will be audited. Section 8 governs the procedure for appointment, including by providing that the Council must consult and take account of the advice of an Auditor Panel on the selection and appointment of a local auditor. Opting-in to the national collective appointment scheme in accordance with the recommendation of this report removes the necessity for a local Audit Panel.
- 8.2 If the Council fails to appoint a local auditor then the Secretary of State may direct the Council to appoint the auditor named in the direction or appoint a local auditor on behalf of the Council.
- 8.3 The recommendations in the report are proposed with a view to ensuring that the Council's duties to appoint an external auditor are met in the most efficient and cost effective manner, in compliance with the requirements of the Local Audit and Accountability Act 2014.
- 8.4 While Audit & Standards Committee's delegated functions mean that it is the most appropriate Council body to consider these proposals and make recommendations, the above Act requires that the appointment of a local auditor must not be delegated, but must instead be made by Full Council.

Lawyer consulted: Victoria Simpson Date consulted: 11/01/22

9 Equalities implications

- 9.1 There are no known equalities implications arising from this report.

10 Sustainability implications

- 10.1 Sector-led procurement is both efficient and economical and is likely to result in the best use of resources compared to over 300 authorities all procuring separately. Although sustainability implications are likely to be modest, there will be some benefits accruing from the massively reduced number of contract documents (electronic or otherwise), meetings (virtual or otherwise), legal engagements and paperwork (electronic or otherwise) and so on.

11 Other Implications

Social Value and Procurement Implications

- 11.1 The organisation procuring the framework, PSAA, is responsible for ensuring the process is compliant with the Social Value Act. However, the provision of external audit to public authorities is so tightly regulated that the scope for achieving wider value may be somewhat restricted.
- 11.2 Although the procurement is likely to make awards to larger audit firms with the necessary accreditations, due to their scale many of these firms are able to support strong social value policies including:
- Many have charitable objectives alongside their core business, for example, pro bono commitments to helping develop measures of and accounting for public value creation;
 - In particular, many support significant opportunities for apprenticeships, internships and other vocational experience programmes;
 - With the advent of remote working, many are diversifying their staffing base which is becoming less London-centric;
 - By the same token, a significant number of people living in Brighton & Hove work for the large London-based audit and accountancy sector, which contributes to local prosperity and the local economy.

Crime & disorder implications:

- 11.3 There are no known crime and disorder implications arising from this report.

Public health implications:

- 11.4 There are no known Public Health implications arising from this report.

Supporting Documentation

Appendices

1. Invitation to Opt-in to the National Appointment Process
2. Analysis of appointment options

Background Documents

1. Link to the report and decision by Full Council on 26 January 2017 to Opt-in to the National Scheme for Auditor Appointments. Please see agenda item 65:
<https://present.brighton-hove.gov.uk/ieListDocuments.aspx?CId=117&MId=6131&Ver=4>