

Title of report: Retender of External Audit Contracts

Meeting: Council

Meeting date: Friday 28 January 2022

Report by: Chairperson, audit and governance committee

Classification

Open

Decision type

This is not an executive decision

Wards affected

(All Wards);

Purpose

For Council to approve the retender of the external audit contract as recommended by the audit and governance committee at their meeting held on 24 November 2021.

Recommendation(s)

That:

- a) Council approves the preferred method for re-procuring external audit services; and**
- b) Elects to join the Public Sector Audit Appointments body.**

Alternative options

1. Council must approve one of the options available in re-procuring its external audit services. The audit and governance committee considered the options and recommends continuing with the Public Sector Audit Appointments procurement option for the reasons given in this report.

Key considerations

Background

2. From 2018/19 the Secretary of State specified Public Sector Audit Appointments Limited (PSAA) as an appointing person for principal local government audits, under the provisions of the Local Audit and Accountability Act 2014 and the Local Audit (Appointing Person) Regulations 2015.
3. The PSAA is a not-for-profit, independent company limited by guarantee without share capital. PSAA is an active member of the Local Audit Liaison Committee and have established an advisory panel.
4. The process for retendering external audit contracts in local authorities in England, for contracts due to start from 2023/24, is underway and this council must decide, before 11 March 2022, whether to procure its own external auditor or opt into the national procurement framework hosted by PSAA.
5. The nature and scope of the audit is determined by codes of practice and guidance and the regulation of the audit market is undertaken by a third party, currently the Financial Reporting Council.
6. The length of the compulsory appointing period covers the external audits of the five consecutive financial years commencing 1 April 2023, five years being the compulsory appointing period for the purposes of the regulations which govern the national scheme.
7. The Secretary of State has confirmed that the Public Sector Audit Appointments Limited (PSAA) will continue to be an appointing person for the purposes of the Regulations. The council has been invited to become an opted-in council in accordance with the Regulations.
8. Joining PSAA's national scheme for auditor appointments is one of the choices available, the alternative is to independently procure the audit service. The audit and governance committee considered these options at its meeting on 24 November 2021. The committee, and the Local Government Association, consider that joining the national framework is the best option for councils.

Public Sector Audit Appointments Limited (PSAA)

9. Acting in accordance with its 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. 98% of eligible bodies made the choice to opt-in for the five-year period commencing in April 2018. This council opted into this arrangement and this has been the process followed for external audit since that date.
10. If we continue to opt in PSAA will appoint an auditor for each of the five financial years beginning 1 April 2023. They will aim for all opted-in bodies to receive an audit service of the required quality at a realistic market price and to support the drive towards a long term competitive and more sustainable market for local audit. The focus of PSAA's quality assessment will include resourcing capacity and capability including sector knowledge, and client relationship management and communication.

Opting into the national arrangement

11. It is recognised that in a suppliers' market it is likely that councils acting together will have the best chance of influencing the market and for nationally coordinated efforts to improve the supply side of the market to be effective.

12. To expand the supply side of the market bids from challenger firms needs to be encouraged. This is more likely to be successful if a large number of councils sign up to the national scheme.

Advantages

13. PSAA has the ability to negotiate contracts with external audit firms nationally, maximising the opportunities for the most economic and efficient approach to procurement of external audit on behalf of the whole sector.
14. The costs of setting up the appointment arrangements and negotiating fees would be shared across all opted-in authorities.
15. By offering large contract values the firms would be able to offer better rates and lower fees than are likely to result from local negotiation.
16. Any conflicts at individual council level would be managed by PSAA who would have a number of contracted firms to call upon.
17. The PSAA will act in the collective interests of the 'opted-in' councils.
18. Opting into PSAA supports a transparent and independent auditor appointment via a third party and provides the best opportunity to secure the appointment of a qualified, registered auditor.
19. Opting in will provide access to a specialist PSAA team with significant experience of working within the context of the relevant regulations to appoint auditors, managing contracts with audit firms, and setting and determining audit fees.
20. The PSAA provides a value for money offer based on minimising PSAA costs and distribution of any surpluses to scheme members providing collective efficiency savings for the sector through undertaking one major procurement as opposed to a multiplicity of smaller procurements.
21. Opting in avoids the necessity for local bodies to establish an auditor panel and undertake an auditor procurement, enabling time and resources to be deployed on other pressing priorities.
22. The PSAA will provide updates to Section 151 officers and audit committee chairs on a range of local audit related matters to inform and support effective auditor-audited body relationships.
23. By joining concerted efforts with other stakeholders will work to develop a more sustainable local audit market.

Community impact

24. The council is committed to maintaining high standards of corporate governance in order to achieve the council's vision of "people, organisations and businesses working together to bring sustainable prosperity and well-being for all, in the outstanding natural environment of Herefordshire." A principle of the council's code of corporate governance is to implement good practices in transparency, reporting, and audit to deliver effective accountability.

Environmental Impact

25. The council provides and purchases a wide range of services for the people of Herefordshire. Together with partner organisations in the private, public and voluntary sectors we share a strong commitment to improving our environmental sustainability, achieving carbon neutrality and to protect and enhance Herefordshire's outstanding natural environment.

26. Whilst this is a decision on back office functions and will have minimal environmental impacts, consideration has been made to minimise waste and resource use in line with the council's Environmental Policy.

Equality duty

27. Under section 149 of the Equality Act 2010, the 'general duty' on public authorities is set out as follows:

A public authority must, in the exercise of its functions, have due regard to the need to –

- a) eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act;
 - b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;
 - c) foster good relations between persons who share a relevant protected characteristic and persons who do not share it.
28. The public sector equality duty (specific duty) requires us to consider how we can positively contribute to the advancement of equality and good relations, and demonstrate that we are paying 'due regard' in our decision making in the design of policies and in the delivery of services. As this is a decision on back office functions, we do not believe that it will have an impact on our equality duty.

Resource implications

29. By joining PSAA the mandatory external audit contract cost would be negotiated at a national level as is the process now.
30. Opting-in to the national PSAA arrangement would provide the maximum opportunity to limit the extent of any increases in external audit fees by entering in to a large scale collective procurement arrangement.
31. The duty to prescribe scales of audit fees is a statutory function delegated to PSAA by the Secretary of State for Levelling Up, Housing and Communities. Before prescribing any scale of fees, PSAA have a statutory duty to consult councils. Following consultation, PSAA publish the work programme on their website each year with the scale fee for each audited body. The PSAA will consult on scale fees and will publish confirmed scale fees for opted-in bodies on their website.
32. The scale fees for individual audited bodies are normally based on the scale fee for the previous year, reflecting the auditor's assessment of audit risk and complexity. PSAA can approve proposed variations to the scale fee for an individual audited body, to reflect changes in circumstances. Scale fees are based on the expectation that audited bodies are able to provide the auditor with complete and materially accurate financial statements, with supporting working papers, within agreed timeframes.

Legal implications

33. 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 that the authority must consult and take account of the advice of its auditor panel on the selection and appointment of a local auditor. Schedule 3 provides that where a relevant authority is a local

authority operating executive arrangements, the function of appointing a local auditor to audit its accounts is not the responsibility of an executive of the authority under those arrangements. This means this is a decision for Full Council as the decision has not been delegated in the constitution.

34. 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.
35. 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 exercised 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.
36. Local Audit (Appointing Person) Regulations 2015 specifies the PSAA as an appointed person. By opting into this arrangement the council will confer to the PSAA the appointment of the auditors and before doing so the PSAA must consult with the council about the proposals.

Risk management

37. There is no immediate risk to the council, by accepting the PSAA invitation the procurement and auditor requirement risks are minimised, PSAA are committed to ensuring that the quality of the audit work provided is of the highest standards. To promote transparency and encourage best practice, they provide a number of reports on their website.

Consultees

38. None

Appendices

None

Background papers

None identified

Report Reviewers Used for appraising this report:

Please note this section must be completed before the report can be published		
Governance	Matt Evans	Date 26/11/2021
Finance	Josie Rushgrove	Date 29/11/2021
Legal	Alice McAlpine	Date 29/11/2021
Communications	Luenne Featherstone	Date 25/11/2021

Equality Duty	Carol Trachonitis	Date 25/11/2021
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Risk	Paul Harris	Date 29/11/2021
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Approved by	Andrew Lovegrove	Date 29/11/2021
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