

Committee Name and Date of Committee Meeting

Audit Committee – 30 November 2021

Report Title

External Audit Re-procurement

Is this a Key Decision and has it been included on the Forward Plan?

No

Strategic Director Approving Submission of the Report

Judith Badger, Strategic Director of Finance and Customer Services

Report Author(s)

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Ward(s) Affected

Borough-Wide

Report Summary

The Council's current external auditor is Grant Thornton, under a contract managed by Public Sector Audit Appointments Limited (PSAA). This contract expires at the end of the 2022/23 financial year. The purpose of the following report is to allow Audit Committee to consider the options around the future procurement of the external audit functions, prior to making a recommendation to Council about the Councils approach. The Council will need to consider the options available and put in place new arrangements in time to make the re-appointment. If the Council is to remain within the PSAA national procurement scheme the deadline for opting into this process is Friday 11th March 2022.

If the Council is to independently procure its own external auditors this must be done by December 2022.

Recommendations

1. Notes the recommendation to opt-in to the PSAA re-procurement of the external audit function and refer this paper onto Council for approval.

Consideration by any other Council Committee, Scrutiny or Advisory Panel

No

Council Approval Required

Yes

Exempt from the Press and Public

No

1. Background

- 1.1 The external auditors of the Council's 2023/24 accounts have to be appointed by the end of December 2022. The secretary of state has confirmed PSAA in the role of the appointing person for eligible principal bodies for the period commencing April 2023. A formal invitation has been received by the Council to opt into these arrangements which will cover the five consecutive financial years beginning 1st April 2023. It should be noted that Grant Thornton would remain the Council's external auditor for the 2022/23 accounts.
- 1.2 In order to join the national scheme the Council has to formally accept the invitation by Friday 11th March 2022. The decision to accept the invitation must be made by the members of the authority meeting as a whole e.g. Council or equivalent.

2. Key Issues

- 2.1 There are a number of options available to the Council when appointing new auditors.
- It can continue to take part in the national procurement undertaken by PSAA
 - Procure individually
 - Seek to carry out a joint procurement along with (probably) neighbouring local authorities and / or SCR.
- 2.2 In conjunction with around 98% of all local authorities, the Council opted-in to the national procurement arrangement run by Public Sector Audit Appointments (PSAA) in 2017, covering the audits of the Council's 2018/19 to 2022/23 accounts.

Procurement through PSAA

- 2.3 The procurement through the PSAA has the following advantages.
- transparent and independent auditor appointment via a third party;
 - the best opportunity to secure the appointment of a qualified, registered auditor;
 - appointment, if possible, of the same auditors to bodies involved in significant collaboration/joint working initiatives, if the parties believe that it will enhance efficiency;

- on-going management of any independence issues which may arise;
- 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;
- a value for money offer based on minimising PSAA costs and distribution of any surpluses to scheme members - in 2019 the PSAA returned a total £3.5million to relevant bodies and more recently a further distribution of £5.6m was announced in August 2021;
- collective efficiency savings for the sector through undertaking one major procurement as opposed to a multiplicity of smaller procurements;
- 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;
- updates from PSAA 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; and
- concerted efforts to work with other stakeholders to develop a more sustainable local audit market.

2.4 A potential disadvantage of procuring through the PSAA is that Individual elected members will have less opportunity for direct involvement in the appointment process other than through the LGA and/or stakeholder representative groups.

Procure Individually.

2.5 Legislation requires that to procure individually the Council must set up an Auditor Panel. The panel must consist of wholly or a majority of independent members as defined by the Act, and must be chaired by an independent member. 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 in assessing bids and choosing to which firm to award the contract for the Council's external audit. The new independent auditor panel would be responsible for selecting the auditor.

Advantages/benefits

- Setting up an auditor panel allows the Council to take maximum advantage of the new local appointment regime and have some local input to the decision.

Disadvantages/risks

- Recruitment and servicing of the Auditor Panel, running the bidding exercise and negotiating the contract is estimated by the LGA to cost in the order of £15,000 plus on-going expenses and allowances.
- The Council will not be able to take advantage of the benefits of scale and reduced fees that could be available through joint or national procurement contracts.
- The assessment of bids and decision on awarding contracts will be taken by independent appointees and not solely by elected members. Hence our members do not control the process or appointment.
- The external audit market has become very challenging, with firms unable to recruit staff. Often audited bodies nationally in the public and private sector have found that they have at most one bidder for their audit. Consequently single-procurement risks having very little or no choice of audit provider.

Joint Procurement.

- 2.6 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, and the Council would need to liaise with other public authorities locally to assess the appetite for such an arrangement. Soundings with other local authorities so far have indicated that they are not keen to opt for a joint procurement, as they doubt the benefits would be worth the additional time and procurement costs needed.

Advantages/benefits

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

- The decision-making body will be further removed from local input, with potentially no input from elected members where a wholly independent auditor panel is used, or possibly only one elected member representing each council, depending on the constitution agreed with the other bodies involved.
- There will be the usual delays and time needed to negotiate and agree joint provision with other LA bodies, with the danger if agreement is not met, that the Council is then too late to opt-in to the PSAA arrangements.

- The choice of auditor could be complicated if 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 a council. Where these issues occur, 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 for this Council, then the Council may still need to make a separate appointment with all the attendant costs and loss of economies possible through joint procurement.
- The problems in obtaining a range of auditing firms prepared to bid, as discussed under Option Two, are unaltered by this arrangement.
- Lack of enthusiasm for this approach from other LAs contacted.

Recommended option

2.7 For the last procurement exercise, after considering the above factors, the Council decided that opting in to the PSAA national procurement exercise was the best approach. 98% of other local authorities (and Fire, Police etc bodies) decided likewise, so PSAA was the overwhelming choice of the sector. There have been some frustrations arising from this decision, as the scope of external audits has been increasing and with it the cost of the audit to the Council. However, given the current fragility of the audit market, the considerable time and effort involved in tendering individually or in a small group, the additional demonstrable independence of the national process, and the benefits of acting as a collective sector in the audit market, it is the view of officers that the Council should again opt-in to the PSAA process.

3. Options considered and recommended proposal

3.1 The options considered have been addressed in section 2 of this report.

4. Consultation on proposal

4.1 The Council has liaised with other local authorities within South Yorkshire to assess their approach and any appetite for a joint procurement exercise. However, all parties feel that the potential benefits of the PSAA arrangement, the lack of resources and the cost of another approach being taken mean that a PSAA engagement is the option of choice across the region.

5. Timetable and Accountability for Implementing this Decision

5.1 The deadline for opting into the PSAA national scheme for appointing auditors is Friday 11th March 2022.

6. Financial and Procurement Advice and Implications

6.1 There are no financial implications arising from the recommendations set out in this report, other than the normal ongoing costs of paying for the subsequent external audits.

7. Legal Advice and Implications

7.1 None

8. Human Resources Advice and Implications

8.1 There are no Human Resource implications arising from the report.

9. Implications for Children and Young People and Vulnerable Adults

9.1 There are no implications arising from the proposals to Children and Young People and Vulnerable Adults.

10. Equalities and Human Rights Advice and Implications

10.1 There are no implications arising from this report to Equalities and Human Rights.

11. Implications for CO2 Emissions and Climate Change

11.1 No direct implications.

12. Implications for Partners

12.1 There are no other implications arising from this report to Partners.

13. Risks and Mitigation

13.1 Cabinet approval timelines to be followed in order to ensure that the timeline for opting in to the agreement is adhered to.

14. Accountable Officer(s)

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