

Report to: Audit Committee

Date: 17th November, 2021

Report of: Deputy Chief Executive

Report No: XX

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Report Title: Process for the Appointment of the External Auditor

**Confidential /
Non Confidential:**

(Non-Confidential) This report does **not** contain information which warrants its consideration in the absence of the press or members of the public

Purpose:

This report sets out proposals for appointing the Council's external auditor for the five-year period from 2023/24.

Recommendations:

Audit Committee is requested to consider the options for the procurement of external audit services and support the preferred option; to opt into the sector-led option through PSAA for the appointment of external auditors to principal local government and police bodies for five financial years from 1 April 2023.

**Background
Doc(s):**

2017 reports to Audit Committee and Council
Local Audit and Accountability Act 2014 (the Act)
Local Audit (appointing Person) Regulations 2015
CIPFA Guide to Auditor Panels

1 Introduction

- 1.1 The Local Audit and Accountability Act 2014 (the Act) at Section 7 states that a “relevant authority must appoint a local auditor to audit its accounts for a financial year not later than 31 December in the preceding financial year.” The current auditor appointment arrangements cover the period up to and including the audit of the 2022/23 accounts.
- 1.2 In 2017 the Council opted into the ‘appointing person’ national auditor appointment arrangements established by Public Sector Audit Appointments (PSAA) for the period covering the accounts for 2018/19 to 2022/23.
- 1.3 PSAA is now undertaking a procurement for the next appointing period, covering audits for 2023/24 to 2027/28. During Autumn 2021 all local government bodies need to make decisions about their external audit arrangements for accounting periods from 2023/24.
- 1.4 The closing date to opt in to the PSAA arrangement is 11 March 2022. This enables procurement and award of contracts by the statutory deadline of 31 December 2022.
- 1.5 This report sets out the options open to the Council and the basis of officers’ recommendation to Audit Committee to opt into the national arrangement with PSAA.

2 Background

- 2.1 There is a requirement under the Local Audit and Accountability Act 2014 for all local government and NHS bodies in England to locally appoint their external auditors.
- 2.2 There are three options open to the Council under the Act which are:
 - Option 1: Make a stand-alone appointment as Bolton Council
 - Option 2: Establish local joint procurement arrangements
 - Option 3: Opt-in to a sector led body appointed by the Secretary of State under the Act - Public Sector Audit Appointments (PSAA) Limited.
- 2.3 New appointments for auditors need to be made by December 2022 regardless of which option is chosen.
- 2.4 In accordance with Regulation 19 of the Local Audit (Appointing Person) Regulations 2015, the decision on opt-in must be taken by Council (“full authority”).

3 Review of Options

- 3.1 A review of options was presented to Audit Committee and Council in 2017 to support the decision to opt in to the PSAA arrangements. The basis for that decision has not fundamentally changed in the intervening period and in summary the pros and cons of the options are:

Option 1: Make a stand-alone appointment as Bolton Council

- 3.2 This option requires the Council to appoint an Audit Panel, separate in role and membership to the Audit Committee, to oversee the procurement and management of the external audit contract. It requires the whole or majority of the membership to be independent of the Council and this means that elected members will not have a majority input to assessing bids and choosing to which audit firm to award a contract for the Council's external audit.
- 3.3 This approach requires additional capacity and expertise to administer the process and to deliver the functions of the Panel. It will also result in the costs of tendering being borne solely by the Council.
- 3.4 The option limits the market influence that the Council has through the letting of a standalone contract and it is not guaranteed that firms will submit tenders for this work given widely reported capacity issues in the market and given they will also be competing as part of the PSAA arrangement. This presents a risk of being unable to make an appointment by the statutory deadline. In addition, the Council could not take advantage of the 'economy of scale' created through joint or national procurement.
- 3.5 This option does enable the Council to determine cost, quality and social value weightings in its procurement process whereas opting into PSAA will require us to align with their scoring and appointment processes.

Option 2: Establish local joint procurement arrangements

- 3.6 In 2017 an option was explored to establish Greater Manchester level procurement arrangements. Whilst affording greater economies of scale this approach does largely present the same risks and opportunities as the stand-alone option. It also increases the risk that firms will not bid as they are at heightened risk of having a conflict of interest at one of the authorities. The option has been discussed with Greater Manchester Treasurers and the consensus is that this presents a high level of risk, with relatively low benefits compared to option 3.

Option 3: Opt in to PSAA

3.7 PSAA was the option selected in 2017 for the reasons set out below. Given challenges and capacity in the market and the need to maintain a high quality of external audit provision, there is an even stronger case that this option will produce better outcomes and will be less burdensome for the Council, compared to procurement undertaken locally because:

- collective procurement reduces overall costs for the sector and for individual authorities compared to smaller local procurements and contract management arrangements;
- there is no required to establish a specific Council auditor panel with an independent chair and independent members to oversee a local auditor procurement and ongoing management of an audit contract;
- supporting the sector-led body offers the best way of ensuring there is a continuing and sustainable public audit market into the medium and long term; and
- it is the best opportunity to secure the appointment of a qualified, registered auditor - there are only nine accredited local audit firms, and a local procurement would be drawing from the same limited supply of auditor resources as PSAA's national procurement.

3.8 Key features of the PSAA approach are:

- contracts let under the PSAA opt-in will run for five years;
- contracts between PSAA and the audit firms will require firms to deliver audits compliant with the National Audit Office (NAO) Code of Audit Practice;
- the number of firms eligible to undertake local public audit is regulated through the Financial Reporting Council and the Recognised Supervisory Bodies (RSBs). Only appropriately accredited firms will be able to bid for appointments;
- PSAA will manage current and potential future conflicts of interest rather than the Council having to re-procure contracts should such conflicts arise;
- opting into the PSAA will remove the need to set up an auditor panel in addition to the Council's Audit Committee;
- in addition to working with the LGA, a stakeholder advisory panel with representative organisations for councils, police and fire bodies ensures ongoing influence and engagement with PSAA;
- PSAA is a not-for-profit organisation whose costs are around 4% of the scheme with any surplus distributed back to scheme members;
- scale fees will vary in line with the additional work needed which reflects risk and complexity (scale is set following consultation with opted in bodies);

- PSAA will manage variation requests and approve where appropriate; and
 - This approach is supported and endorsed by the LGA.
- 3.9 The main downside with Option 3 is the inability to determine the evaluation criteria that will be used for procurement. Given that the audit approach is mandated through standards and guidance there is minimal flexibility in the scope of work requested. Nonetheless current stakeholder networks through Core Cities and the LGA will be used to encourage the application of appropriate quality, cost and social value weightings. We expect quality to constitute a high element of scoring and note that is unlikely that PSAA will apply the same weighting to social value as is used by the City Council and would expect this to be no more than 5% of the total score.
- 3.10 The PSAA route was adopted by 484 of 494 bodies in the previous exercise. Feedback from across Greater Manchester and North West authorities is that they will be adopting this same approach in 2022.

4 Next Steps

- 4.1 Subject to Audit Committee comments, a report will be provided to Council seeking approval for the preferred option. This will reference the comments of the Audit Committee.

5 Recommendations

- 5.1 Audit Committee is requested to consider the options for the procurement of external audit services and support the preferred option to opt into the sector-led option through PSAA for the appointment of external auditors to principal local government and police bodies for five financial years from 1 April 2023.