

Audit Committee

27th September 2021



Report of: Director of Finance

Title: Process for Appointment of External Auditor

Ward: Citywide

Officer Presenting Report: Director of Finance

Recommendation

The Committee is asked to recommend to Full Council one of the options for appointing an external auditor for 2023/24 and going forward. The recommended option is to 'opt in' to the PSAA 'sector led option'.

Summary

This report details the need to procure external audit services for accounting period 2023/24 and beyond. The appointment process is governed by the Local Audit and Accountability Act 2014 and the options for appointing are provided in this report.

The significant issues in the report are:

The decision on the appointment of an external auditor is reserved for Full Council. External Auditors will need to be appointed for the accounting period 2023/24 by 31st December 2022.

There are three routes to appointment of the external auditor:

- the Council could undertake its own individual procurement process
- the Council could undertake a joint procurement process with other local authorities.
- the council could opt into a sector led arrangement provided by Public Sector Audit Appointments (PSAA) Ltd. The decision to take this route requires Full Council approval and the council would need to opt in by 11th March 2022.

For individual or joint procurement processes an independent Auditor Panel would be required to be set up in line with legislative requirements.



Policy

1. Audit Committee Terms of Reference require them to consider all matters relating to External Audit.
2. The Local Audit and Accountability Act 2014 requires appointment of an external auditor and governs the procedure for appointment including the requirement to consult and take account of the advice of its Auditor Panel on the selection and appointment of the auditor.
3. The Local Audit (appointing Person) Regulations 2015 enables a Sector Led Body to become the appointing person.

Consultation

4. **Internal**
Finance staff. Procurement staff. Audit Committee.
5. **External**
Not applicable

Context

- 6.1 The Council's current provider of external audit services is Grant Thornton who were appointed following the Council's decision to opt into a sector led procurement via Public Sector Audit Appointments (PSAA) Limited. This contract runs for the audit of accounts for financial years 2018/19 to 2022/23. During Autumn 2021, the Council needs to make the decision on how it will appoint external auditors for accounting periods 2023/24 onwards. External Auditors will need to be appointed for accounting period 2023/24 by 31st December 2022.
- 6.2 The options for appointing local auditors are a) to undertake an individual procurement and appointment exercise, b) to undertake a joint procurement and appointing exercise with other Local Authorities and c) join a sector led body arrangement as the Council did in 2018. In respect of that last option, the Council will need to 'opt in' to the sector led body arrangement by 11th March 2022 having firstly obtained Full Council approval to do so. (A requirement of the Local Audit (Appointing Person) Regulations 2015).
- 6.3 The scope of external audit work is specified nationally by the National Audit Office in their Code of Audit Practice. Not all firms are eligible to compete for the work as they need to be registered with a Registered Supervising Body approved by the Financial Reporting Council. It is unlikely that small local firms will meet the eligibility criteria to undertake the work. Given the complexity of Local Authority audit work, it is envisaged that contracts would be awarded for a minimum of 4 to 5 years.
- 6.4 For options a) and b), the Council would undertake the procurement exercise either itself (a) or with its chosen partners (b) using an Auditor Panel. This will need to be done in accordance with guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). The membership of the Audit Panel must be wholly or have a majority of independent members. Independent members for this purpose are independent appointees; this excludes

current and former elected members (or officers) and their close families and friends. Therefore, elected members would not have a majority input to the selection and appointment process. Independent members of the Audit Committee may be eligible but this would need to be confirmed. If the Council decided to join with other authorities to establish a joint Auditor Panel, this would again need to be constituted of wholly or a majority of independent members with legal advice needed on the exact constitution, depending on the Councils involved.

Option A: Undertaking an individual auditor procurement and appointment

6.5 Advantages of this route include having local input to the decision as panel members could be appointed locally. However, recruitment and servicing of the required Audit Panel, running the bidding exercise and negotiating the contract would be time consuming and costly to the Council. In addition, the Council would not be able to take advantage of reduced audit fees and economies of scale that may be available through joint or national procurement contracts. The council would also be procuring in what is a very challenging market currently.

Option B: Undertaking a joint audit procurement and appointing exercise with other Local Authorities

6.6 The Local Audit and Accountability Act 2014 enables the Council to join other local authorities in setting up an Auditor Panel. Advantages of this approach include sharing the cost of setting up the panel, running the procurement process and negotiating contacts across a number of authorities. It may also bring opportunity for negotiating economies of scale from a combined contract value.

6.7 Disadvantages of this approach might include frustrations in the choice of auditor available. Accountancy and Audit firms often complete non audit work for Local Authorities (eg consultancy/ advisory work) which may limit firms who are appointable by a joint process due to independence issues. Should the firm selected be conflicted with Bristol Council in any way, the council would then need to make a separate appointment.

6.8 The availability of this option to the Council will also depend on the extent to which the other Local Authorities prefer to use either option a or c in preference to this.

Option C: Opt in to the Sector Led Arrangement operated by Public Sector Audit and Appointments Ltd (PSAA Ltd)

6.9 In July 2016, the Secretary of State for Housing Communities and Local Government specified PSAA Ltd as an appointing person for principal local government and police bodies for audits from 2018/19, under the provisions of the Local Audit and Accountability Act 2014 and the Local Audit (Appointing Person) Regulations 2015. PSAA Ltd has a responsibility for:

- appointing auditors to all relevant authorities;
- setting scales of fees, and charging fees, for the audit of accounts of relevant authorities and consulting with relevant parties in relation to those scales of fees;
- ensuring effective management of contracts with audit firms for the delivery of consistent, quality and effective audit services to relevant authorities;
- ensuring that public money continues to be properly accounted for and protected;

- being financially responsible having regard to the efficiency of operating costs and transparently safeguarding fees charged to audited bodies; and
- leading its people as a good employer, ensuring that it continues to be fit-for-purpose; motivating and supporting its staff; and communicating with them in an open, honest and timely way.

- 6.10 The PSAA will appoint the external auditors for all opted in bodies for a period of 5 years with an option to extend to for a further two years by mutual agreement.
- 6.11 Advantages of this approach include a fully independent approach to appointment of the external auditors and saving time and resources by avoiding the need for setting up independent audit panels and undertaking procurement processes. The costs of a procurement and appointing exercise would be shared across participating councils. A national exercise offering large contract values may also encourage participating firms to offer more realistic prices in what is currently a challenging market. Independence issues would be managed by PSAA Ltd who would have a number of contracted firms to call on.
- 6.12 The main disadvantage to this approach is the inability to influence the appointment and the procurement negotiations to reflect Council’s approach to procurement. To remain viable and place itself well in terms of negotiating position, PSAA Ltd will need to secure opt in from a good number of Councils. A consultation by PSAA Ltd asked for an indication of whether Councils would opt into the scheme. 57% of eligible bodies answered ‘Yes’ with a further 34% answering ‘Maybe’ which suggests this not an issue.
- 6.13 PSAA Ltd have undertaken a consultation of authorities who opted into the first appointment period arrangements (covering the audit of accounting periods 2018/19 – 2022/23) to learn and enhance arrangement going forward. Their findings are published and include a commitment to further enhance arrangements related to monitoring quality of service, delays in audits and auditors staffing issues, contract management and value for money in fee setting.

Timescale:

- 6.14 The Council has until end of December in the year before the accounting period to be audited commences and as such has until the end of December 2022 to appoint the External Auditor. If procuring ourselves, sufficient time would be required to set up the required Audit Panel and run the procurement process in sufficient time to achieve that time frame.
- 6.15 The invitation to opt into the PSAA national appointment process (option c) is due to be received in September 2021 and must be accepted by 11th March 2022 if the Council wishes to take this route. The PSAA have advised an expected timetable as follows for appointment process:
- September 2021 – Councils will receive their invitation to opt into the Sector Led arrangement.
 - 11th March 2022 – Deadline for formal ‘Opt in’ from Councils. (therefore Full Council approval to ‘opt in’ will be required before this date)
 - Spring/Summer 2022 – Process for making individual appointments for opted in LA’s will be published

- August 2022 – Procurement of Audit Services will have been completed
- Autumn 2022 – Consultation with opted in LA's on proposed auditor appointments
- 31st December 2022 – Confirmation of appointed auditor received.

Proposal

7. The Audit Committee recommends to Full Council that they approve 'opt in' to the Sector Led arrangement for recruitment of the external auditor on the basis that it is the most efficient way to appoint the external auditor and is likely to achieve the most competitive price.

Other Options Considered

8. Other options considered are detailed in paragraph 3 above along with the advantages and disadvantages of doing so.

Risk Assessment

The Council is required to appoint an external auditor for accounting periods 2023/24 and going forward. If it does not do so the Secretary of State will do so on its behalf. Opting in to the 'sector led' approach is likely to be the most financially favourable in terms of the cost of a procurement exercise and the level of audit fee.

Summary of Equalities Impact of the Proposed Decision

No Equality Impact anticipated from this report.

Legal and Resource Implications

Legal

Not Applicable

Financial

Not Applicable

Land

Not Applicable

Personnel

Not Applicable

Appendices:

None

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985

Background Papers:

[PSAA](#)