



Audit Committee

14th February 2022

Title	Invitation to opt-in to the national scheme for auditor appointments for 2023/24 to 2027/28 audits
Report of	Chief Executive and Executive Director of Resources
Wards	All
Status	Public
Urgent	No
Key	No
Enclosures	None
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Summary

This paper recommends a sector-led approach to the procurement of external audit services on the basis of cost, resource availability and value for money covering audits for 2023/24 to 2027/28.

Officers Recommendations

That Audit Committee:

1. Recommends to Council that it:

- a) accepts the Public Sector Audit Appointments (PSAA) invitation to 'opt in' to the sector led option for the appointment of external auditors for five financial years commencing 1 April 2023; and
- b) delegates authority to the Executive Director of Resources to respond to the invitation and take the necessary steps to finalise the appointment itself following the PSAA procurement process.

2. Notes that its recommendations will be included in the Council's Annual Budget report to Full Council on 1 March 2022

1. WHY THIS REPORT IS NEEDED

- 1.1 The Local Audit and Accountability Act 2014 ('the Act') brought to a close the Audit Commission 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. Thereafter, local authorities would be responsible for appointing their own external auditors under the overall framework required by the Act.
- 1.2 Following the introduction of the Act, a sector-led appointments body, Public Sector Audit Appointments Limited (PSAA) was established. Authorities have the choice to 'opt in' to such a body and the decision whether to opt into a sector-led procurement exercise is a decision required to be taken by Full Council.
- 1.3 On 30th Jan 2017, Audit Committee recommended to Full Council to approve the decision to 'opt in' to the sector led procurement of external audit services established by PSAA for the period covering the accounts for 2018/19 to 2022/23 and the appointed auditor for that period is BDP LLP.
- 1.4 PSAA is now undertaking a procurement for the next appointing period, covering audits for 2023/24 to 2027/28. At this point all local government bodies need to make decisions about their external audit arrangements from 2023/24 onwards. They have options to arrange their own procurement and make the appointment themselves or in conjunction with other bodies, or they can join and take advantage of the national collective scheme administered by PSAA. If the Council wants to opt in to the PSAA arrangements a decision is required of Full Council and notification of that decision needs to be communicated to the PSAA by 11th March 2022.
- 1.5 This paper provides a summary of the options available to the Authority for audit of the accounts from 2023/24 to 2027/28 inclusive and makes a recommendation the Audit Committee make a recommendation to Full Council to opt in to the PSAA procurement process.
- 1.6 This report sets out the evaluation undertaken by officers to establish the most appropriate arrangements for the Council with this regard and recommends that it is noted that the Audit Committee and officers have expressed concern over the external audit arrangements and particularly the delays which have ensued over the past year and will review the potential for input into the PSAA process.

2. REASONS FOR RECOMMENDATIONS

2.1 Background

- 2.1.1 Under the Local Government Audit & Accountability Act 2014 ("the Act"), the Council is required to appoint an auditor to audit its accounts for each financial year. The Council has three options:

- To appoint its own auditor, which requires it to follow the procedure set out in the Act;

- To act jointly with other authorities to procure an auditor following the procedures in the Act;
- To opt into the national auditor appointment scheme administered by a body designated by the Secretary of State as the 'appointing person'. The body currently designated for this role is Public Sector Audit Appointments Limited (PSAA).

2.1.2 In order to opt into the national scheme, a council must make a decision at a meeting of the Full Council.

2.1.3 The auditor appointed at the end of the procurement process will undertake the statutory audit of accounts and Best Value assessment of the council in each financial year, in accordance with all relevant codes of practice and guidance. The appointed auditor is also responsible for investigating questions raised by electors and has powers and responsibilities in relation to Public Interest Reports and statutory recommendations.

2.1.4 The auditor must act independently of the council and the main purpose of the procurement legislation is to ensure that the appointed auditor is sufficiently qualified and independent.

2.1.5 The auditor must be registered to undertake local audits by the Financial Reporting Council (FRC) and employ authorised Key Audit Partners to oversee the work. Auditors are regulated by the FRC, which will be replaced by a new body with wider powers, the Audit, Reporting and Governance Authority (ARGA) during the course of the next audit contract.

2.2 The External Audit Market & current PSAA contract

2.2.1 Issues in the External Audit market are well trailed, with firms across the spectrum not achieving audit deadlines. Across the spectrum, as at 24 November 2021, only 23% of 2020/21 audit opinions had been delivered.

2.2.2 There are only a limited number of local audit firms and audit partners that are registered with the Institute of Chartered Accountants of England and Wales (ICAEW) from which local authorities can appoint from. The strength of the market and attractiveness (or otherwise) of Local Authority audit to firms was highlighted in the Redmond Review which was published on 8 September 2020 and was an independent review into the effectiveness of local authority financial reporting and audit regimes in England. It reported that current fee structures do not enable auditors to fulfil the role in an entirely satisfactory way and reported a significant risk that the firms currently holding local audit contracts would withdraw from the market.

2.2.3 We also need to be mindful that the relatively small market means that we may not obtain a sufficient interest in an independent procurement strategy and a real risk that an independent procurement would not achieve value for money. Audit fees are anticipated to increase from their current levels to address existing market failings (paragraphs 2.23 and 2.24 above refer) and increased audit requirements, and through economies of scale the PSAA scheme is likely to provide the best mitigation against this.

2.2.4 A joint procurement exercise could mitigate but not eliminate some of the risks of an independent procurement, however, there are further complications not least the current lack of appetite for such an arrangement which means this is not a recommended route.

2.2.5 The Government committed to take action to support stability in the local audit market. Ministers announced £15million in additional funding in 2021/22 to support local bodies to meet an anticipated rise in audit fees in 2021/22, driven by new requirements on auditors including the 2020 Code of Audit Practice.

2.2.6 The Chair of the PSAA wrote in a recent LGC article of the PSAA's strategy which aims to retain the involvement of existing experienced suppliers but also to give new firms an opportunity to join the market through a plan to offer a graduated range of lot sizes including one or two specially designed 'development lots' aimed at new entrants. Quality is also emphasised as a key theme within the procurement. As well as the need to deliver audits which meet all of the requirements of the National Audit Office's code of audit practice including the auditing and ethical standards set by the Financial Reporting Council (FRC) emphasis is on the need to meet the expectations of audited bodies and the timeliness of audit opinions is given a particular mention. Consequently, it is stated that the procurement process will place increased emphasis on bidders' plans to resource audits appropriately, prioritising not only capacity but also capability including sector knowledge.

2.3 Opting in to the national PSAA scheme

2.3.1 The national PSAA scheme offers authorities the simplest and most economical route to auditor appointment. It avoids the need to undertake an auditor procurement and ongoing contract management activities (such as fee variation management), saving local time, effort and cost; and negotiating contracts with the audit firms nationally maximises the opportunities for maximising value for money for the whole sector.

2.3.2 As PSAA is set up as an independent appointing person it also negates the need to establish a local auditor panel, which could be difficult, costly and time-consuming. PSAA also provides the most independent option to auditor appointment and contract management.

2.3.3 The PSAA itself has considerable expertise and experience in the role of appointing auditors, with a dedicated team that is very familiar with the relevant regulations to appoint auditors, manage contracts with audit firms, and set and determine audit fees.

2.4 Recommendation

2.4.1 This paper recommends that the council opt into the national auditor appointment scheme administered by the PSAA.

2.4.2 The PSAA is specified as the 'appointing person' for principal local government under the provisions of the Act and the Local Audit (Appointing Person) Regulations 2015. PSAA let five-year audit services contracts in 2017 for the first appointing period, covering audits of the accounts from 2018/19 to 2022/23. It is now undertaking the work needed to invite eligible bodies to opt in for the next appointing period, from the 2023/24 audit onwards, and to complete a procurement for audit services. PSAA is a not-for-profit organisation whose costs are around 4% of the scheme with any surplus distributed back to scheme members.

2.4.3 The national opt-in scheme provides the following:

- the appointment of a suitably qualified audit firm to conduct audits for each of the five financial years commencing 1 April 2023;
- appointing the same auditor to other opted-in bodies that are involved in formal collaboration or joint working initiatives to the extent this is possible with other constraints;

- managing the procurement process to ensure both quality and price criteria are satisfied. PSAA has sought views from the sector to help inform its detailed procurement strategy;
- ensuring suitable independence of the auditors from the bodies they audit and managing any potential conflicts as they arise during the appointment period;
- minimising the scheme management costs and returning any surpluses to scheme members;
- consulting with authorities on auditor appointments, giving the Council/Authority the opportunity to influence which auditor is appointed;
- consulting with authorities on the scale of audit fees and ensuring these reflect scale, complexity, and audit risk; and
- ongoing contract and performance management of the contracts once these have been let.

2.4.4 The PSAA have contacted the Chair of the Audit Committee and the S151 officer with an invitation to opt into these national arrangements. The council needs to respond formally to PSAA's invitation in the form specified by PSAA by the close 11 March 2022.

3. ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED

3.1 The Council may elect to appoint its own external auditor under the Act, which would require the Council to:

- Establish an independent auditor panel to make a stand-alone appointment. The auditor panel would need to be set up by the Council/Authority itself, and the members of the panel must be wholly, or a majority of independent members as defined by the Act. Independent members for this purpose are independent appointees, excluding current and former elected members (or officers) and their close families and friends. 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/Authority's external audit; and
- Manage the contract for its duration, overseen by the Auditor Panel.

3.2 Alternatively, the Act enables the Council/Authority 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. Further legal advice would 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 local authorities to assess the appetite for such an arrangement.

Individual auditor panel and procurement

3.3 The CIPFA Guide to Auditor Panels published in 2015 considers the possible advantages and disadvantages of the set-up options for independent auditor panels.

3.4 Possible advantages of an individual panel include having full ownership of the tendering process and the ability to set bespoke contract terms with the auditor, such as duration.

3.5 However, it should be noted that the scope of a local audit is fixed. It is determined by the Code of Audit Practice (currently published by the National Audit Office), the format of the financial statements (specified by CIPFA/LASAAC) and the application of auditing

standards regulated by the FRC. The requirements are mandatory; they shape the work auditors undertake and have a bearing on the actual fees required.

- 3.6 Furthermore, some typical contract levers such as penalties for late delivery cannot be applied to an audit services contract, as fees calculated on the basis of a specified outcome (e.g. specific date completions) are classified as contingent fees, not allowed under the FRC's Ethical Standard.
- 3.7 We also need to be mindful of the administrative burden and costs of setting up an individual auditor panel. There are a limited number of audit providers eligible to audit local authorities and other relevant bodies under local audit legislation and we would in effect be seeking to attract the same bidders as would the national procurement exercise. The PSAA's measures to attract a wider pool as set out in paragraph 3.8-3.10 is also a factor in determining if the council as a standalone authority would be in a position to attract interest from the market.

Joint auditor panel and procurement

- 3.8 The running of a joint procurement, and creation of a joint auditor panel could potentially mitigate against some of the risks of undertaking an individual procurement as there may be some increase in interest from the market due to economies of scale as well as the potential of developing a level of specialism (e.g. inner-London authorities). Under this arrangement the administrative cost of running a joint audit panel would be shared by participants, and there would be a wider pool from which to attract appropriate panel members.
- 3.9 This option does however bring about an increase in complexity of arranging terms across multiple authorities and of operating a joint panel. Further legal advice would be required on the exact constitution of such a panel having regard to the obligations of each council under the Act. Discussions have been had at the Society of London Treasurers meetings and it is clear that there is not a strong appetite for such an arrangement and no one borough is driving a proposal of this kind.
- 3.10 Audit arrangements need to be in place by 31st December 2022 and if we were to fail to appoint under an individual or joint arrangement, PSAA have advised as below:

"... you may subsequently make a request to opt in, but only after 1 April 2023. We are required to consider such requests and agree to them unless there are reasonable grounds for their refusal. PSAA must consider a request as the appointing person in accordance with the Regulations. The Regulations allow us to recover our reasonable costs for making arrangements to appoint a local auditor in these circumstances, for example if we need to embark on a further procurement or enter into further discussions with our contracted firms".

4. POST DECISION IMPLEMENTATION

- 4.1 All of the above options require a local auditor to be appointed no later than 31 December 2022.
- 4.2 Having considered the options and furthermore engaged with other boroughs on this issue, officers assess that the benefits of pursuing local control over the auditor procurement and

appointment process are limited by the pre-defined scope of the audit, and the limited contract levers available for contract management.

- 4.3 Having considered the options available to the Council, it is recommended that the Audit Committee propose that the Council agree to opt in to the PSAA national scheme for the five-year period from 2023/24 to 2027/28. Regulation 19 of the Local Audit (Appointing Person) Regulations 2015 requires that a decision to opt in to the PSAA national scheme or to appoint auditors directly must be made by a meeting of the Council as a whole. Furthermore, the council needs to respond formally to PSAA's invitation in the form specified by PSAA by the close of the opt-in period (11 March 2022).
- 4.4 It is recommended that authority is delegated to the Executive Director of Resources to respond to the invitation and take the necessary steps to finalise the appointment itself following the PSAA procurement process.

5. IMPLICATIONS OF DECISION

5.1 Corporate Priorities and Performance

- 5.1.1 The external audit of the Authority's accounts is a statutory requirement and a key element of the Authority's Assurance Framework. The Assurance Framework supports the delivery of all of the Authority's priorities and objectives through providing independent assurance to Members over the arrangements for governance, risk management, internal control and financial management and reporting.
- 5.1.2 The work of the external auditor supports the achievement of best value in the Authority. Our auditors provide supportive challenge for our work, as well as broader knowledge of other organisations that allows us to compare our practice with best practice elsewhere.

5.2 Resources (Finance & Value for Money, Procurement, Staffing, IT, Property, Sustainability)

- 5.2.1 The work of the external auditor supports the achievement of best value in the Authority. Our auditors provide supportive challenge for our work, as well as broader knowledge of other organisations that allows us to compare our practice with best practice elsewhere.
- 5.2.2 The 2020/21 fee for the external audit for the Authorities' accounts and the pension fund is expected to be £289k, which is contained within the Authority's Central Expenses budgets.
- 5.2.3 The report supports effective financial management at the Authority. There are no further financial implications as a direct result of this report.

5.3 Social Value

- 5.3.1 PSAA's audit services contracts covering the audits from 2018/19 to 2022/23 include a clause in relation to 'Co-operation with PSAA on environmental issues'. This states that "Throughout the Contract the Supplier shall co-operate with PSAA in seeking reasonable and practical ways to improve the sustainability of the delivery of the Services" so there is a requirement for the PSAA's contracted firms to consider environmental issues. The contract terms to be used for the 2022 procurement have yet to be determined, however the PSAA state that it is their intention to retain this contractual provision.

5.3.2 In addition, in its 2022 procurement PSAA will determine 5% of the bidders' tender evaluation score by the additional social value that they will deliver from the contract. In direct response to their June consultation on the draft scheme prospectus they have broadened the scope of social value that a bidder could provide in its response. The scope now includes sustainability and environmental concerns, and equality, diversity and inclusion, alongside apprenticeships and long-term development opportunities. The intention is to ask bidders to describe how their delivery of social value will be measured and evidenced to PSAA so that it will form part of contract management arrangements.

5.3.3 When PSAA develops its auditor appointment proposals following contract award to successful firms, one of the factors that will be considered is the location of the audit in relation to the locations of the contracted firms' local audit resources. There is the possibility that one of the outcomes from the remote working enforced by C19 is that auditors will travel less to clients, taking advantage of the significant improvements in video conferencing, but it will be some time before that can be assessed with any clarity.

5.4 **Legal and Constitutional References**

5.4.1 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. Section 9 sets out the requirement to have an auditor panel.

5.4.2 Section 17 of the Act 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) ('the Regulations') and this gives the Secretary of State the ability to enable a Sector Led Body to become the appointing person. The Regulations also make certain modifications to the Act to disapply or modify the provisions of the Act in relation to opted in authorities, including that the requirement to have an auditor panel does not apply to such an authority and similarly that the authority does not have to consult and take into account the advice of the auditor panel.

5.4.3 Regulation 19 of the Regulations requires that a decision for the Council to join the sector led approach must be made by Full Council and cannot be delegated.

5.4.4 Section 151 of the Local Government Act 1972 requires that "...every local authority shall make arrangements for the proper administration of their financial affairs".

5.4.5 The Council is a public authority that is subject to the audit of its annual accounts by an external auditor. The Local Audit and Accountability Act 2014, Part 5 specifies the conduct of local audit.

5.4.6 Article 7 of the Council's Constitution details the functions of the Audit Committee and include "To review any issue referred to it by the Chief Executive...".

5.5 **Risk Management**

5.5.1 The work undertaken by the external auditor helps to minimise financial and control risks to the Authority and the implementation of their recommendations will strengthen the internal control environment.

5.6 Equalities and Diversity

5.6.1 Accurate financial reporting is important to ensure the management of resources to enable the equitable delivery of services to all members of the community, to reduce the differential impact of the services received by all of Barnet's diverse communities and to ensure compliance with the council's duties under the 2010 Equality Act.

5.7 Corporate Parenting

5.7.1 None in the context of this decision

5.8 Consultation and Engagement

5.8.1 None in the context of this decision

5.9 Insight

5.9.1 None in the context of this decision

6. ENVIRONMENTAL IMPACT

6.1 None in the context of this report.

7. BACKGROUND PAPERS

Committee	Item & Agenda	Link
Audit Committee 14 July 2021	Item 13: Committee Forward Work Programme.	Agenda for Audit Committee on Wednesday 14th July, 2021, 7.00 pm (moderngov.co.uk)
Audit Committee 28 April 2021	Item 11: External Audit Plan 2020/21	https://barnet.moderngov.co.uk/documents/s64729/External Audit Plan 202021.pdf
Audit Committee 19 th October 2021	Item 10: External Auditor's Audit Completion Report for the year 2019/20 - details of Redmond Review	Agenda for Audit Committee on Monday 19th October, 2020, 6.30 pm (moderngov.co.uk)

Audit Committee 17 January 2017	Item 9: Invitation to opt-in to the national scheme for auditor appointments	Agenda for Audit Committee on Monday 30th January, 2017, 7.00 pm (moderngov.co.uk)
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