



AUDIT AND RISK MANAGEMENT COMMITTEE

Tuesday 30th November 2021

REPORT TITLE:	EXTERNAL AUDITOR APPOINTMENT 2023/24 TO 2027/28
REPORT OF:	DIRECTOR OF RESOURCES

REPORT SUMMARY

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

This matter affects all Wards within the Borough. The report is a key decision.

RECOMMENDATIONS

The Audit & Risk Management Committee is requested to:

1. Audit and Risk Management Committee recommend to Policy and Resources Committee and Full Council the option to enter into the procurement exercise led by the Public Sector Audit Appointments Ltd (PSAA) for the appointment of external auditors for a period of five financial years from 1st April 2023.

SUPPORTING INFORMATION

1.0 REASON/S FOR RECOMMENDATIONS

1.1 This report sets out the options open to the Council and the basis of officers' recommendation to the Audit and Risk Management Committee to opt into the national arrangement with PSAA.

1.2 PSAA appointment was the option selected by the Council in 2016 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 requirement 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.

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 Local Government Association (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.

1.3 The main downside with this 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.

1.4 The PSAA route was adopted by 484 of 494 bodies in the previous exercise.

2.0 OTHER OPTIONS CONSIDERED

2.1 A review of options was presented to the Audit and Risk Management Committee and Council in 2016 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 as referenced in paragraphs 1.2 and 1.3. The remaining options are:

Option 1: Make a stand-alone appointment

- 2.2 This option requires the Council to appoint an Audit Panel, separate in role and membership to the Audit and Risk Management 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 which audit firm to award a contract for the Council's external audit to.
- 2.3 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.
- 2.4 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.
- 2.5 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

- 2.6 The Act enables the Council to join with other authorities to establish a joint independent Auditor Panel which would need to be constituted and made up of a majority, or of wholly independent members. Further advice will be required on the exact constitution of such a Panel having regard to the obligations of each body under the Act and as such the Council will need to liaise with other authorities to assess the appetite for this arrangement.
- 2.7 A local procurement of other authorities has not been investigated as there are a number of risks associated with this along with lesser 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.

3.0 BACKGROUND INFORMATION

- 3.1 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 PSAA. 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 to 2027/28.
- 3.2 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.
- 3.3 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 2023 accounts.
- 3.4 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.
- 3.5 PSAA is now undertaking a procurement for the next appointing period, covering audits for 2023/24 to 2027/28. During the Autumn of 2021 all local government bodies need to make decisions about their external audit arrangements for accounting periods from 2023/24.
- 3.6 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. To opt into the national scheme from 2023/24, the Council needs to return the completed opt-in documents to Public Sector Audit Appointments Limited (PSAA) by 11 March 2022.
- 3.7 The invitation to opt into the PSAA national appointment process was received in September 2021 and must be accepted by 11th March 2022 if the Council wishes to take this route.
- 3.8 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 Audit Committee Meeting – Internal Audit Update Report
 - 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.

- 3.9 There are three options open to the Council under the Act which are:
- Option 1: Make a stand-alone appointment as Wirral Borough Council
 - Option 2: Establish local joint procurement arrangements
 - Option 3: Recommended option. Opt-in to a sector led body appointed by the Secretary of State under the Act - Public Sector Audit Appointments (PSAA) Limited.
- 3.10 New appointments of auditors for accounting periods 2023/24 need to be made by December 2022 regardless of which option is chosen.
- 3.11 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”).

4.0 FINANCIAL IMPLICATIONS

- 4.1 There is a risk that current external audit fee levels could increase when the current contracts end, currently the annual fee (subject to variation is) is £123,095.00. The scope of audit has increased since setting the fees, thereby requiring more audit work and additional fees. Additional grant support is due for 21/22 audit fees of approx. £0.64m and this may extend into future years. Following the Redmond review in 2020, further audit changes are being made and are expected to impact future fees. There are also concerns about capacity and sustainability in the local audit market.
- 4.2 The cost of establishing a local or joint Auditor Panel outlined in options 1 and 2 above will need to be estimated and included in the Council’s budget for 2023/24 for the five years. This will include the cost of recruiting independent appointees (members), servicing the Panel, running a bidding and tender evaluation process, letting a contract and paying members fees and allowances.
- 4.3 Opting-in to PSAA contract provides maximum opportunity to limit the extent of any increases by entering into a large scale collective procurement arrangement and would remove the costs of establishing an auditor panel.

5.0 LEGAL IMPLICATIONS

- 5.1 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.
- 5.2 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.
- 5.3 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.
- 5.4 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.

6.0 RESOURCE IMPLICATIONS: STAFFING, ICT AND ASSETS

6.1 None arising directly from this report.

7.0 RELEVANT RISKS

7.1 There is an immediate risk if approval is not agreed to proceed, we fail to take the decision to Policy and Resources in January 2022, then to Full Council by February 2022 and breach the PSAA requirements of the tender. This would mean none compliance with the Local Audit and Accountability Act 2014 as referenced in paragraph 3.3.

8.0 ENGAGEMENT/CONSULTATION

8.1 Members of this Committee are being consulted regarding this process.

9.0 EQUALITY IMPLICATIONS

9.1 Wirral Council has a legal requirement to make sure its policies, and the way it carries out its work, do not discriminate against anyone. An Equality Impact Assessment is a tool to help council services identify steps they can take to ensure equality for anyone who might be affected by a particular policy, decision or activity. There are no equality implications for this report.

10.0 ENVIRONMENT AND CLIMATE IMPLICATIONS

10.1 Audits are currently undertaken remotely as a consequence of the pandemic and the authority will support this continuing were practically possible to reduce our carbon footprint. The content and/or recommendations contained within this report are expected to have no impact on emissions of Greenhouse Gases.

11.0 COMMUNITY WEALTH IMPLICATIONS

11.1 The content and/or recommendations contained within this report have no direct implications for community wealth.

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APPENDICES

Appendix 1 – Wirral Metropolitan Borough Council Invitation

BACKGROUND PAPERS

Local Audit and Accountability Act 2014

PSAA [Appointing period 2023/24 – 2027/28 – PSAA](#)

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
Audit & Risk Management Committee – Arrangement for the appointment of External Auditors	25 September 2017
Audit & Risk Management Committee – Arrangement for the appointment of External Auditors	22 November 2016
Audit & Risk Management Committee – Arrangement for the appointment of External Auditors	26 September 2016