

# North Somerset Council

<b>REPORT TO THE</b>	<b>AUDIT COMMITTEE</b>
<b>DATE OF MEETING:</b>	<b>27<sup>TH</sup> JANUARY 2022</b>
<b>SUBJECT OF REPORT:</b>	<b>PROCUREMENT OPTIONS – EXTERNAL AUDIT</b>
<b>TOWN OR PARISH:</b>	<b>NONE</b>
<b>OFFICER/PRESENTING:</b>	<b>JEFF WRING – AUDIT WEST</b>
<b>KEY DECISION:</b>	<b>NO</b>

## **RECOMMENDATIONS:**

That the Audit Committee supports the recommended option for the future procurement of External Auditors to the Council by Public Sector Audit Appointments Limited (PSAA).

## **SUMMARY OF REPORT**

The report sets out the legislative background and options for the future provision and procurement options for the External Auditors to the Council. The report recommends we use a national sector led approach to maximise value for money and associated benefits on quality of service.

### **1. POLICY**

There is a statutory obligation to have an external auditor of the council's accounts and an effective auditor is widely recognised as a core component of good governance as laid out in best practice from a number of professional bodies. The Audit Committee therefore has a key role in advising the council on the adequacy of its external audit arrangements and supporting the S151 Officer (Director of Corporate Services) in carrying out the Council's statutory duties in this area.

### **2. DETAILS**

#### Background

- 2.1 The Local Audit & Accountability Act 2014 put in place the framework which allowed local authorities to appoint their own external auditors. Prior to 2010, the Audit Commission was responsible for appointments with the work either being undertaken by their in-house auditors or by a limited number of private firms.
- 2.2 In August 2010, it was announced that the Audit Commission would be abolished, with the stated aims being to reduce costs and improve local democratic accountability by allowing local authorities to appoint their own external auditors from a more competitive market.
- 2.3 As part of the transitional arrangements, the Audit Commission undertook a competitive exercise which resulted in a series of regional contracts being awarded to Grant Thornton, KPMG, Ernst & Young and Mazars. The contracts commenced in 2012 and saved over £25M nationally in audit fees each year.

- 2.4 The Audit Commission itself closed in March 2015 with responsibility for the existing appointments transferring to Public Sector Audit Appointments Limited (PSAA). PSAA is an independent company established by the Local Government Association. The transitional arrangements for principal authorities were extended for a further year until April 2018, however Health bodies and smaller local government bodies still needed to appoint their own external auditors from April 2017.
- 2.5 The government made a decision to allow councils to come together to continue to procure audit services through a sector led organisation (PSAA) or to appoint their own auditor. At the time it was envisaged that the majority of councils would procure jointly and avoid the need to establish an auditor panel and undertake their own procurement exercise.

#### Appointing Period 2018/19 – 2022/23

- 2.6 Within the local government sector the vast majority of Councils indeed expressed a preference to join a sector led procurement exercise from PSAA and at the September 2016 Audit Committee meeting, it was the recommendation of the S151 Officer and Head of Audit that North Somerset Council should also follow this option.
- 2.7 The main basis for this recommendation was that there were no resources available for the Council to carry this exercise out on their own and there were very clear financial and quality benefits by following the recommended option which would also help the major firms to also plan their resources and bids more effectively.
- 2.8 Full Council approved the recommendation to opt-in to PSAA at their meeting of January 2017 and Grant Thornton have been providing External Audit Services to the Council following this procurement exercise.
- 2.9 PSAA report that out of a total of 494 eligible bodies, at the time of the opt-in period in 2017, 484 took the decision to opt in.

#### Appointing Period 2023/24 – 2027/28

- 2.10 On 22 September 2021, PSAA invited all eligible bodies to become opted-in authorities for the audit years 2023/24 to 2027/28 in its role as a specified appointing person. The decision to become an opted in authority must again be made by Full Council and an acceptance notice has to be returned by 11<sup>th</sup> March 2022.
- 2.11 There are three ways that North Somerset Council can appoint its auditor for the five financial years from 2023/24, these being:
1. Undertake an individual auditor procurement and appointment exercise;
  2. Undertake a joint audit procurement and appointing exercise with other bodies;
  3. Join PSSA's sector led national scheme.
- 2.12 Given the current very challenging local audit market and the many advantages highlighted during the previous appointment, it is recommended that North Somerset Council once again join the PSAA scheme. By joining this scheme, the Council will:
- Avoid the need to establish an independent auditor panel;
  - Avoid the need to manage their own auditor procurement;
  - Benefit from PSAA's robust process in validating fee variation proposals; and
  - Assume a high level of participation based on previous uptake levels which will support market sustainability and realistic prices in a challenging market

2.13 The Audit Committee are therefore asked to support the recommendation so that arrangements can be finalised in the next few months to confirm our approach to securing our involvement in the sector led exercise by PSAA.

### **3. CONSULTATION**

The report has been issued to the S151 Officer (Director of Corporate Services).

### **4. FINANCIAL IMPLICATIONS**

There are no direct charges from using PSAA Ltd and there are very clear financial and quality benefits by following the recommended option which should also help the major firms to also plan their resources and bids more effectively.

### **5. LEGAL POWERS AND IMPLICATIONS**

There is a statutory obligation to have an external auditor of the council's accounts and the Local Audit and Accountability Act 2014 provided framework in which Local Authorities could appoint their external auditors.

### **6. CLIMATE CHANGE AND ENVIRONMENTAL IMPLICATIONS**

There are no direct environmental implications from this report.

### **7. RISK MANAGEMENT**

An effective external auditor demonstrates one aspect of good governance on behalf of the Council and the wider Community. This helps to ensure that the Council is delivering good value to its residents from its services and is managing its key risks appropriately.

### **8. EQUALITY IMPLICATIONS**

There are no specific equality implications.

### **9. CORPORATE IMPLICATIONS**

Good Corporate Governance and Risk Management is the responsibility of all officers and Members of the Council.

### **10. OPTIONS CONSIDERED**

As laid out in the report section 2. Two other options have been considered, the first of which is to carry out the exercise ourselves or to partner with a group of neighbouring authorities. In both cases there are no available resources or expertise to carry out the exercise or any appetite from other councils in our region to use scarce capacity on this initiative. Almost all councils will be using the recommended option. As laid out in the report the rationale for the recommended option is that there are clear financial and quality benefits coupled with the continued ability to represent our views around the choice and suitability of potential suppliers.

### **AUTHORS**

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## **BACKGROUND PAPERS**

Members requiring further information are requested to refer to the agenda, reports and minutes of the Committee meetings posted on the council's website.

<https://n-somerset.moderngov.co.uk/ieListMeetings.aspx?Committeeld=153>