

North Somerset Council

Report to Council

Date of Meeting: 15 February 2022

Subject of Report: Procurement of External Auditors

Town or Parish: None

Officer/Member Presenting: Amy Webb, Director of Corporate Services and s151

Key Decision: No

Reason: Not an Executive Decision

Recommendations

Following recommendation from the Audit Committee, that the Council approve the use of Public Sector Audit Appointments Limited (PSAA) to carry out the re-procurement of External Auditors to the Council.

1. 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.

2. 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.

3. Details

BACKGROUND

- 3.1 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.
- 3.2 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.

- 3.3 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.
- 3.4 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.
- 3.5 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

- 3.6 Within the local government sector the vast majority of Councils 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.
- 3.7 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.
- 3.8 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.
- 3.9 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

- 3.10 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 11th March 2022.
- 3.11 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.
- 3.12 Aside from having more control over the process, there are no real advantages of choosing options 1 and 2 and indeed there is no appetite within neighbouring authorities for option 2 given the current very challenging local audit market.

Therefore based on the many advantages highlighted during the previous appointment, it is recommended that North Somerset Council once again join the PSAA scheme and choose option 3. By joining this scheme, the Council will:

- Allow the Audit Committee to retain independence in its relationship with the External Auditor;
- Benefit from PSAA's expertise in ensuring that appointed bodies maintain suitable accreditation and keep pace with regulatory changes;
- Avoid the need to incur significant additional costs in creating our own specification, manage our own procurement process and having to establish new contract management processes;
- Benefit from PSAA's robust process in validating fee variation proposals;
- Assume a high level of participation based on previous uptake levels which will support market sustainability;
- Achieve more realistic prices/fees in a challenging market;
- Be part of a network with other local authorities in terms of sharing best practice or tackling key issues in this sector.

3.13 The Council is therefore recommended to approve the procurement route through PSAA.

4. Consultation

S151 Officer (Director of Corporate Services) through consultation with the Audit Committee and informally with the Audit Committee Chair

5. 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.

However, it is anticipated that the next appointing period will see an uplift to previous fees due to a changing regulatory landscape in audit; existing budgets are insufficient to meet current fees and therefore a growth item has been included in the Medium Term Financial Plan for 2022-23 which is elsewhere on this agenda.

Costs

The external audit fee for 2021-22 is £156,000. Prices will be subject to change for the new appointing period following the re-procurement exercise and scope of works.

Funding

Revenue funding is available for this item but future uplifts will be subject to a growth bid in the Medium Term Financial Plan.

6. 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.

7. Climate Change and Environmental Implications

There are no direct environmental implications from this decision

8. 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.

The audit committee highlighted at its meeting the ongoing issues with capacity within Grant Thornton which has resulted in delays to finalising value for money elements of the external audit for 2020-21. These issues are not unique to the current supplier and are being seen across the local audit landscape. Use of the PSAA Ltd Procurement framework is considered the best mechanism to address the risk of further delays as it introduces a greater level of certainty and resource planning for the sector.

9. Equality Implications

There are no direct equality implications from this decision

10. Corporate Implications

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

11. Options Considered

As laid out in the report section 3. 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.

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Appendices:

None

Background Papers:

Audit Committee report “External Audit Procurement Options” 27 January 2022 <https://n-somerset.moderngov.co.uk/documents/s3047/External%20Audit%20Procurement%20Options%20Jan2022.pdf>