

For publication

Procurement of External Auditors

Meeting:	Standards & Audit Committee Council
Date:	16 th February 2022 23rd February 2022
Cabinet portfolio:	Deputy Leader
Directorate:	Finance

1.0 Purpose of report

- 1.1 To consider the method of procurement for the external audit service to cover the five consecutive financial years commencing 1st April 2023.

2.0 Recommendations

- 2.1 That the Council opts into the appointing person arrangements made by Public Sector Audit Appointments (PSAA) for the procurement and appointment of external auditors (Option2).

3.0 Reasons for recommendations

- 3.1 To consider the options and determine the arrangements for the appointment of external auditors which demonstrates the best value for money.

4.1 Background

- 4.1.1 The Council's current external auditor is Mazars and the contract was awarded from 2017/18 for a period of 5 years. The procurement was managed by Public Sector Audit Appointments Ltd (PSAA), a company who were originally established to operate the transitional arrangements following the closure of the Audit Commission. This company is owned by the Local Government Association's Improvement & Development Agency (IDeA).

- 4.1.2 The current external audit contract is due to expire at the end of 2022/23 and we are required to agree our preferred method for procuring external audit services for the following 5 financial years.
- 4.1.3 Local bodies 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 managed by PSAA.
- 4.1.4 The scope of the audit is specified nationally: The National Audit Office is responsible for writing the Code of Audit practice which all audit firms must follow. Not all audit firms are eligible to compete for the work and must be registered to be allowed to bid for the work. It is unlikely that small local independent firms would meet the eligibility criteria.
- 4.1.5 In the first round of procurement of external audit service in 2017, 98% of local authorities opted to procure external audit services using the PSAA procurement route.
- 4.1.6 The decision to opt in to the PSAA procurement route must be made by full Council before 11th March 2022 which is the deadline for registering an intention to opt in to the PSAA procurement arrangements.

4.2 Options for Appointment of External Auditors

- 4.2.1 There are two options for the procurement of audit services following the end of the current contract in 2022/23.
- 4.2.2 Option 1 – to make a stand-alone appointment

To make a stand-alone appointment the Council would need to set up an Auditor Panel made up of elected and independent members and conduct its own procurement exercise.

Advantages

- It would allow the council to take full advantage of the local appointment regime and have local input to the decision

Disadvantages

- Recruitment and servicing of the Auditor panel, running the bidding exercise and negotiating the contract was estimated by the LGA at the time of the first round of procurement in 2017, to cost around £15,000 plus on-going allowances
- The council will be unable to take advantage of reduced fees that may be available through joint or national procurement contracts

- The assessment of bids and decisions on awarding contracts will be taken by independent appointees and not solely by elected members

4.2.3 Option 2 – Opt in to PSAA national procurement

The PSAA are once again offering the opportunity for local authorities to opt into a joint national procurement exercise.

Advantages

- The costs of setting up the appointment arrangements and negotiating fees would be shared across all opt in authorities
- By offering large contract values the firms would be able to offer better rates and lower fees than are likely to result from local negotiation. A national exercise offering large contract values is likely to encourage participating firms to offer more realistic prices in what is currently a challenging market.
- Independence issues would be managed by PSAA who would have a number of contracted firms to call on.

Disadvantages

- In order for PSAA to be viable and to be placed in the strongest possible negotiating position, Councils will need to opt into the process before final contract prices are known.

4.2.4 Events since 2018 have resulted in an audit industry that is under enormous pressure and the local audit system is experiencing its share of strain and unavoidable instability as impacts cascade down to the frontline of individual audits. PSAA believe that the national scheme offers the best option for local bodies to secure the appointment of appropriately qualified auditors in the current challenging market conditions. This is a view that is shared by the Local Government Association and the Department for Levelling Up, Housing and Communities (DLUHC).

4.2.5 Option 2 'opt in' is the recommended option on the basis that it is the most efficient way to appoint the external auditor and is likely to achieve the most competitive price.

5 **Alternative options**

5.1 The auditor panel option (Option 1) is more resource intensive, will be more costly to procure and without the bulk buying power of the sector led procurement, would be likely to result in a more costly service.

6 Implications for consideration – Council Plan

- 6.1 The work carried out by the external auditor provides an independent assessment of the accounting and internal control arrangements of the authority.
- 6.2 The external auditor also provides an opinion on the value for money of the authority thereby providing an independent assessment of achievement of the third Council Plan priority of 'delivering value for money services.

7 Implications for consideration – Financial and value for money

- 7.1 The current revenue budget includes a sum of £53,370 for external audit fees in 2021/22. The Council has benefited from a reduction in external audit fees since the start of the current contract. At the start of the current contract fee levels were £40k per annum but in the last two years have risen to reflect the increased testing requirements imposed by the National Audit Office. This level of fee increase would have occurred irrespective of the provider of the service or the chosen procurement route.

8 Implications for consideration – Legal

- 8.1 The process outlined in this report and the recommendation should ensure compliance with the Local Audit & Accountability Act 2014.
- 8.2 Regulation 19 of the Local Audit (Appointing Person) Regulations 2015 requires that a decision to opt in must be made by the whole Council.

9 Implications for consideration – Human resources

- 9.1 There are no human resource implications to consider in this report.

10 Implications for consideration – Risk management

- 10.1 The Council is required to appoint an external auditor for the accounting periods 2023/24 and going forward. If it fails to do so the Secretary of State will do so on its behalf.

11 Implications for consideration – community wellbeing

- 11.1 There are no community wellbeing implications to consider in this report.

12 Implications for consideration – Economy and skills

12.1 There are no economy and skills implications to consider in this report.

13 Implications for consideration – Climate Change

13.1 There are no climate change implications to consider in this report. Since the onset of Covid 19, all audits are conducted remotely so proximity of the external auditor to Chesterfield does not directly impact delivery of the service.

14 Implications for consideration – Equality and diversity

14.1 There are no equality and diversity implications to consider in this report.

Decision information

Non-Key decision number	1086
Wards affected	All

Document information

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