

External Audit Procurement

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| Final Decision-Maker | Council |
| Lead Head of Service | Director of Finance and Business Improvement |
| Lead Officer and Report Author | Director of Finance and Business Improvement |
| Classification | Public |
| Wards affected | All |

Executive Summary

The Council must decide by 11 March 2022 on arrangements for external audit for the financial years 2023/24 to 2027/28. The options available are to procure independently (or in conjunction with other authorities) or to opt in to an outsourced procurement with Public Sector Audit Appointments (PSAA).

Purpose of Report

Decision.

This report makes the following recommendations to this Committee:

1. That the Committee recommends to Council that it accepts an invitation from the PSAA to become an opted-in authority, in accordance with the decision making requirements of the Local Audit (Appointing Person) Regulations 2015.

Timetable

| Meeting | Date |
|---|------------------|
| Audit, Governance and Standards Committee | 17 January 2022 |
| Council | 23 February 2022 |

External Audit Procurement

1. CROSS-CUTTING ISSUES AND IMPLICATIONS

| Issue | Implications | Sign-off |
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| Impact on Corporate Priorities | We do not expect the recommendation will materially affect achievement of corporate priorities. | Director of Finance and Business Improvement |
| Cross Cutting Objectives | The recommendation will not materially affect the four cross-cutting objectives. | Director of Finance and Business Improvement |
| Risk Management | Refer to paragraph 5 of the report. | Director of Finance and Business Improvement |
| Financial | The current external audit fee is £38,866. For the reasons set out in this report, it is likely that this fee will increase under any new contractual arrangements and budget provision will be made as appropriate at the time. | Director of Finance and Business Improvement |
| Staffing | We will deliver the recommendations with our current staffing. | Director of Finance and Business Improvement |
| Legal | <p>Section 7 of the Local Audit and Accountability Act 2014 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.</p> <p>Section 8 governs the procedure for appointment including that the Council must consult and take account of the advice of its auditor panel on selecting and appointing a local auditor.</p> <p>Section 12 provides for the failure to appoint a local auditor. The authority must immediately tell the Secretary of State, who may direct the authority to appoint the auditor named in the direction or appoint a local auditor for the authority.</p> <p>Section 17 gives the Secretary of State the power to regulate for an 'appointing person'.</p> | Interim Deputy Head of Legal Partnership. |

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| | The Secretary of State exercised this power in the Local Audit (Appointing Person) Regulations 2015 (SI 192). These give the Secretary of State the ability to enable a Sector Led Body to become the appointing person. In July 2016 the Secretary of State named PSAA as the appointing person. Regulation 19 states that the Council as a whole must take the decision to opt in to the arrangements. | |
| Privacy and Data Protection | The recommendation will not affect the nature or volume of data held by the Council. | Policy and Information Team |
| Equalities | The recommendations do not propose a change in service therefore will not require an equalities impact assessment | Equalities & Communities Officer |
| Public Health | No impact. | Public Health Officer |
| Crime and Disorder | No impact. | Director of Finance and Business Improvement |
| Procurement | The recommendation sets out a proposed approach to procurement of the external audit service which is in accordance with legislation and the Council's own financial procedure rules. | Director of Finance and Business Improvement |
| Biodiversity and Climate Change | No impact. | Biodiversity and Climate Change Manager |

2. INTRODUCTION AND BACKGROUND

- 2.1 Local authorities have been subject to external audit since the nineteenth century. The role of the external audit has varied over time, but essentially it exists to safeguard public money by ensuring true and fair financial reporting.
- 2.2 From 1983, local authorities had their external auditor selected on their behalf by the Audit Commission. However, in 2010, the Secretary of State for Communities and Local Government in the newly formed Coalition Government set out the Government's intention to abolish the Audit Commission and move towards a position where local authorities were able

to select their own external auditors. This objective was eventually realised in the Local Audit and Accountability Act 2014 (the Act) and various pieces of secondary legislation. The Act and the Regulations give every local authority a choice of three different routes to choosing its auditor:

- a) solo procurement through an independent Auditor Panel
- b) joint procurement with another authority or authorities, again via an independent auditor panel
- c) outsourced procurement.

- 2.3 The Act allowed the Secretary of State to authorise a Specified Person who would have the authority to make auditor appointment decisions on behalf of those authorities who wished to outsource procurement under option c). Authorities that chose to procure via a Specified Person did not need to create or maintain an Auditor Panel. In this route, once the Council had decided to opt in, the Specified Person would negotiate contracts and make the appointment on behalf of the councils. The Specified Person would also take on all the existing tasks of an Auditor Panel on behalf of the opted-in councils.
- 2.4 Public Sector Audit Appointments Ltd (PSAA), a subsidiary of the Local Government Association, applied to the Secretary of State to act as a Specified Person and was successful. In the event, almost all local authorities, and 180 out of 181 non-metropolitan districts, including Maidstone Borough Council, opted to outsource external audit procurement to the PSAA.
- 2.5 The benefits of outsourcing were seen as being the saving in time and resources by avoiding the need to establish an Auditor Panel and to undertake a procurement process, together with the expectation that the PSAA would be able to attract the best audit suppliers and command highly competitive prices. The PSAA awarded five year contracts for external audit of local authorities, commencing 2018/19, to six audit firms. Grant Thornton won 39% of the market and was allocated as Maidstone Borough Council's auditor; the Council had no say in the selection of Grant Thornton, having outsourced procurement to PSAA.
- 2.6 It is generally accepted that the performance of external audit under the existing procurement arrangements has deteriorated. Amongst the issues faced by both this council and the sector as a whole have been the following:
 - Late audit opinions (only 9% of 2020/21 audits met the 30 September deadline; Maidstone's audit opinion remains outstanding at the time of writing)
 - Lack of skilled and experienced audit staff
 - Delays in response to officer queries
 - Increasing demand on officer time to service audits
 - Increasing focus on issues of little relevance to local taxpayers
 - Audits becoming more technical and moving away from public accountability
 - Low fees, but frequent supplements.

There are a number of reasons for the poor performance. It is believed that the firms that won audit contracts in 2018/19 submitted bids at below the cost of carrying out the work to a reasonable standard. The audit sector as a whole has suffered from staff shortages. Finally, the increased number of high profile corporate failures over the past few years has led the auditors' regulator to require an increased focus on ostensibly high risk areas. Unfortunately, the high risk areas for corporates, such as property valuations, are not necessarily the same as high risk areas for local authorities. This has meant that limited external audit resources have not always been targeted appropriately.

Next steps

- 2.7 2022/23 is the final year of the existing external audit contract and the Council must decide on arrangements for 2023/24 and subsequent years. The options remain as set out in paragraph 2.2 above, namely to procure independently (or in conjunction with other authorities) or to opt in to the PSAA procurement arrangements.
 - 2.8 The PSAA recognises the problems faced by local authorities under the present arrangements and has published a Procurement Strategy, attached as Appendix A, which seeks to address some of the issues, for example by giving greater emphasis on quality versus cost when making appointments. No alternative has emerged to the PSAA, and there appears to be little appetite amongst local authorities, either locally in Kent or nationally, for independent procurement.
 - 2.9 The Council must decide by 11 March 2022 whether to opt in to the PSAA arrangements for 2023/24 and subsequent years.
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3. AVAILABLE OPTIONS

- 3.1 Option 1 – Independent Procurement
 - 3.2 Option 2 – Opt in to the PSAA's outsourced external audit procurement arrangements.
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4. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

- 4.1 It is recommended that the Council accepts an invitation from the PSAA to become an opted-in authority, for the following reasons.
 - The administration of procurement will be outsourced, leading to a significant saving in Council time and resource
 - Management of the audit contract will be outsourced, likewise leading to a significant saving in Council effort
 - The PSAA is better placed than the Council to achieve good value for money from the procurement, owing to its dominant position in the marketplace

- Outsourcing external audit procurement to the PSAA provides assurance that the Council's statutory obligation to have an external audit can be met
 - The PSAA has taken on board lessons from operation of the initial five year outsourced contracts and has framed a procurement strategy which reflects these
 - Whilst there have been serious issues about the delivery of audits over the past four years, it is considered that a sector-wide approach to addressing these, led by the PSAA, is more likely to improve standards.
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5. RISK

- 5.1 The risks associated with this proposal relate to the independent assurance provided by external audit about the Council's arrangements for safeguarding public money. As between the two options set out above, it is considered that opting in to the PSAA procurement arrangements has a lower level of risk. The PSAA is better placed to source a high quality external auditor than the Council would be able to if acting by itself or with a group of other local authorities.
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6. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

- 6.1 Members received a briefing about choosing an external auditor on 15 November 2021 and expressed their initial views on the subject. These are reflected in this report.
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7. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

- 7.1 Council will be asked to make a decision on arrangements for procurement of external audit, based on the recommendations of this Committee, at its meeting on 23rd February 2022.
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8. REPORT APPENDICES

Appendix A – PSAA Procurement Strategy

9. BACKGROUND PAPERS

None.