

MAIDSTONE BOROUGH COUNCIL

COUNCIL

23 FEBRUARY 2022

**REPORT OF THE AUDIT, GOVERNANCE AND STANDARDS COMMITTEE
HELD ON 17 JANUARY 2022**

EXTERNAL AUDIT PROCUREMENT

Issue for Decision

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).

Recommendation Made

That an invitation from Public Sector Audit Appointments to become an opted-in authority, in accordance with the decision-making requirements of the Local Audit (Appointing Person) Regulations 2015, be accepted.

Reasons for Recommendation

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.

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; or
- c) outsourced procurement.

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.

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 PSAA.

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 PSAA would be able to attract the best audit suppliers and command highly competitive prices. 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.

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; and
- 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.

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 above, namely, to procure independently (or in conjunction with other authorities) or to opt-in to PSAA procurement arrangements.

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 PSAA, and there appears to be little appetite amongst local authorities, either locally in Kent or nationally, for independent procurement.

The Council must decide by 11 March 2022 whether to opt-in to the PSAA arrangements for 2023/24 and subsequent years.

Available Options

Option 1 – Independent Procurement

Option 2 – Opt-in to PSAA’s outsourced external audit procurement arrangements

Preferred Option and Reasons for Recommendation

It is recommended that the Council accepts an invitation from 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;
- PSAA is better placed than the Council to achieve good value for money from the procurement, owing to its dominant position in the market place;
- Outsourcing external audit procurement to PSAA provides assurance that the Council’s statutory obligation to have an external audit can be met;
- PSAA has taken on board lessons from operation of the initial five-year outsourced contracts and has framed a procurement strategy which reflects these; and
- 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 PSAA, is more likely to improve standards.

Background Documents

None

Appendices

Appendix A – PSAA Procurement Strategy