

# RIBBLE VALLEY BOROUGH COUNCIL REPORT TO ACCOUNTS AND AUDIT COMMITTEE

INFORMATION

meeting date: 2 FEBRUARY 2022  
title: OPTING INTO THE NATIONAL SCHEME FOR EXTERNAL AUDITOR  
APPOINTMENTS  
submitted by: DIRECTOR OF RESOURCES  
principal author: LAWSON ODDIE

## 1 PURPOSE

- 1.1 To set out proposals for appointing the external auditor to the Council for the five-year period from 2023/24
- 1.2 Relevance to the Council's ambitions and priorities:
  - Corporate priorities – the Council seeks to maintain critical financial management and controls, and provide efficient and effective services.

## 2 BACKGROUND

- 2.1 The current auditor appointment arrangements cover the period up to and including the audit of the 2022/23 accounts. The Council opted into the 'appointing person' national auditor appointment arrangements established by Public Sector Audit Appointments (PSAA) for the period covering the accounts for 2018/19 to 2022/23. Under this arrangement Grant Thornton were appointed as our external auditors.
- 2.2 PSAA is now undertaking a procurement for the next appointing period, covering audits for 2023/24 to 2027/28.
- 2.3 Members were provided with a detailed report at their meeting on 29 September 2021 which informed members of the details regarding this appointment, including a report issued by the Public Sector Audit Appointments at that time regarding consultation responses received in respect of the appointment of auditors for the period 2023/24 to 2027/28.
- 2.4 All local government bodies need to make a decision about their external audit arrangements from 2023/24. They 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 administered by PSAA.
- 2.5 There are currently only nine accredited audit firms able to carry out local authority external audits. These are:
  - BDO LLP
  - Cardens Accountants LLP
  - Deloitte LLP
  - Ernst & Young LLP
  - Grant Thornton UK LLP
  - KPMG LLP
  - Mazars LLP
  - PricewaterhouseCoopers LLP
  - Azets Audit Services Limited.

### 3 PROPOSED ACTION

3.1 It is suggested that the sector-wide procurement conducted by PSAA will produce better outcomes and will be less burdensome for the Council than a procurement undertaken locally because:

- collective procurement reduces costs for the sector and for individual authorities compared to a multiplicity of smaller local procurements;
- if it does not use the national appointment arrangements, the Council will need to establish its own auditor panel with an independent chair and independent members to oversee a local auditor procurement and ongoing management of an audit contract;
- it is the best opportunity to secure the appointment of a qualified, registered auditor - there are only nine accredited local audit firms, and a local procurement would be drawing from the same limited supply of auditor resources as PSAA's national procurement; and
- supporting the sector-led body offers the best way of ensuring there is a continuing and sustainable public audit market into the medium and long term.

3.2 The LGA's view is that the national framework remains the best option for councils; see Annex A for a copy of the letter they sent to all authorities on this matter.

### 4 OTHER OPTIONS

4.1 As mentioned above, the Council does have the option to arrange its own procurement and make the appointment itself or in conjunction with other bodies.

4.2 The possibility of undertaking a joint external audit procurement for the Lancashire authorities had been mooted in past meetings by the S151 officers. There was no appetite for doing this, as most authorities were minded to join the PSAA process to benefit from economies of scale.

### 5 NEXT STEPS

5.1 If the Council wishes to take advantage of the national auditor appointment arrangements, it is required under the local audit regulations to make the decision at Full Council.

5.2 The opt-in period starts on 22 September 2021 and closes on 11 March 2022. To opt into the national scheme from 2023/24, the Council needs to return a completed opt-in document to PSAA by 11 March 2022.

### 6 RISK ASSESSMENT

6.1 The approval of this report may have the following implications

- Resources - The proposal to join the PSAA procurement is considered to have the least resource requirement on the Council, and is considered most likely to deliver a value for money contractor
- Technical, Environmental and Legal - The Council is required to appoint an external auditor
- Political - No implications identified.
- Reputation - No implications identified.
- Equality and Diversity - No implications identified.

7 RECOMMENDED THAT COMMITTEE

- 7.1 Recommend to Full Council that the Council accepts Public Sector Audit Appointments' invitation to opt into the sector-led option for the appointment of external auditors to principal local government and police bodies for five financial years from 1 April 2023.

LAWSON ODDIE  
HEAD OF FINANCIAL SERVICES

JANE PEARSON  
DIRECTOR OF RESOURCES

AA4-22/LO/AC  
25 January 2022

From the Chairman of the Association  
Cllr James Jamieson



**To: Mayors/Leaders/Chief Executives/Chief Finance Officers of English Principal Councils**

23 September 2021

Dear Jane Pearson,

**Retender of External Audit Contracts**

I am writing because your council must shortly make a decision whether to opt into the national arrangement for the procurement of external audit or procure external audit for itself, and to set out the LGA's view on that decision.

In most councils this matter will be considered first in detail by the Audit Committee. You will therefore no doubt wish to pass on a copy of this letter and the more detailed attachment to the colleague who chairs the relevant committee.

Legislation requires a resolution of Full Council if a local authority wishes to opt into the national arrangement. The practical deadline for this decision is 11<sup>th</sup> March 2022. As this is a decision for the Full Council, I wanted to ensure that you had sight of the letter that has been sent to audit and finance colleagues and that you are aware of the crucial issues to be considered.

The way external audit has operated over the last couple of years has been extremely disappointing. This has led to many audits being delayed and dozens of audits remain uncompleted from 2019/20. Dealing with these issues is not a quick or easy fix.

Nevertheless, the LGA's view is that the national framework remains the best option for councils. There are many reasons for favouring the national arrangements and we think those reasons have become more compelling since 2016/17 when councils were last asked to make this choice.

We believe that in a suppliers' market it is imperative that councils act together to have the best chance of influencing the market and for nationally coordinated efforts to improve the supply side of the market to be effective.

The information attached goes into more detail about the background to this decision. My officers will be happy to answer any questions you may have. Please contact Alan Finch ([alan.finch@local.gov.uk](mailto:alan.finch@local.gov.uk)) if you have any issues you would like to raise.

Yours sincerely

A handwritten signature in black ink, appearing to read 'James Jamieson', written over a light blue horizontal line.

Cllr James Jamieson  
Chairman

cc: Chief Executive  
Chief Finance Officer

**REENDER OF EXTERNAL AUDIT CONTRACTS****Information from the LGA for those charged with governance**

The process for re-tendering for external audit in local authorities in England, for contracts due to start from 2023/24, is now underway and shortly the council will need to decide whether to procure its own external auditor or opt into the national procurement framework.

Legislation requires a resolution of Full Council if a local authority wishes to opt into the national arrangement. The deadline for this decision is the 11<sup>th</sup> March 2022. If the council doesn't make such a decision, the legislation assumes that the council will procure its own external audit, with all the extra work and administration that comes with it.

The national framework remains the best option councils can choose. There are many reasons for favouring the national arrangements and we think those reasons have become more compelling since 2016/17 when councils were last asked to make this choice.

The way external audit has operated over the last couple of years has been extremely disappointing. A lack of capacity in the audit market has been exacerbated by increased requirements placed on external auditors by the audit regulator. There is also a limited number of firms in the market and too few qualified auditors employed by those firms. This has led to a situation where many audits have been delayed and dozens of audit opinions remain outstanding from 2019/20 and 2020/21. Auditors have also been asking for additional fees to pay for extra work.

As the client in the contract, a council has little influence over what it is procuring. The nature and scope of the audit is determined by codes of practice and guidance and the regulation of the audit market is undertaken by a third party, currently the Financial Reporting Council. Essentially, councils find themselves operating in what amounts to a suppliers' market and the client's interest is at risk of being ignored unless we act together.

Everyone, even existing suppliers, agrees that the supply side of the market needs to be expanded, which includes encouraging bids from challenger firms. Public Sector Audit Appointments Ltd (PSAA), the body nominated by the Government to run the national arrangements, has suggested various ways this could be done, but these initiatives are much more likely to be successful if a large number of councils sign up to the national scheme.

It is therefore vital that councils coordinate their efforts to ensure that the client voice is heard loud and clear. The best way of doing this across the country is to sign up to the national arrangement.

To summarise, the same arguments apply as at the time of the last procurement:

- A council procuring its own auditor or procuring through a joint arrangement means setting up an Audit Panel with an independent chair to oversee the procurement and running of the contract.
- The procurement process is an administrative burden on council staff already struggling for capacity. Contract management is an ongoing burden.
- Procuring through the appointing person (PSAA) makes it easier for councils to demonstrate independence of process.
- Procuring for yourself provides no obvious benefits:
  - The service being procured is defined by statute and by accounting and auditing codes
  - Possible suppliers are limited to the small pool of registered firms with accredited Key Audit Partners (KAP).

- Since the last procurement it is now more obvious than ever that we are in a 'suppliers' market' in which the audit firms hold most of the levers.
- PSAA has now built up considerable expertise and has been working hard to address the issue that have arisen with the contracts over the last couple of years:
  - PSAA has the experience of the first national contract. The Government's selection of PSAA as the appointing person for a second cycle reflects MHCLG's confidence in them as an organisation.
  - PSAA has commissioned high quality research to understand the nature of the audit market.
  - It has worked very closely with MHCLG to enable the government to consult on changes to the fees setting arrangements to deal better with variations at national and local level, hopefully resulting in more flexible and appropriate Regulations later this year

Councils need to consider their options. we have therefore attached a list of Frequently Asked Questions relating to this issue which we hope will be useful to you in reaching this important decision.

When the LGA set up PSAA in 2015, we did so with the interests of the local government sector in mind. We continue to believe that the national arrangement is the best way for councils to influence a particularly difficult market.

If you have any questions on these issues please contact Alan Finch, Principal Adviser (Finance) ([alan.finch@local.gov.uk](mailto:alan.finch@local.gov.uk)).

**PROCUREMENT OF EXTERNAL AUDIT from financial year 2023/24****FREQUENTLY ASKED QUESTIONS**

“Were prices set too low in the current contract?”

It is clear that firms did submit bids that reflected what seemed at the time to be very stable market conditions. Unfortunately, a series of financial collapses in the private sector have since created a very different climate and resulted in a whole series of new regulatory pressures. It is very likely that firms thought they could make savings as a result of the new timetable, essentially finishing the accounts audits by the end of July each year. Of course, that is not what has happened.

The Government opened up the market principally on the argument that costs would reduce, and views were mixed in the sector when the first contract was being let. Some councils wanted more savings and some were worried about reduced standards.

“Has the current contract helped cause these issues?”

Since the current contract is based around the Code of Audit Practice and the local government accounting code, this is unlikely. The first year of the new contract coincided with the introduction of new standards and with the emergence of some difficult audit issues such as the [McCloud judgement](#) (a legal case which affected the valuation of pension liabilities). The second year was affected by COVID-19. This laid bare the lack of capacity in the supplier side of the market and led to considerable delays. It is hard to see how the contract could have pre-empted this, but now we are clearer about the level of uncertainty in the system, the next contract can adjust for it.

“If we let our own contract, could we have more influence over auditors?”

No. The auditors are required to be independent and are bound by the Codes and need to deliver to them in line with the regulator’s expectations or face action under the regulatory framework.

As far as delays in audits is concerned, auditors are required to allocate resources according to risk and councils that procure for themselves will find themselves in the same queue as those within the national arrangement.

“If we let our own contract, can we get the auditors to prioritise our audit over others?”

Very unlikely. Auditors are running at full capacity and have to deploy resources according to their assessment of audit risks in accordance with professional standards. It is very unlikely that auditors could give preference to some clients rather than others even if they wanted to.

“Didn’t we used to get more from our auditors?”

Yes we did. For example, auditors were often prepared to provide training to audit committees on a pro-bono basis. The fact that they used to be with us for most of the year meant officers could develop professional working relationships with auditors and they understood us better, within the boundaries required of their independent status. Auditors no longer have the capacity to do extra work and the light shone on audit independence in other sectors of the economy has reinforced the rules on the way auditors and councils work together.

“Under the national framework we have had to negotiate our own fee variations. Will that continue to be the case?”

Unfortunately, virtually all councils have had to engage in discussions with auditors about fee variations linked to new regulatory requirements and, of course, the challenges of COVID-19. SAA has worked hard with MHCLG to enable the recent consultation on changes to the fee setting regime, and the resulting regulatory change will bring scope for more issues to be settled at a national level in future.

“Can we band together in joint procurements to get most of the benefits of not going it alone?”

We understand that this is lawful. However, joint procurement partners would not be part of PSAA’s efforts on behalf of the sector to increase the number of firms competing in the market, which will therefore be less likely to succeed.

At best, joint procurement spreads the pain of procuring over a larger number of councils and at worst it introduces a new layer of bureaucracy, because someone is going to have to take the lead and bring all the members of the consortium along. It’s not altogether clear to us why a joint procurement would be better than the national contract, especially as the consortium would then have to manage the contract throughout its life (for example, the implications of changes of audit scope).