

Report to:	AUDIT PANEL
Date:	9 November 2021
Reporting Officer:	Kathy Roe – Director of Finance Caroline Barlow – Assistant Director of Finance
Subject:	EXTERNAL AUDIT APPOINTMENT UPDATE 2023/24
Report Summary:	This report sets out proposals for appointing the Council’s external auditor for the five-year period from 2023/24.
Recommendations:	The Audit Panel is requested to consider the options for the procurement of external audit services and support the preferred option; to opt into the sector-led option through Public Sector Auditor Appointments (PSAA) for the appointment of external auditors to principal local government and police bodies for five financial years from 1 April 2023.
Corporate Plan:	The changes required by the Act will enable the Council to continue to be fully accountable to local people for its financial activities, as part of the Council’s commitment to improvement, efficiency and good governance.
Policy Implications:	None
Financial Implications: (Authorised by the statutory Section 151 Officer & Chief Finance Officer)	<p>Under the PSAA appointment framework, PSAA establish a ‘scale fee’, which is the standard basic fee payable for the external audit. Fee variations may then subsequently be agreed between the external auditor and the Council where additional work is required to conclude either the audit of the financial statements or the conclusion on arrangements to secure value for money. The fee payable by Tameside for external audit services in 2019/20 was £101,063 and in 2020/21 is currently estimated to be £105,093. The scale fee for both financial years was £80,863. Any additional fees charged over and above the scale fee are subject to approval by PSAA.</p> <p>The recommendation set out in this report is for the Council to opt in to the sector led PSAA appointment framework for the reasons set out in paragraph 3.7. This option is expected to be most financial efficient option for the procurement of external auditors.</p>
Legal Implications: (Authorised by the Borough Solicitor)	<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 authority must consult and take account of the advice of its auditor panel on the selection and appointment of a local auditor.</p> <p>Section 12 makes provision for the failure to appoint a local auditor: the authority must immediately inform the Secretary of State, who may direct the authority to appoint the auditor named in the direction or appoint a local auditor on behalf of the authority.</p>

Section 17 gives the Secretary of State the power to make regulations in relation to an 'appointing person' specified by the Secretary of State. This power has been exercised in the Local Audit (Appointing Person) Regulations 2015 (SI 192) and this gives the Secretary of State the ability to enable a Sector Led Body to become the appointing person.

Risk Management:

There is no immediate risk to the Council; however, early consideration by the Council of its preferred approach will enable detailed planning to take place to achieve successful transition to the new arrangement in a timely and efficient manner.

Background Information:

The background papers relating to this report can be inspected by contacting Wendy Poole, Head of Risk Management and Audit Services.



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1. INTRODUCTION

- 1.1 The Local Audit and Accountability Act 2014 (the Act) at Section 7 states that a “relevant authority must appoint a local auditor to audit its accounts for a financial year not later than 31 December in the preceding financial year.” The current auditor appointment arrangements cover the period up to and including the audit of the 2022/23 accounts.
- 1.2 In 2017, 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.
- 1.3 PSAA is now undertaking a procurement for the next appointing period, covering audits for 2023/24 to 2027/28. During Autumn 2021, all local government bodies need to make decisions about their external audit arrangements for accounting periods from 2023/24.
- 1.4 The closing date to opt in to the PSAA arrangement is 11 March 2022. This enables procurement and award of contracts by the statutory deadline of 31 December 2022.
- 1.5 This report sets out the options open to the Council and the basis of officers’ recommendation to the Audit Panel to opt into the national arrangement with PSAA.

2. BACKGROUND

- 2.1 There is a requirement under the Local Audit and Accountability Act 2014 for all local government and NHS bodies in England to locally appoint their external auditors.
- 2.2 There are three options open to the Council under the Act, which are:-
 - Option 1 - Make a stand-alone appointment as Tameside Council
 - Option 2 - Establish local joint procurement arrangements
 - Option 3 - Opt-in to a sector led body appointed by the Secretary of State under the Act - Public Sector Audit Appointments (PSAA) Limited.
- 2.3 New appointments for auditors need to be made by December 2022 regardless of which option is chosen.
- 2.4 In accordance with Regulation 19 of the Local Audit (Appointing Person) Regulations 2015, the decision on opt-in must be taken by Council (“full authority”).

3. REVIEW OF OPTIONS

- 3.1 A review of options was presented to Executive Cabinet/Audit Panel and Council in 2017 to support the decision to opt in to the PSAA arrangements. The basis for that decision has not fundamentally changed in the intervening period and in summary the pros and cons of the options are:

Option 1: Make a stand-alone appointment as Tameside Council

- 3.2 This option requires the Council to appoint an Auditor Panel, separate in role and membership to the Audit Panel, to oversee the procurement and management of the external audit contract. It requires the whole or majority of the membership to be independent of the Council and this means that elected members will not have a majority input to assessing bids and choosing to which audit firm to award a contract for the Council’s external audit.
- 3.3 This approach requires additional capacity and expertise to administer the process and to deliver the functions of the Panel. It will also result in the costs of tendering being borne

solely by the Council.

- 3.4 The option limits the market influence that the Council has through the letting of a standalone contract and it is not guaranteed that firms will submit tenders for this work given widely reported capacity issues in the market and given they will also be competing as part of the PSAA arrangement. This presents a risk of being unable to make an appointment by the statutory deadline. In addition, the Council could not take advantage of the 'economy of scale' created through joint or national procurement.
- 3.5 This option does enable the Council to determine cost, quality and social value weightings in its procurement process whereas opting into PSAA will require us to align with their scoring and appointment processes.

Option 2: Establish local joint procurement arrangements

- 3.6 In 2017, an option was explored to establish Greater Manchester level procurement arrangements. Whilst affording greater economies of scale this approach does largely present the same risks and opportunities as the stand-alone option. It also increases the risk that firms will not bid as they are at heightened risk of having a conflict of interest at one of the authorities. The option has been discussed with Greater Manchester Treasurers and the consensus is that this presents a high level of risk, with relatively low benefits compared to Option 3.

Option 3: Opt in to Public Sector Auditor Arrangements

- 3.7 PSAA was the option selected in 2017 for the reasons set out below. Given challenges and capacity in the market and the need to maintain a high quality of external audit provision, there is an even stronger case that this option will produce better outcomes and will be less burdensome for the Council, compared to procurement undertaken locally for the following reasons:-
- Collective procurement reduces overall costs for the sector and for individual authorities compared to smaller local procurements and contract management arrangements;
 - There is no requirement to establish a specific Council auditor panel with an independent chair and independent members to oversee a local auditor procurement and ongoing management of an audit contract;
 - 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; and
 - 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.
- 3.8 Key features of the PSAA approach are:-
- Contracts let under the PSAA opt-in will run for five years;
 - Contracts between PSAA and the audit firms will require firms to deliver audits compliant with the National Audit Office (NAO) Code of Audit Practice;
 - The number of firms eligible to undertake local public audit is regulated through the Financial Reporting Council and the Recognised Supervisory Bodies (RSBs). Only appropriately accredited firms will be able to bid for appointments;
 - PSAA will manage current and potential future conflicts of interest rather than the Council having to re-procure contracts should such conflicts arise;
 - Opting into the PSAA will remove the need to set up an Auditor Panel in addition to the Council's Audit Panel;
 - In addition to working with the LGA, a stakeholder advisory panel with representative organisations for councils, police and fire bodies ensures ongoing influence and engagement with PSAA;
 - PSAA is a not-for-profit organisation whose costs are around 4% of the scheme with

- any surplus distributed back to scheme members;
- Scale fees will vary in line with the additional work needed which reflects risk and complexity (scale is set following consultation with opted in bodies);
- PSAA will manage variation requests and approve where appropriate; and
- This approach is supported and endorsed by the LGA.

3.9 The main downside with Option 3 is the inability to determine the evaluation criteria that will be used for procurement. Given that the audit approach is mandated through standards and guidance there is minimal flexibility in the scope of work requested. Nonetheless current stakeholder networks through Core Cities and the LGA will be used to encourage the application of appropriate quality, cost and social value weightings. We expect quality to constitute a high element of scoring and note that is unlikely that PSAA will apply the same weighting to social value as is used by local authorities and would expect this to be no more than 5% of the total score.

3.10 The PSAA route was adopted by 484 of 494 bodies in the previous exercise. Feedback from across Greater Manchester and North West authorities is that they will be adopting this same approach in 2022.

4. NEXT STEPS

4.1 Subject to Audit Panels comments, a report will be provided to Council seeking approval for the preferred option. This will reference the comments of the Audit Committee.

5. RECOMMENDATIONS

5.1 As set out on the front of the report.