

LANCASHIRE COMBINED FIRE AUTHORITY

AUDIT COMMITTEE

Meeting to be held on 30 November 2021

APPOINTMENT OF EXTERNAL AUDITORS

(Appendices 1 and 2 refer)

Contact for further information:

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Table 1 Executive Summary and Recommendations

Executive Summary

The initial 5-year appointment process for our external auditors, run by Public Sector Audit Appointments (PSAA) ends in 2022/23. As such the Authority need to determine whether to opt into a new exercise, for a further 5 years, or to seek alternative means of appointing external auditors.

Recommendation(s)

The Committee is asked to recommend that the Full Authority accepts PSAAs invitation to opt into the national scheme.

Information

In 2017 the Authority opted into Public Sector Audit Appointments (PSAA) auditor appointment arrangements, whereby PSAA is responsible for appointing an auditor to principal local government and police bodies that have chosen to opt into its national auditor appointment arrangements. This appointment covered the period 2018/19 to 2022/23.

As this arrangement will expire in 2022/23 the Authority needs to determine how to appoint its external auditors when this arrangement expires.

There are three ways for a principal local government or police body to appoint its auditor for the five financial years from 2023/24:

- undertake a stand-alone individual auditor procurement and appointment exercise;
- undertake a joint audit procurement and appointing exercise with other bodies; or
- join PSAA's sector led national scheme.

These options were considered in 2017 (appendix 1 sets out the advantages / disadvantages of the options that were considered in 2017). At the time the Authority determined that pursuing the sector led approach represented the best option. We do not believe this position has changed with the following advantages still being identified for this option: -

- avoid the necessity to establish an independent auditor panel (detailed requirements specified by the Local Audit & Accountability Act, 2014);
- avoid the need to manage their own auditor procurement, including the costs of doing so;
- benefit from PSAA undertaking a robust process to validate fee variation proposals; and
- assuming a high level of participation, be able to support market sustainability and encourage realistic prices in a challenging market.

Regardless of which option is chosen a local auditor must be appointed no later than 31 December in the financial year preceding the financial year of the accounts to be audited, i.e. for the audit of the accounts of the 2023/24 financial year, there must be a local auditor appointed by 31 December 2022.

PSAA's sector led national scheme

In accordance with the Local Audit and Accountability Act 2014 and the Local Audit (Appointing Person) Regulations 2015 (the Regulations), PSAA formally invited all eligible bodies to join the national auditor appointment arrangements for the audit years 2023/2024 to 2027/2028 in its role as a specified appointing person. Attached as appendix 2 is the Prospectus that PSAA issued at the time.

A decision to become an opted-in authority must be taken in accordance with the Regulations by the Members of an Authority meeting as a whole, i.e. the full Authority.

The closing date to give notice to PSAA of the authority's acceptance of the invitation is 11 March 2022.

Following the completion of the procurement of audit services (envisaged as August 2022), the auditor appointment process will be:

- publish the process for making individual auditor appointments for opted-in bodies from 2023/24 during spring/summer 2022;
- consult with opted-in bodies on proposed auditor appointments during the late summer/autumn 2022; and
- confirm all auditor appointments by 31 December 2022.

Financial Implications

The external audit fee for 2020/21 account was £39k. In recent years this fee has increased due to the additional requirements placed on auditors by the Financial Reporting Council. Audit firms have expressed a view that the existing fees are not sustainable and hence any procurement exercise is likely to result in higher fees, irrespective of how it is conducted.

Opting into a national sector led approach with PSAA provides some opportunity to limit the extent of any increases by entering in to a large scale collective procurement arrangement and it is felt that a sector led approach is likely to result in the best compromise between sustainable fees and quality of audit.

It would also remove the costs of establishing an auditor panel, required under the other two approaches, which if selected, will need to be incorporated into future years budgets.

Human Resource Implications

None

Equality and Diversity Implications

None

Business Risk Implications

As there are only a limited number of external audit firms who have the capacity and specialist teams to undertake local authority audits and therefore there is a risk that in trying to procure in isolation/in a small group, we may get a low level of interest, and/or higher cost, as the external audit firms would be likely to focus their efforts in securing a larger contract through the PSAA procurement exercise.

Environmental Impact

None

Local Government (Access to Information) Act 1985 List of Background Papers

Table 2 Details of any background papers

Paper:	Audit Findings Report
Date:	September 2021
Contact:	Keith Mattinson
Reason for inclusion in Part 2 if appropriate:	

Options for local appointment of External Auditors – Reported in March 2016

There are three broad options open to the Authority under the Local Audit and Accountability Act 2014 (the Act):

- Option 1 To make a stand-alone appointment
- Option 2 Set up a Joint Auditor Panel/local joint procurement arrangements
- Option 3 Opt-in to a sector led body

Option 1 To make a stand-alone appointment

In order to make a stand-alone appointment the Authority will need to set up an Auditor Panel. The members of the panel must be wholly or a majority independent members as defined by the Act. Independent members for this purpose are independent appointees, this excludes current and former elected members (or officers) and their close families and friends. This means that elected members will not have a majority input to assessing bids and choosing which firm of accountants to award a contract for the Authority's external audit. A new independent auditor panel established by the Authority will be responsible for selecting the auditor.(assuming there is no existing independent committee such as the Audit Committee that might already be suitably constituted).

Advantages/benefit

- Setting up an auditor panel allows the Authority to take maximum advantage of the new local appointment regime and have local input to the decision.

Disadvantages/risks

- Recruitment and servicing of the Auditor Panel, running the bidding exercise and negotiating the contract is estimated by the LGA to cost in the order of £15,000 plus on going expenses and allowances
- The Authority will not be able to take advantage of reduced fees that may be available through joint or national procurement contracts.
- The assessment of bids and decision on awarding contracts will be taken by independent appointees and not solely by elected members.

The disadvantages appear to outweigh the advantages on this option and as such I believe this option should not be pursued

Option 2 Set up a Joint Auditor Panel/local joint procurement arrangements

The Act enables the Authority to join with other authorities to establish a joint auditor panel. Again this will need to be constituted of wholly or a majority of independent appointees (members). Further legal advice will be required on the exact constitution of such a panel having regard to the obligations of each Authority under the Act and the Authority need to liaise with other local authorities to assess the appetite for such an arrangement.

Advantages/benefits

- The costs of setting up the panel, running the bidding exercise and negotiating the contract will be shared across a number of authorities.

- There is greater opportunity for negotiating some economies of scale by being able to offer a larger combined contract value to the firms.

Disadvantages/risks

- The decision making body will be further removed from local input, with potentially no input from elected members where a wholly independent auditor panel is used or possible only one elected member representing each Authority, depending on the constitution agreed with the other bodies involved.
- The choice of auditor could be complicated where individual Authority's have independence issues. An independence issue occurs where the auditor has recently or is currently carrying out work such as consultancy or advisory work for the Authority. Where this occurs some auditors may be prevented from being appointed by the terms of their professional standards. There is a risk that if the joint auditor panel choose a firm that is conflicted for this Authority then the Authority may still need to make a separate appointment with all the attendant costs and loss of economies possible through joint procurement.

This option has some merit but it is felt that the potential advantages of pursuing a Sector Led Body approach are more significant. Informal discussions with other Treasures indicated a similar position.

Option 3 Opt-in to a sector led body

In response to the consultation on the new arrangement the LGA successfully lobbied for Authority's to be able to 'opt-in' to a Sector Led Body appointed by the Secretary of State under the Act. A Sector Led Body would have the ability to negotiate contracts with the firms nationally, maximising the opportunities for the most economic and efficient approach to procurement of external audit on behalf of the whole sector.

Advantages/benefits

- 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
- Any conflicts at individual authorities would be managed by the Sector Led Body who would have a number of contracted firms to call upon.
- The appointment process would not be ceded to locally appointed independent members. Instead a separate body set up to act in the collective interests of the 'opt-in' authorities. The LGA are considering setting up such a body utilising the knowledge and experience acquired through the setting up of the transitional arrangements.

Disadvantages/risks

- Individual elected members will have less opportunity for direct involvement in the appointment process other than through the LGA and/or stakeholder representative groups.
- In order for the Sector Led Body to be viable and to be placed in the strongest possible negotiating position the Sector Led Body will need Authority's to indicate their intention to opt-in before final contract prices are known.