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**Report to:** Governance and Audit Committee

**Date:** 13 January 2022

**Subject:** **External audit progress report**

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## **1. Purpose of this report**

- 1.1 To provide an update on external audit matters that have occurred since the last meeting.
- 1.2 To agree a recommendation to the Combined Authority for the future appointment of external auditors.

## **2. Information**

### Annual Accounts 2020/21 – Final Audit Update

- 2.1 The final audit certificate and completion report regarding the outstanding work reported to the Committee on 30 September 2021 are presented on a separate report on today's agenda. Mazars will be available at the meeting to present the work they have undertaken

### Other External Updates – Public Sector Auditor Appointments Ltd (PSAA)

- 2.2 Members will recall from the previous meeting that the PSAA had published a report on 27 August 2021 detailing responses to its recent consultation plans for the second appointing period for the national scheme for local auditor appointments. This consultation gathered feedback on proposals for the national scheme of local auditor appointments from 2023/24, consulting with eligible bodies and other stakeholders on the draft prospectus for the national scheme for local auditor arrangements from April 2023, and with the audit services market on important features of its procurement strategy.
- 2.3 In late September 2021, the PSAA published both the prospectus for the national scheme from April 2023 and the procurement strategy. Eligible bodies have until **Friday 11 March 2022** to formally respond and accept the **opt-in**

**invitation.** Under the Regulations this is a decision that needs to be taken by 'Full Council' which for us means the Combined Authority.

- 2.4 Today's report provides further information to this Committee to enable it to make a recommendation to the next meeting of the Combined Authority and ahead of the March 2022 deadline.

### **Information / PSAA Prospectus**

- 2.5 In relation to appointing auditors, eligible bodies, like the Combined Authority, 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.
- 2.6 An eligible body that does not accept the opt-in invitation but subsequently wishes to join the scheme may apply to opt in only after the appointing period has commenced, that is on or after 1 April 2023.
- 2.7 The PSAA propose that the national scheme will be the best option to enable local bodies to secure audit services in a very challenging market. Firms are more likely to make positive decisions to bid for larger, long term contracts, offering secure income streams, than they are to invest in bidding for a multitude of individual opportunities.
- 2.8 The PSAA state that the national scheme already offers a range of benefits for its members as follows:
- transparent and independent auditor appointment via a third party;
  - the best opportunity to secure the appointment of a qualified, registered auditor;
  - appointment, if possible, of the same auditors to bodies involved in significant collaboration/joint working initiatives, if the parties believe that it will enhance efficiency and value for money;
  - on-going management of any independence issues which may arise;
  - access to a dedicated team with significant experience of working within the context of the relevant regulations to appoint auditors, managing contracts with audit firms, and setting and determining audit fees;
  - a value for money offer based on minimising PSAA costs and distribution of any surpluses to scheme members;
  - collective savings for the sector through undertaking one major procurement as opposed to a multiplicity of smaller procurements;
  - a sector-led collaborative scheme supported by an established advisory panel of sector representatives to help inform the design and operation of the scheme;
  - avoiding the necessity for local bodies to establish an auditor panel and undertake an auditor procurement, enabling time and resources to be deployed on other pressing priorities;
  - providing regular updates to Section 151 / Section 73 officers on a range of local audit related matters and our work, to inform and support effective auditor-audited body relationships; and
  - concerted efforts to develop a more sustainable local audit market.

2.9 Learning from the collective post-2018 experience / feedback, the PSAA state they have taken a number of initiatives to improve the operation of the national scheme for the benefit of all parties including:

- commissioning an independent review undertaken by Cardiff Business School of the design of the scheme and implementation of our appointing person role to help shape our thinking about future arrangements;
- commissioning an independent review by consultancy firm Touchstone Renard of the sustainability of the local government audit market, which identified a number of distinctive challenges in the current local audit market. We published the report to inform debate and support ongoing work to strengthen the system and help to deliver long term sustainability;
- proactively and constructively engaging with the various independent reviews, including the significant Redmond Review into Local Authority Financial Reporting and External Audit;
- working with MHCLG to identify ways to address concerns about fees by developing a new approach to fee variations which would seek wherever possible to determine additional fees at a national level where changes in audit work apply to all or most opted-in bodies;
- establishing the Local Audit Quality Forum, which has to date held five well attended events on relevant topics, to strengthen engagement with Audit Committee Chairs and Chief Finance Officers;
- using our advisory panel and attending meetings of the various Treasurers' Societies and S151 officer meetings to share updates on our work, discuss audit-related developments, and listen to feedback;
- maintaining contact with those registered audit firms that are not currently contracted with us, to build relationships and understand their thinking on working within the local audit market;
- undertaking research to enable a better understanding of the outcomes of electors' objections and statements of reasons issued since our establishment in April 2015; and
- sharing our experiences with and learning from other organisations that commission local audit services such as Audit Scotland, the NAO, and Crown Commercial Services.

2.10 One of PSAA's most important obligations is to make an appropriate auditor appointment to each and every opted-in body. Prior to making appointments for the second appointing period, commencing on 1 April 2023, they plan to undertake a major procurement enabling suppliers to enter into new long term contracts with PSAA. In the event that the procurement fails to attract sufficient capacity to enable auditor appointments to every opted-in body or realistic market prices, they have fallback options to extend one or more existing contracts for 2023/24 and also 2024/25, whilst taking into account the value represented by contract extension options.

2.11 PSAA propose they are well placed to lead the national scheme, especially having learned a lot from the unprecedented challenges for the UK audit market. They are staffed by a team with significant experience of working within the context of the regulations to appoint auditors, managing contracts with audit firms, and setting and determining audit fees.

- 2.12 The PSAA state that the national collective, sector-led scheme stands out as the best option for all eligible bodies, especially in the current challenging market conditions. It offers excellent value for money and assures the independence of the auditor appointment.
- 2.13 Membership of the national scheme will save time and resources for local bodies, time and resources which can be deployed to address other pressing priorities. Bodies can avoid the necessity to establish an auditor panel (required by the Local Audit & Accountability Act, 2014) and the need to manage their own auditor procurement.
- 2.14 PSAA have stated that they will contract with appropriately qualified suppliers, will support external audit market sustainability and will offer value for money.

### **PSAA Procurement Strategy**

- 2.15 The objectives of the procurement are to maximise value for local public bodies by:
- securing the delivery of independent audit services of the required quality;
  - awarding long term contracts to a sufficient number of firms to enable the deployment of an appropriately qualified auditing team to every participating body;
  - encouraging existing suppliers to remain active participants in local audit and creating opportunities for new suppliers to enter the market;
  - encouraging audit suppliers to submit prices which are realistic in the context of the current market;
  - enabling auditor appointments which facilitate the efficient use of audit resources;
  - supporting and contributing to the efforts of audited bodies and auditors to improve the timeliness of audit opinion delivery; and
  - establishing arrangements that are able to evolve in response to changes to the local audit framework.
- 2.16 PSAA state it is necessary to enter into contracts with a number of audit suppliers to provide sufficient capacity for all of the audits required, to enable the PSAA to manage auditor independence issues and, if possible, grow the number of active suppliers in the local audit market.
- 2.17 The procurement will cover the audits of the accounts of all eligible bodies that opt into the appointing person scheme. Eligible bodies include local authorities, combined authorities, police and crime commissioners including PFCCs, chief constables, fire and rescue authorities, waste authorities, passenger transport executives and national park authorities. There are currently 476 bodies that will be invited to opt in.
- 2.18 The target / provisional timetable and key milestones for the procurement are set out below.

| Key milestone   | Target Date         |
|---|---------------------|
| Publish Contract Notice and Issue documentation on request              | w/c 7 February 2022 |
| Deadline for submission of Selection Questionnaires                     | w/c 14 March 2022   |
| Issue invitation to tender to short-listed suppliers                    | w/c 4 April 2022    |
| Deadline for submission of tenders                                      | w/c 11 July 2022    |
| PSAA Board approval of contract awards, assuming a satisfactory outcome | August 2022         |

### **Summary of Options**

- 2.19 There are two options. The first is to opt-in to the PSAA led national scheme for the appointment of external auditors, as detailed throughout the report. The second is not to opt-in and undertake the procurement of external auditors independently and in line with the requirements of the Local Audit & Accountability Act, 2014.
- 2.20 The second option would be a time consuming exercise of the Combined Authority, would require additional resources and structures to be set up and would not necessarily guarantee a successful procurement and potential risk of not having an external auditor in place for April 2023.
- 2.21 The recommendation to the Committee is to continue to opt-in to the PSAA national exercise. This is the approach taken last time by the vast majority of eligible bodies.

### **3. Tackling the Climate Emergency Implications**

- 3.1 There are no climate emergency implications directly arising from this report.

### **4. Inclusive Growth Implications**

- 4.1 There are no inclusive growth implications directly arising from this report

### **5. Financial Implications**

- 5.1 There are no financial directly arising from this report.

### **6. Legal Implications**

- 6.1 There are no legal implications directly arising from this report.

### **7. Staffing Implications**

- 7.1 There are no staffing implications directly arising from this report.

**8. External Consultees**

8.1 No external consultations have been undertaken.

**9. Recommendations**

9.1 That the Committee consider the information provided and recommend to the Combined Authority that it opt-in to the PSAA led national scheme for the appointment of external auditors, effective from April 2023.

**10. Background Documents**

None.

**11. Appendices**

None