

CHESHIRE FIRE AUTHORITY

MEETING OF: CHESHIRE FIRE AUTHORITY
DATE: 8 DECEMBER 2021
REPORT OF: TREASURER
AUTHOR: ALLAN RAINFORD

SUBJECT: PROCUREMENT OF EXTERNAL AUDITORS

Purpose of the report

1. To enable Members to determine how they wish the procurement of external auditors to be progressed.

Recommended that:

- [1] Members instruct officers to accept the invitation from Public Sector Audit Appointments Limited to opt into the national external auditor appointment arrangements, with a view to securing external auditors for five financial years commencing with financial year 2023/24.

Background

2. Following the abolition of the Audit Commission by the Local Audit and Accountability Act 2014 (“the Act”), the Local Government Association created Public Sector Audit Appointments Ltd (‘the PSAA’) with responsibility for establishing arrangements for the appointment of external auditors and the setting of audit fees for local government bodies in England.
3. In conjunction with the vast majority of local authorities, Cheshire Fire Authority opted in to the national external auditor appointment arrangements established by the PSAA in 2017 for the period covering the accounts for 2018/19 to 2022/23. This resulted in Grant Thornton being appointed as external auditor for the Authority.
4. The PSAA is now undertaking a procurement for the next appointing period, covering audits for 2023/24 to 2027/28. With this in mind all local government bodies need to make decisions about their external audit arrangements from 2023/24.

Information

Options

5. There are three possible options available to the Fire Authority for it to secure its external auditors: the national external auditor appointment arrangements run by the PSAA (referred to as 'the PSAA route' in the following paragraphs); a collaborative procurement with other public sector bodies; or, its own procurement (both referred to as 'the Local Audit Procurement'). The options involve different levels of resourcing.
6. Members will see that officers favour the PSAA route and this paper attempts to explain the reasons.

Timetable and Scope of Audit

7. If the Authority wishes to take advantage of the national external auditor appointment arrangements, it is required under the Local Audit Regulations to make the decision at a meeting of the full Authority. The opt-in period runs until March 2022 and therefore the Authority must notify the PSAA of its decision to opt into the national scheme by that date.
8. The PSAA will commence the formal procurement process in early February 2022. It expects to award contracts in August 2022 and will then consult with authorities on the appointment of auditors so that it can make appointments by the statutory deadline of 31 December 2022.
9. The scope of external audit work will still be specified nationally: the National Audit Office is responsible for the Code of Audit Practice, which all firms appointed to carry out local government audit work, must follow. As well as undertaking the statutory audit of accounts and value for money assessment of the Authority in each financial year, the appointed external auditor is also responsible for investigating questions raised by electors and has powers and responsibilities in relation to Public Interest Reports and statutory recommendations.
10. Not all audit firms will be eligible to compete for the contracts as they will need to demonstrate that they are sufficiently qualified and independent. The audit firms must be registered to undertake local audits by the Financial Reporting Council (FRC) and employ authorised Key Audit Partners to oversee the work. There is currently a shortage of registered firms and Key Audit Partners.
11. During the period of the next audit contract, the FRC will be replaced by a new body with wider powers, the Audit, Reporting and Governance Authority (ARGA). Local authorities therefore have very limited influence over the nature of the audit services they are procuring, the nature and quality of which are determined or overseen by third parties.

The PSAA Route

12. As part of the procurement process managed by the PSAA, firms will be able to bid for a variety of different sized contracts so that they can match their available resources to the contracts. They will be required to meet appropriate quality standards and to reflect realistic market prices in their tenders, informed by the scale fees and supporting information provided by the PSAA about each audit. Given the current weaknesses in the audit market, the PSAA will be seeking to encourage market sustainability in its procurement.
13. As a result of procuring on behalf of a significant number of bodies, the PSAA expects to achieve the benefits of economies of scale and to minimise the costs of procurement. The PSAA will continue to pool scheme costs and charge fees to opted-in bodies in accordance with the published fee scale, following consultation with scheme members. Pooling means that everyone within the scheme will benefit from the prices secured via a competitive procurement process. As a not-for-profit company the PSAA returns any surplus funds to scheme members: in 2021 the PSAA returned £5.6m to local authorities, including £4,540 to Cheshire Fire Authority.
14. After the contracts have been awarded, the PSAA carries out ongoing contract and performance management of the appointed audit firms and consults local authorities on their views of performance and about requests for additional fees due to increased work. An important feature is that the PSAA is able to ensure suitable independence of the auditors from the bodies that they audit and manage any potential conflicts as they arise.

The Local Audit Procurement

15. The work associated with a collaborative, or stand-alone procurement will be significant. It will be a challenge to resource and the costs will be greater than the PSAA Route. Work would need to start early in 2022 to ensure that an appointment is made by the statutory deadline of 31 December 2022.
16. The main feature of the Local Audit Procurement is that the collaborating bodies/the Authority would be required to set up an Auditor Panel, as specified by the Act. The Panel must consist of wholly independent members, or a majority of independent members and must be chaired by an independent member. Independent members for this purpose are independent appointees, excluding current and former elected members (or officers) and their close families and friends. This means that elected members will not have a majority input in assessing bids and awarding the contract. The Auditor Panel would also have a role in overseeing the contract for its duration.
17. A decision to run the Local Audit Procurement would require a detailed consideration of the legislation and in particular of the requirements of the Local Audit (Auditor Panel) Regulations 2014. The Regulations prescribe some of the practicalities including the process for appointing members to the panel, the minimum number of members, the political balance, the relationship between the

panel and other Authority Committees, and the right of access to information and to officers.

18. Pursuing the Local Audit Procurement will not widen the choice in terms of the number of audit firms who may tender. There are currently only nine audit firms who are eligible to audit local authorities and other relevant bodies. This means that the Local Audit Procurement would involve the same firms as the PSAA Route and be unlikely to derive the financial benefits that a larger procurement exercise would bring. The Local Audit Procurement must deliver the same audit scope and requirements as a national procurement, reflecting the auditor's statutory responsibilities, so there is no opportunity to reduce tender prices by adjusting the contract specification.
19. Given the significant challenges associated with the Local Audit Procurement option and likelihood that it would not provide any advantages, officers favour the PSAA route. Other fire authorities and Cheshire local authorities are not interested in the Local Audit Procurement option. 98% of local government bodies opted for the PSAA Route at the first round of appointments. It seems highly likely that the majority will do so on this occasion.

Conclusion

20. The PSAA Route is likely to provide a significant benefit to the Authority when compared to the Local Audit Procurement option. It offers the potential for economies of scale and the best possible audit fees.
21. The PSAA Route also provides the best opportunity to secure the appointment of a qualified, registered auditor: across England there are only nine accredited audit firms, and the Local Audit Procurement would be drawing from the same limited supply of auditor resources as the PSAA's national procurement.
22. It is the view of the Treasurer that the potential benefits of the PSAA Route provide the most favourable option for the Authority and it is therefore recommended that the Authority opt-in to the PSAA national procurement process.

Financial Implications

23. The alternative proposal involving establishing a local procurement process for an external audit contract, is likely to involve considerable extra cost. However it is not possible to estimate this at the present time.

Legal Implications

24. The report identifies the requirements of the Local Audit and Accountability Act 2014.

Equality and Diversity Implications

25. There are no equality and diversity implications arising from this report.

Environmental Implications

26. There are no environmental implications arising from this report.

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BACKGROUND PAPERS: NONE