

To: Council – Advisory Meeting
23 February 2022

**Appointment of Local External Auditors
Executive Director: Resources**

1 PURPOSE OF REPORT

- 1.1 To consider the recommendation from the advisory meeting of the Governance and Audit Committee regarding arrangements for the appointment of local external auditors under the Local Audit and Accountability Act 2014 for the financial years 2023/24 to 2027/28.

2 RECOMMENDATIONS

- 2.1 **That Bracknell Forest remains part of the Public Sector Auditor Appointments (PSAA) collective procurement arrangement to appoint an External Auditor from the 2023/24 financial year on the grounds that this approach is most likely to achieve best value in a restricted market and avoids the need and cost of the Council itself undertaking a complex and time-consuming procurement process.**
- 2.2 **That the Executive Director: Resources be authorised to progress discussions with other s151 officers in Berkshire and the PSAA around whether a single audit firm should be appointed to cover all authorities in the county area.**

3 REASONS FOR RECOMMENDATIONS

- 3.1 To ensure that arrangements are agreed for procuring local external auditors in time for the 2023/24 accounting year.

4 ALTERNATIVE OPTIONS CONSIDERED

- 4.1 The options of the Council undertaking its own procurement or doing so in partnership with one or more local council, which would include establishing an independent Auditor Panel to advise on the selection process, have been evaluated but are not recommended, for the reasons detailed in the report.

5 SUPPORTING INFORMATION

Background

- 5.1 Under the Local Audit and Accountability Act 2014, following the closure of the Audit Commission, local authorities are responsible for appointing their own external auditor. The appointment process needs to be undertaken in accordance with procurement rules which specify particular stages and timescales. There are five key stages of the process which are likely to be common across authorities:
- i) decide on the appointment process (a decision for Council whether to use the sector led body or appoint independently)
 - ii) (if appointing independently) determine the important criteria to be considered when selecting the auditor and invite expressions of interest against these
 - iii) evaluate expressions received
 - iv) final evaluation of tenders

v) recommendation to the authority.

- 5.2 Having reviewed the options available and in common with almost all local authorities, the Council in February 2017 decided to opt in to 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.
- 5.3 PSAA is specified as the 'appointing person' for principal local government under the provisions of the Act and the Local Audit (Appointing Person) Regulations 2015 and is now undertaking the work needed to invite eligible bodies to opt in for the next appointing period (2023/24 – 2027/28) and to complete a procurement for audit services. The national opt-in scheme provides the following:
- The appointment of a suitably qualified audit firm to conduct audits for each of the five financial years commencing 1 April 2023.
 - Appointing the same auditor to other opted-in bodies that are involved in formal collaboration or joint working initiatives to the extent this is possible with other constraints.
 - Managing the procurement process to ensure both quality and price criteria are satisfied. PSAA has sought views from the sector to help inform its detailed procurement strategy.
 - Ensuring suitable independence of the auditors from the bodies they audit and managing any potential conflicts as they arise during the appointment period.
 - Minimising the scheme management costs and returning any surpluses to scheme members.
 - Consulting with authorities on auditor appointments, giving the Council the opportunity to influence which auditor is appointed.
 - Consulting with authorities on the scale of audit fees and ensuring these reflect scale, complexity, and audit risk.
 - Ongoing contract and performance management of the contracts once these have been let.
- 5.4 When audit contracts were last awarded in 2017 the audit market was relatively stable, there had been few changes in audit requirements, and local audit fees had been gradually reducing over a long period. During 2018 a series of financial crises and failures in the private sector year led to questioning about the role of auditors and the focus and value of their work. Four independent reviews were commissioned by Government: Sir John Kingman's review of the Financial Reporting Council (FRC), the audit regulator; the Competition and Markets Authority review of the audit market; Sir Donald Brydon's review of the quality and effectiveness of audit; and Sir Tony Redmond's review of local authority financial reporting and external audit. The recommendations are now under consideration by Government, with the clear implication that significant reforms will follow. A new audit regulator (ARGA) is to be established, and arrangements for system leadership in local audit are to be introduced. Further change will follow as other recommendations are implemented.
- 5.5 A national drive to improve audit quality has created a major pressure for audit firms to ensure full compliance with regulatory requirements and expectations in every audit they undertake. Firms have asked their audit teams to undertake additional work to gain deeper levels of assurance. However, additional work requires more time, posing a threat to the firms' ability to complete all their audits by the target date for publication of audited accounts. While changes to working practices arising from the Covid pandemic have been a factor in delayed audit opinions in recent times, timescales were increasingly under pressure prior to 2020. Additional audit work

costs more and as a result, many more fee variation claims have been needed than in prior years.

- 5.6 These challenges have not been unique to local government audit, although the complexity of local government financial statements together with increasingly innovative responses to funding reductions have played a part.
- 5.7 Against this backdrop, the arguments in favour of participating in a sector-wide collective approach to appointing a local auditor rather than doing this independently are felt to be even stronger than in 2017. Supporting the sector-led body also offers the best way of ensuring there is a continuing and sustainable public audit market into the medium and long-term. It is therefore proposed 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. The deadline for submission of opt-in documents to PSAA is 11 March 2022, with a decision to participate required by a meeting of Full Council prior to that date.
- 5.8 Indications from Berkshire s151 Officers are that all their authorities plan to sign up to the PSAA process. Early discussions have also highlighted that there would be some advantages of having the same firm appointed to cover the Berkshire area, due to the links between authorities such as a shared Pension Fund and joint arrangements covering some authorities including the Waste PFI and Public Protection Partnership, which Bracknell Forest is party to. Currently reliance needs to be placed on the findings of different audit firms for such issues, which can cause complexity and delays in audit signing offs. Against this, resourcing the audit would potentially be difficult for a single firm, with all authorities facing the same certification deadline. Members are asked to endorse a continuation of discussions between Section 151 Officers and engagement with PSAA should this issue be felt worth pursuing.

6 ADVICE RECEIVED FROM STATUTORY AND OTHER OFFICERS

Borough Solicitor

- 6.1 As set out in the report the Local Audit and Accountability Act 2014 Act creates a legal framework enabling the Government to nominate a 'person' to act as a joint procurement body for local audit and to give that body the powers and duties to operate collective procurement arrangements. Such a body is required to appoint auditors to those local authorities which 'opt in' to the collective procurement arrangement. Any decision to opt in would be reserved to Full Council and not the Executive.

Financial Advice

- 6.2 The Borough Treasurer recommends the Council opting in to the PSAA collective arrangements, for the reasons detailed in the report.

Equalities Impact Assessment

- 6.3 Not applicable

Strategic Risk Management Issues

- 6.4 There is a risk costs may potentially rise if the procurement option chosen does not maximise economies of scale. There are also risks that authorities cannot attract sufficient independent individuals with relevant experience to sit on the Panels.

Other Officers

- 6.5 Not applicable

7 CONSULTATION

Principal Groups Consulted

- 7.1 An advisory meeting of the Governance and Audit Committee considered and recommended these proposals on 26 January 2022.

Background Papers

none

Contact for further information

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