

Audit, Standards and Risk Committee

19 October 2022

Public Sector Audit Appointment Procurement and Fees

Is the paper exempt from the press and public?	No
Reason why exempt:	Not applicable
Purpose of this report:	Discussion
Is this a Key Decision?	No
Has it been included on the Forward Plan?	Not a Key Decision

Director Approving Submission of the Report:
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Executive Summary

This report summarises recent correspondence from the PSAA setting out consultation on changes to the external audit fee scales and the results of the procurement processes for the audit period that will commence in 2023.

What does this mean for businesses, people and places in South Yorkshire?

Good governance enables the MCA to pursue its ambitions and objectives in the most effective and efficient way, bringing about better outcomes for residents and businesses in South Yorkshire.

Recommendations

Members are asked to note the report and appendices.

Consideration by any other Board, Committee, Assurance or Advisory Panel
N/A

1. Background

- 1.1 Since the last Committee meeting the MCA Group has been in receipt of two sets of correspondence from the Public Sector Audit Appointment (PSAA) body. The Group has 'opted-in' to the collective procurement and contract management arrangements of this body for both the current external audit and the new audit that will commence for financial year 2023/24 onwards.
- 1.2 The correspondence received from the PSAA is appended to this report but can be summarised as noting:
 1. Consultation on a proposal to change the audit fee-scales for the 2022/23 audit; and,
 2. The procurement process for those audits commencing in financial year 2023/24 has now been completed.
- 1.3 The immediate implications of this correspondence are that the Group can expect the costs of external audit to increase.

2. Key Issues

- 2.1 The MCA Group opts into the processes of the PSAA. This means that the audits of the South Yorkshire Passenger Transport Executive and the Mayoral Combined Authority are delivered through the auspices of that body. The PSAA procures auditors, manages contractual issues, and resolves disputes around quality and cost.
- 2.2 This Committee has previously discussed the strains on the current audit system that have manifested themselves across the nation in delayed audits and in some cases concerns around the quality and attentiveness of the external auditors.
- 2.3 These issues have led to a review into the local government external audit system and an acceptance that the resource required to deliver acceptable audits would likely need to increase.
- 2.4 Since the last Committee the Group has received two sets of correspondence from the PSAA that update on a consultation on changes to the expected cost of the 2022/23 audit and the results of the procurement processes for the audits that will commence for the 2023/24 audits onward.
- 2.5 Correspondence notes that the consultation on fee-scale changes is recommending an increase to audit costs to meet the burden of new activity, recurring costs not included in the original fee-scale and inflation. PSAA have committed to using their financial reserves to offsetting the inflation element of these costs.
- 2.6 Based upon the documentation received by the Group these additional costs amount to c. £3k for both SYPTE and the MCA. It is the considered view of officers that these increases are not unreasonable given the increased work that has been required over recent audits.

- 2.7 Correspondence also highlights the results of PSAA’s procurement processes for the five-year audit period that will commence with the audit of the 2023/24 accounts.
- 2.8 PSAA indicate that six companies have been successful in bidding for a share of work, with two new entrants joining the framework:

Company	Share of Work
Grant Thornton	36.0%
Mazars	22.5%
Ernst & Young	20.0%
KPMG	14.0%
<i>Bishop Fleming</i>	3.75%
<i>Azets Audit Services</i>	3.25%

- 2.9 PSAA have also indicated that the cost of the audit is likely to increase by around 150%. The scale of this increase is significant and likely to result in concern across the sector, with additional costs increasing the burden on already stressed public finances.
- 2.10 For the MCA Group this additional cost is likely to equate to around £90k p/a. PSAA have indicated that they will raise this issue with Government, seeking additional resource for the sector. In recent years Government have made additional funding available for audit fees – reflecting one-off circumstances arising from the Covid impact – but it is far from clear that a sustainable settlement will be forthcoming.
- 2.11 The MCA Group’s ability to challenge or control these costs is limited. Whilst it can respond to the consultation on the fee-scale review the procurement exercise undertaken by the PSAA does remain the most efficient means of securing external audit services, generating economies of scale that the Group would be unable to replicate if procuring independently.
- 2.12 PSAA will determine who to award the Group contracts to in the coming months, taking account of geography, existing relationships, and balance around the size and fees of audits.

3. Options Considered and Recommended Proposal

3.1 Option 1

Accept the proposals within the fee scale consultation.

4. Consultation on Proposal:

4.1 Engagement with the Audit, Standards, and Risk Committee.

5. Timetable and Accountability for Implementing this Decision

5.1 The decision will be implemented by the PSAA unless the MCA and others object.

6. Financial and Procurement Implications and Advice

6.1 The report notes the likelihood of increases to the cost of the Group's external audits.

7. Legal Implications and Advice

7.1 The MCA has previously opted-in to the arrangements of the PSAA.

8. Human Resources Implications and Advice

8.1 N/A

9. Equality and Diversity Implications and Advice

9.1 N/A

10. Climate Change Implications and Advice

10.1 N/A

11. Information and Communication Technology Implications and Advice

11.1 N/A

12. Communications and Marketing Implications and Advice

12.1 N/A

List of Appendices Included

A Correspondence

Background Papers

N/A