

Audit, Standards and Risk Committee

21 October 2021

Procurement of the External Auditor

Is the paper exempt from the press and public?	No
Purpose of this report:	Discussion
Is this a Key Decision?	No
Has it been included on the Forward Plan?	No

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Executive Summary

In common with local authority partners, the MCA is required to appoint an external auditor to undertake the annual statutory audit process.

The MCA may choose to secure an appointment via its own procurement processes, or 'opt-in' to national arrangements led by the Public Sector Audit Appointment Ltd body (PSAA) – an organisation controlled by the Local Government Association.

The MCA's current audit arrangements will come to an end by March 2023, with a decision now required on how to appoint an auditor from 2023/24 onwards.

Whilst the appointment of the external auditor is a matter reserved to the Board, the Audit and Standards Committee are asked to consider the options available and the recommendation that the MCA opt-in to the PSAA arrangements.

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

External audit is a fundamental part of the MCA's system of governance, providing assurance as to the veracity of the financial statements and offering opinion on value-for-money.

Recommendations

The ASC endorses the proposal to opt-in to the PSAA arrangements.

1. Background

1.1 There are three broad options open to the MCA under the Local Audit and Accountability Act 2014 (the Act) when considering how to procure and appoint an external auditor. These options are:

- To opt-in to the national procurement undertaken by PSAA;
- Procure individually; or,
- Seek to carry out a joint procurement along with (probably) neighbouring local authorities.

1.2 In 2017 the MCA opted into the national arrangements for the appointment of auditors overseen by the PSAA. Under these arrangements EY were appointed as the MCA's auditor for a five-year period running from financial year 2018/19 through to 2022/23.

1.3 Now in the fourth year of the current appointment, the MCA must consider how it wishes to procure and appoint an external auditor from 2023/24.

1.4 This report considers the three broad options, offering comparative advantages and disadvantages. The report concludes that opting into the PSAA again represents the best option.

2.0 Options Analysis

Option 1

2.1 In conjunction with around 98% of all local authorities, the MCA opted-in to the national procurement arrangement run by Public Sector Audit Appointments (PSAA) in 2017, covering the audits of the MCA's 2018/19 to 2022/23 accounts.

Advantages

- 2.2
- a) The costs of setting up the appointment arrangements and negotiating fees is shared across all opt-in authorities.
 - b) By offering large contract values, the firms can offer better rates and lower fees than are likely to result from local negotiation.
 - c) Any conflicts of interest at individual authorities are managed by PSAA who would have a number of contracted firms to call upon.
 - d) The appointment and subsequent audit is demonstrably independent of the MCA.

- e) PSAA undertake the procurement and contract management functions, removing a burden that would otherwise fall on the MCA.
- f) PSAA manage any subsequent fee disputes and can apply their knowledge from other clients to determining a reasonable fee.

Disadvantages

2.3

- a) Individual elected members will have less opportunity for direct involvement in the appointment process other than through the LGA and/or stakeholder representative groups.
- b) In order for the national process to be run, bodies have to indicate that they wish to opt-in by end January 2022.
- c) Experience of the arrangements has led to some concerns around the ability of auditors to seek additional fees.

Option 2

2.4 Legislation requires that to procure individually the MCA must set up an Auditor Panel. The panel must consist of wholly or a majority of independent members as defined by the Act and must be chaired by an independent member. The new independent auditor panel would be responsible for selecting the auditor.

Advantages

2.5 Setting up an auditor panel allows the MCA to take have greater involvement in the procurement process and the ultimate appointment.

Disadvantages

- 2.6 a) 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 £15k plus on-going expenses and allowances.
- b) The MCA will not be able to take advantage of the benefits of scale and reduced fees that could be available through joint or national procurement contracts.
- c) The assessment of bids and decision on awarding contracts will be taken by independent appointees and not solely by elected members. This dilutes overall control of the process.
- a) The external audit market has become very challenging, with firms unable to recruit staff. Often audited bodies nationally in the public and private sector have found that they have at most one bidder for their audit. Consequently single-procurement risks having very little or no choice of audit provider.

Option 3

2.7 The Act enables the MCA 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 MCA would need to liaise with other public authorities locally to

assess the appetite for such an arrangement. Soundings with other local authorities so far have indicated that they are not keen to opt for a joint procurement, as they doubt the benefits would be worth the additional time and procurement costs needed.

Advantages

2.8

- a) The costs of setting up the panel, running the bidding exercise and negotiating the contract will be shared across a number of authorities.
- b) There is greater opportunity for negotiating some economies of scale by being able to offer a larger combined contract value to the firms.

Disadvantages

2.9

- a) 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 possibly only one elected member representing each authority, depending on the constitution agreed with the other bodies involved.
- b) There will be the usual delays and time needed to negotiate and agree joint provision with other LA bodies, with the danger if agreement is not met, that the MCA is then too late to opt-in to the PSAA arrangements.
- c) The choice of auditor could be complicated if individual authorities 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 a client. Where these issues occur, 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 the MCA, then the MCA may still need to make a separate appointment with all the attendant costs and loss of economies possible through joint procurement.
- d) The problems in obtaining a range of auditing firms prepared to bid, as discussed under Option Two, are unaltered by this arrangement.
- e) Lack of enthusiasm for this approach from other LAs contacted.

3.0 **Recommended Option**

Option 1

- 3.1 This report proposes that the MCA opt-in to the national arrangement delivered by the PSAA.
- 3.2 The report notes that this is likely the most cost effective and time efficient means of procuring and appointing an external auditor, and then managing the incumbent contract.
- 3.3 Whilst the MCA's experience of external audit within the PSAA framework has not been wholly positive, the report notes that the alternative options are unlikely to offer meaningful improvements.

3.4 Engagement with MCA peers and South Yorkshire partners suggests that most authorities will also choose to opt-in.

4. Consultation on Proposal

4.1 This report represents consultation with the appropriate Committee ahead of formal recommendation to the MCA.

5. Timetable and Accountability for Implementing this Decision

5.1 Should the MCA choose to opt into the PSAA arrangements it must notify the PSAA by the end of March 2022.

5.2 Should the MCA choose not to opt into the PSAA arrangements it must make an alternative appointment itself by December 2023.

6. Financial and Procurement Implications and Advice

6.1 This report concerns the procurement and appointment of the MCA's external auditor.

6.2 Opting into the national framework is compliant with the MCA's Contract Procedure Rules and will support both cost management and strong financial governance.

7. Legal Implications and Advice

7.1 Covered in the reporting.

8. Human Resources Implications and Advice

8.1 None.

9. Equality and Diversity Implications and Advice

9.1 None.

10. Climate Change Implications and Advice

10.1 None.

11. Information and Communication Technology Implications and Advice

11.1 None.

12. Communications and Marketing Implications and Advice

12.1 None.

List of Appendices Included

A LGA Letter

B PSAA Opt-In Letter