

Report to:	COUNCIL
Relevant Officer:	Steve Thompson, Director of Resources
Relevant Cabinet Member	Councillor Lynn Williams, Leader of the Council
Date of Meeting	8 March 2022

APPOINTMENT OF LOCAL EXTERNAL AUDITOR

1.0 Purpose of the report:

1.1 Section 7 of the Local Audit and Accountability Act 2014 states that a “relevant authority must appoint a local auditor to audit its accounts for a financial year not later than 31 December in the preceding financial year”. The current auditor contract runs to 31 March 2023, therefore for Blackpool Council the appointment of an auditor must be completed by 31 December 2022 for the audit year 2023/24. The purpose of this report is to outline the options, one of which has a deadline to opt-in of 11 March 2022, and requires a decision of “the members of the authority meeting as a whole”.

2.0 Recommendation:

2.1 To opt-in to the Local Government Association (LGA)-endorsed sector-led body appointed by the Secretary of State, namely Public Sector Audit Appointments (PSAA), by the due deadline of 11 March 2022 for them to undertake the Council’s local auditor procurement and appointment process.

3.0 Reasons for recommendation(s):

3.1 Public Sector Audit Appointments will negotiate with external audit firms nationally, maximising the opportunities for the most economic and efficient approach to procurement of external audit on behalf of the whole local government sector, guaranteeing provision and ensuring its independence.

3.2 Is the recommendation contrary to a plan or strategy adopted or approved by the Council? No

3.3 Is the recommendation in accordance with the Council’s approved budget? Yes

4.0 Other alternative options to be considered:

- 4.1 1. Make a stand-alone appointment.
2. Collaborate on a local joint procurement arrangement.

5.0 Council priority:

- 5.1 The relevant Council priority is: “The economy: Maximising growth and opportunity across Blackpool”.

6.0 Background information

- 6.1 The Local Audit and Accountability Act 2014 (the Act) disestablished the Audit Commission and established transitional arrangements for the appointment of external auditors and the setting of audit fees for all local government and NHS bodies in England. On 5 October 2015 the Secretary of State for Communities and Local Government determined that the transitional arrangements for local government bodies would be extended by 1 year to also include the audit of accounts for 2017/18. The external auditor for Blackpool Council at that time was KPMG, this appointment having been made under a contract which was originally let by the Audit Commission.
- 6.2 Following closure of the Audit Commission, the contract was managed by PSAA, the transitional body set up by the LGA with delegated authority from the Secretary of State for Communities and Local Government. When the transitional arrangements ended on 31 March 2018 the Council had chosen at its full meeting on 25 January 2017 to opt-in to the PSAA-procured national contract and Deloitte was selected and appointed for Blackpool Council. As this contract ends at the end of 2022/23 the Council once again faces options on how it can move to a local appointment of its auditor. There are a number of routes by which this can be achieved, each with varying risks and opportunities.
- 6.3 Current audit fees are based on discounted rates offered by the firms in return for a substantial market share. When the contracts were last negotiated nationally by the Audit Commission they covered NHS and local government bodies and offered maximum economies of scale. The scope of the audit will still be specified nationally by the National Audit Office (NAO), which is responsible for writing the *Code of Audit Practice*. All firms appointed to carry out the Council’s audit must follow these requirements.
- 6.4 Not all accounting firms will be eligible to compete for this work. They will need to demonstrate that they have the required skills and experience and be registered with a Registered Supervising Body approved by the Financial Reporting Council. It is reasonable to expect that the eligible firms will include the top accounting 10 firms in the country, including the Council’s current external auditor, but it is unlikely that small independent firms would be able to meet the required eligibility criteria.

There are three broad options open to the Council under the Act for the appointment of a new external auditor, which has to be made by December 2022 regardless of which option is chosen:

6.5 Option 1 – Make a stand-alone appointment

To make a stand-alone appointment (of which there were only 11 authorities in England in 2017 that did so) the Council would need to establish an independent Auditor Panel, comprising at least 3 members, the majority of whom (including the chair) are required to be independent members as defined under the Act. Independent members for this purpose are independent appointees and for the Council this would exclude all current and former elected members or officers and their close families and friends. This means that elected members would not have a majority input into the process for the assessment and appointment of the firm of accountants to provide the Council's external audit.

The Auditor Panel role is different to that of the Audit Committee. Its functions are to advise the authority on the selection and appointment of the auditor; the resignation or proposals to remove the auditor; adoption of a policy on non-audit services; maintenance of independent relationship with the auditor; and any proposals to enter into limited liability agreements. There is no specific reference in the Act of the Auditor Panel carrying out a contract oversight role but guidance from CIPFA does indicate that this is a possible additional function that might be helpful.

This option would allow the Council to take maximum advantage of the new local appointment regime and have local input to the decision, a factor to consider with an unprecedented 91% of 2020/21 local audits including Blackpool's failing to meet the statutory deadline of 30 September 2021. However, recruitment and servicing of the Auditor Panel, running the bidding exercise and negotiating the contract are estimated by the LGA to cost in the order of £15,000 plus ongoing expenses and allowances. In addition, the Council would not benefit from reduced fees that may be available through joint or national procurement contracts and there is the added risk that in view of the contract size no tender bids are received as has happened in recent years with some NHS entities.

6.6 Option 2 – Collaborate on a local joint procurement arrangement

The Act enables the Council to join with other local authorities to establish a joint independent Auditor Panel, which again would need to be made up of a majority of independent members. Further advice would be required on the exact constitution of such a Panel having regard to the obligations of each body under the Act and as such the Council would need to liaise with other authorities to assess the appetite for this arrangement. For example, across the county footprint the current arrangements for the 15 Lancashire local authorities are served by a mix of Grant Thornton and Deloitte. In addition to these, an option could be extended to include Lancashire Police, Lancashire Police and Crime Commissioner, Lancashire Fire and Rescue and health bodies at a later date, although it

should be noted that the latter are currently working to a different timetable for appointments.

Advantages of this approach are that the costs of setting up the panel, running the bidding process and negotiating the contract are shared across a number of authorities and there is greater opportunity for negotiating economies of scale by being able to offer a larger combined contract value to firms across an area that is also more attractive logistically to manage.

However, this option is not without risk. The decision-making body is further removed from local input; it is unlikely that elected members from every authority could be represented on an independent auditor panel. There is a risk that the larger accountancy and audit firms may decline to bid for a package of external audit work due to independence issues (a successful firm would be unable to undertake substantial advisory work as to do so would be in contravention of professional standards, independence safeguards and terms of appointment established by the PSAA). Discussions across our various local authority networks have indicated nil appetite for participating in such an option.

6.7 **Option 3 – Opt-in to a sector-led body**

As in the previous round councils are able to ‘opt-in’ to a sector-led body appointed by the Secretary of State under the Act. This body has been confirmed as PSAA, which will negotiate with external audit firms nationally, maximising the opportunities for the most economic and efficient approach to procurement of external audit on behalf of the whole local government sector and ensuring independence of provision. Social value will be expected to feature as a criterion within the contract tender specification.

Under this approach the costs of setting up the appointment arrangements and negotiating fees would be shared across all opt-in authorities, which number 307 with a further 129 indicating so as at 23 February 2022, and by offering large contract values the firms would be able to offer better rates and lower fees than are likely to result from local negotiation. Any conflicts at individual authority level would be managed by PSAA who would have a number of contracted firms to call upon. The appointment process would not be ceded to locally-appointed independent members but to a separate body set up to act in the collective interests of the ‘opt-in’ authorities.

6.8 Does the information submitted include any exempt information? No

7.0 **List of Appendices:**

7.1 None.

8.0 Financial considerations:

8.1 As with any tendering process costs may increase as a consequence, but the scale upon which this procurement process is based should mitigate this outcome and indeed maximise economies and efficiencies. Provisional fees should be available for consultation in Autumn 2022.

9.0 Legal considerations:

9.1 PSAA will oversee a legally compliant procurement process.

10.0 Risk management considerations:

10.1 The NAO's Code of Audit Practice provides the framework for external audit governance and delivery. The PSAA's procurement process will ensure that escalation procedures are incorporated should performance be deemed unsatisfactory.

11.0 Equalities considerations:

11.1 The recommended option should give the Council greater confidence and assurance in the independence of external audit opinion offered. Successful firms will also have to demonstrate that they meet the Financial Reporting Council's Auditor's Ethical Standard.

12.0 Sustainability, climate change and environmental considerations:

12.1 Not applicable.

13.0 Internal/external consultation undertaken:

13.1 A draft of this report has been shared with the Leader of the Council, Chairman of the Audit Committee, Corporate Leadership Team, Chief Internal Auditor, Head of Procurement, Head of Accountancy and current external auditor, Deloitte.

14.0 Background papers:

14.1 None.