

REPORT TO AUDIT & GOVERNANCE

Date of Meeting: 1st DECEMBER 2021

Report of: DIRECTOR FINANCE

Title: DECISION TO OPT IN TO NATIONAL EXTERNAL AUDIT TENDER

Is this a Key Decision?

No

Is this an Executive or Council Function?

COUNCIL

1. What is the report about?

- 1.1 To recommend that the Council opts in to the national scheme for auditor appointments from April 2023 using Public Sector Auditor Appointments Limited (PSAA).

2. Recommendations:

- 2.1 That Audit & Governance Committee recommend and Council approve that Exeter City Council opts in to the national scheme for auditor appointments from April 2023 using Public Sector Audit Appointments Limited (PSAA).

3. Reasons for the recommendation:

- 3.1 The relevant regulations require that, except for a body that is a corporation sole (e.g. a police and crime commissioner), the decision to accept the invitation and to opt in must be made by the members of the authority meeting as a whole e.g. Full Council or equivalent.

4. What are the resource implications including non financial resources:

- 4.1 There are no resource implications arising from opting in. Indeed it will save staff time if the Council does not choose to tender itself for External Audit services. The cost of the tender is likely to be significantly higher than the current contract owing to the well documented challenges the Local Government External Audit sector faces.

5. Section 151 Officer comments:

- 5.1 The section 151 Officer has considered this carefully. The current contract has had significant problems, with the Council paying close to 50% more than the original tender price and the Accounts having failed to be audited and approved in line with the statutory deadline for two of the last three years, through no fault of the Council or its Officers.
- 5.2 However, the problems with the Local Authority External Audit market remain the same, in that there is a limited pool of Audit firms able to undertake External Audit and the regulator of External Audit continues to require Audit firms to focus the Audit in line with private sector audits, in spite of the fact that for many of the material figures in the accounts (Pensions, Property, Plant & Equipment), there are statutory overrides in place to protect the local taxpayer, meaning their relevance to the overall financial standing of the Council is lower than a number of other areas.

5.3 Reluctantly, therefore, the section 151 Officer is recommending opting in as it is unlikely that the Council will be able to generate a significantly different outcome by tendering itself. It will also almost certainly have to pay more than by being part of a national scheme.

6. What are the legal aspects?

6.1 The provisions for appointing an External Auditor are set out within the Local Audit and Accountability Act 2014. The ability to use national appointing person arrangements are set out in the Local Audit (Appointing Person) Regulations 2015.

7. Monitoring Officer Comments:

7.1 Subject to paragraph 6.1 above, this report raises no issues for the Monitoring Officer.

8. Report details:

8.1 The Local Audit and Accountability Act 2014 signalled the demise of the Audit Commission and allowed Local Authorities to appoint their own External Auditors. Regardless of individual's thoughts on the Audit Commission, it was clear that having a national tendering process for appointing auditors was successful in that it held costs down and enabled the Audit Commission to rotate auditors regularly.

8.2 In order to attempt to retain this benefit, the Local Government Association established PSAA a company limited by guarantee and the Government specified PSAA as an appointing person under regulation 3 of the Local Audit (Appointing Person) Regulations 2015. This means that PSAA can make auditor appointments for audits of the accounts of principal authorities where they choose to opt into its arrangements.

8.3 Exeter City Council chose to opt in to the arrangement for the first tender back in 2016 and subsequently Grant Thornton were appointed the Council's External Auditor for the following five years. This tender is now due for renewal and the Council have again been invited to opt in to a tender for the award of a contract over the next five years.

8.4 It is fair to say, the contract has not been a success. External Auditors are governed by the Financial Reporting Council (FRC), who have, in response to some high profile issues in private sector audit, increased the requirements for all External Audit. This, along with resource pressures and increasingly complex accounts, has caused significant delays in External Audits across the Country. Indeed, Exeter has suffered delays to two of the last three years audits, in spite of the accounts being prepared on time by the finance team and no significant issues being identified. As the contract is between PSAA and the audit firms, the Council has no direct comeback on the Auditor. There appear to be no penalty clauses in the contract and additional fees are agreed between the auditor and PSAA with little input from the Council.

8.5 However, undertaking a tender on our own will not address the problems with the FRC overseeing the Local Government audit regime. The Government have recognised the problems with the audit market and are taking steps to address this. It is also likely that the Council would not benefit from economies of scale if tendering alone and there is no appetite in the rest of Devon. There are no major firms based in the City and if the rest of the South West is awarded to one audit firm, the other firms are unlikely to base a team in the area to cover one Council.

8.6 Therefore reluctantly, on balance, it is in the Council's best interests to opt in to the tender process and hope that the Government review yields some real, positive progress.

8.7 To be clear to Members, this is not a criticism of our current External Auditors. There are issues across the board with:

- the oversight of External Audit focusing on the wrong things;
- the contract itself and
- the contract management.

9. How does the decision contribute to the Council's Corporate Plan?

9.1 External Audit contributes to the Council's purpose of a "Well Run Council".

10. What risks are there and how can they be reduced?

10.1 The risks are that the Contract is not well managed and is outside of the direct control over the Council. Currently additional fees are agreed between PSAA and the External Auditor, and whilst the Council may be able to express its views, it is not clear to what extent this is taken into account. There also seems to be no penalty for failure of the External Audit firm to deliver the audit on time, in spite of the challenges that this presents to the Council Officers.

11. Equality Act 2010 (The Act)

11.1 Under the Act's Public Sector Equality Duty, decision makers are required to consider the need to:

- eliminate discrimination, harassment, victimisation and any other prohibited conduct;
- advance equality by encouraging participation, removing disadvantage, taking account of disabilities and meeting people's needs; and
- foster good relations between people by tackling prejudice and promoting understanding.

11.2 In order to comply with the general duty authorities must assess the impact on equality of decisions, policies and practices. These duties do not prevent the authority from reducing services where necessary, but they offer a way of developing proposals that consider the impacts on all members of the community.

11.3 In making decisions the authority must take into account the potential impact of that decision in relation to age, disability, race/ethnicity (includes Gypsies and Travellers), sex and gender, gender identity, religion and belief, sexual orientation, pregnant women and new and breastfeeding mothers, marriage and civil partnership status in coming to a decision.

11.4 In recommending this proposal no potential impact has been identified on people with protected characteristics as determined by the Act because:

- 11.4.1 The report is focused on delivering a tender External Audit Services. It is expected that the tender process will cover these matters.

12. Carbon Footprint (Environmental) Implications:

12.1 No direct negative carbon/environmental impacts arising from the recommendations.

13. Are there any other options?

13.1 The Council could choose to tender itself. This would probably require some external support and would likely lead to a similar outcome at a higher cost.

**Dave Hodgson
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**Local Government (Access to Information) Act 1972 (as amended)
Background papers used in compiling this report:**

None

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