

# BARNSLEY METROPOLITAN BOROUGH COUNCIL

This matter is a Key Decision within the Council's definition and has been included in the relevant Forward Plan

## REPORT OF THE EXECUTIVE DIRECTOR OF CORE SERVICES / S151 OFFICER TO AUDIT AND GOVERNANCE COMMITTEE ON 19<sup>TH</sup> JANUARY, 2022

### APPOINTMENT OF THE COUNCIL'S EXTERNAL AUDITOR 2023 – 2028 & UPDATE ON MEASURES TO IMPROVE LOCAL AUDIT

#### 1. PURPOSE OF REPORT

- 1.1 To update Members on the available options for the procurement of external audit services for the 5-year financial years, from 2023/24 through 2027/28, and to appraise Members on the measures introduced by the Government to improve the local audit process.

#### 2. RECOMMENDATIONS

It is recommended that:

- 2.1 **Members note the options available for the Council in respect of the routes available for the procurement of external audit services.**
- 2.2 **Members agree that the Council seeks to opt into the sector led scheme for appointing auditors (Option 3).**
- 2.3 **Members resolve to recommend to full Council: and**
- 2.4 **Members note the Government's proposals to improve the local audit process.**

#### 3. INTRODUCTION

- 3.1 Prior to the 2018/19 financial year, the Council's external auditor was appointed on the Council's behalf by the Audit Commission. The Audit Commission was abolished on the 31<sup>st</sup> March 2015 as enacted by the Local Audit and Accountability Act 2014.
- 3.2 Following the transition from the above arrangements, local authorities were given the power to make their own choice over the procurement route for external audit services.
- 3.3 Members will recall that there were a number of options available to the Council in respect of how this decision was made which effectively would represent the Council's procurement route for the subsequent 5 year period (2018/19 through 2022/23). The Council chose the sector led option, through which the Government's 'Appointing Person', Public Sector Audit Appointments Ltd (PSAA), as part of that procurement process, appointed Grant Thornton LLP (GT), one of the "big four" international auditing firms for that period.
- 3.4 The Council has a similar decision to make in respect of the next five-year

period (2023/24 through 2027/28) which, due to the significant lead in times in respect of the procurement process and the awarding of contracts etc, the Council has a deadline of 11<sup>th</sup> March 2022 (if opting into the sector led scheme).

#### **4. PROPOSAL AND JUSTIFICATION**

4.1 The 3 options available to the Council are akin to the options that were presented during the first, five year procurement exercise as described above. Each of these options are considered below, together with an options appraisal at Appendix 1.

##### Option 1 – Individual Tender for External Audit Services

4.2 Under option 1 the Council would individually tender for external audit services on a standalone basis.

4.3 If the Council was to choose this procurement route, it would have to establish an Audit Panel as per the statutory regulations, which would be an independent committee, consisting wholly (or the majority) of independent members.

4.4 The primary role of the Audit Panel would be to advise the Council on:

- The maintenance of an independent relationship with the appointed local auditor; and
- The selection and appointment of a local auditor.

##### Option 2 – Joint Procurement for External Audit Services

4.5 Under option 2 the Council would join other local authorities to establish a joint Audit Panel which would then procure external audit services on behalf of the individual authorities within the arrangement.

4.6 Should this option be chosen, then the same requirements apply to the joint Audit panel as described under option 1 [paragraphs 4.3 and 4.4 refer].

##### Option 3 – Sector Led Procurement of External Audit Services

4.7 Under option 3 the Council enters a sector led scheme, via the Government's 'Appointing Person' [PSAA] which would represent a continuation of the Council's current arrangements in respect of appointing the external auditor.

4.8 PSAA would procure the external auditor on the Council's behalf, utilising the experience gained in the first national contract including a key understanding of the nature of the audit market.

4.9 The Local Government Association (LGA) supports the Appointing Person arrangements and encourages as many principal bodies as possible to opt into this scheme.

4.10 The deadline for formally opting in to this arrangement to the PSAA is the 11<sup>th</sup> March 2022. Should no response be submitted by the Council, the PSAA will assume that the Council is opting for either an individual or collective (joint local authority) process instead.

- 4.11 It is important to note that the performance of local audits in the sector, particularly over the last few years, has been challenging in terms of delivering within statutory timelines as well as the fees agreed in the PSAA contract. This is for several reasons including the significant changes to auditing standards during the period which increases the workloads for auditors, the changes to the statutory deadlines in which the auditors operate and the general availability of suitably qualified auditors within the sector.
- 4.12 These issues have been recognised by the Government and reforms via the Redmond Review will shape the future of external audit provision moving forwards. The PSAA has worked closely with the Government on these reforms, particularly in respect of the fee setting element, which will stand them in good stead in terms of shaping the future and understanding the impacts of any changes from those reforms.

### **Preferred Option**

- 4.13 The Council has undertaken an appraisal of the three available options, details of which can be found at Appendix 1.
- 4.14 The recommended option is **Option 3** – to opt in to the sector led procurement for external audit services. This continues the current arrangements that are in place and offers the potential for economies of scale and importantly a high probability of securing auditors with the necessary experience and knowledge to effectively audit the Council [as compared with Options 1 and 2].
- 4.15 If the Council approves this option, during the compulsory appointing period, then the Council will need to give notice to the Appointing Person (PSAA) of the decision to become an opted in council.

## **5. UPDATE ON THE GOVERNMENT’S MEASURES TO IMPROVE THE LOCAL AUDIT PROCESS**

- 5.1 Local government audit plays a vital role in providing local authorities with accurate and reliable financial information to plan and manage their services and finances effectively. The timely completion of local audits also ensures local authority financial arrangements, including whether value for money is being achieved, are transparent to the taxpayer, and facilitates assurance for the public sector.
- 5.2 There have been several challenges around the timeliness of local audits in recent years with only 45% of 2019/20 audits completed by the deadline of 30 November 2020 and, most recently, only 9% of 2020/21 audits completed by the extended deadline of 30 September 2021 [the Council not being one of the 9% completed on time].
- 5.3 There are a variety of reasons for this including:
- Audit firms are seeing a high turnover of qualified staff.
  - Increase in audit scope and regulatory pressures; and
  - Local authorities have competing priorities and have often diverted their resources from the audit process to other areas, affecting their

preparedness for audit, exasperated by the COVID 19 pandemic [not applicable to BMBC].

- 5.4 The Government has therefore proposed new measures to address the issues above which are summarised in the table below with further detailed analysis provided at Appendix 2.

Section	Key Points / Measures
<b>Section 1</b> – Measures relating to audit firms and timely completion of audits	Financial Reporting Council to revise Key Audit Partner guidance and CIPFA to develop local audit training diploma and provide technical advisory service to auditors.
<b>Section 2</b> – Measures relating to local bodies and quality of accounts preparation	Government to provide additional resources to local authorities and CIPFA to publish guidance on audit committees.
<b>Section 3</b> – Proposed measures relating to accounting and audit requirements	National Audit Office to review auditing requirements and CIPFA to review accounting requirements as well as delaying implementation of standardised statements.
<b>Section 4</b> – Longer-term measures to help stabilise the market and address long-term supply issues	Extending deadline for audit of accounts, providing certainty of auditing requirements over the appointing period, development of industry-led workforce strategy.

## 6. CONSIDERATION OF ALTERNATIVE APPROACHES

- 6.1 Consideration of the other two options available to the Council is highlighted in Section 4 above.

## 7. IMPLICATIONS FOR LOCAL PEOPLE/SERVICE USERS

- 7.1 None

## 8. FINANCIAL IMPLICATIONS

- 8.1 Consultations have taken place with representatives of the Service Director – Finance (S151 Officer).

### Appointment of the External Auditor

- 8.2 There are no additional financial implications as a result of adopting Option 3, subject to any new fees being broadly in line with revised fee levels for 21/22.

### The Government's Proposed Measures to Improve Local Audit

- 8.3 The Government are proposing a suite of new measures, aimed at improving the local audit market and process [Appendix 2 refers].
- 8.4 Most of the measures are procedural and operational. The Government recognises that some of these new requirements will present a new burden on councils moving forward and are therefore proposing to provide additional funding to the sector, totalling £15M p.a. for 21/22 through 24/25. The Council's share of that is expected to total approximately £0.054M p.a.

Financial Implications/Consultation



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(To be signed by senior Financial Services officer  
where no financial implications)

**9. EMPLOYEE IMPLICATIONS**

9.1 None

**10. LEGAL IMPLICATIONS**

10.1 None

**11. CUSTOMER AND DIGITAL IMPLICATIONS**

11.1 None

**12. COMMUNICATIONS IMPLICATIONS**

12.1 None

**13. CONSULTATIONS**

13.1 None

**14. EQUALITY IMPACT**

14.1 Not applicable

**15. THE CORPORATE PLAN AND THE COUNCIL'S PERFORMANCE  
MANAGEMENT FRAMEWORK**

15.1 None

**16. TACKLING THE IMPACT OF POVERTY**

16.1 None

**17. TACKLING HEALTH INEQUALITIES**

17.1 None

**18. REDUCTION OF CRIME AND DISORDER**

18.1 None

**19. RISK MANAGEMENT ISSUES**

19.1 None

## **20. HEALTH, SAFETY AND EMERGENCY RESILIENCE ISSUES**

20.1 None

## **21. COMPATIBILITY WITH THE EUROPEAN CONVENTION ON HUMAN RIGHTS**

21.1 None

## **22. CONSERVATION OF BIODIVERSITY**

22.1 None

## **23. GLOSSARY**

NAO – National Audit Office

CIPFA – Chartered Institute of Public Sector Finance and Accountancy

DLUHC – Department for Levelling Up, Housing and Communities

## **24. LIST OF APPENDICES**

Appendix 1 – Option Appraisal for Route of Appointment of the External Auditor

Appendix 2 – Summary of Proposed Measures to Improve Local Audit

## **25. BACKGROUND PAPERS**

PSAA Website - <https://www.psaa.co.uk/>

Proposed Measures - <https://www.gov.uk/guidance/measures-to-improve-local-audit-delays#section-1-measures-relating-to-audit-firms-and-timely-completion-of-audit>

Redmond Review - <https://www.gov.uk/government/publications/local-authority-financial-reporting-and-external-audit-independent-review>

If you would like to inspect background papers for this report, please email [governance@barnsley.gov.uk](mailto:governance@barnsley.gov.uk) so that appropriate arrangements can be made

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## Appendix 1 – Option Appraisal for Route of Appointment of the External Auditor

<b>OPTION 1 – INDIVIDUAL TENDER FOR EXTERNAL AUDIT SERVICES</b>	
<b>Benefits / Advantages</b>	<b>Risks / Disadvantages</b>
Setting up an audit panel allows the Council to take maximum advantage of the local appointment regime and have local input into both the specification and appointment decision.	Recruitment and servicing of the Audit Panel, running the bidding exercise and negotiating the contract is estimated by the LGA to cost in the order of £15,000 plus on-going expenses and allowances.
	The Council will not be able to take advantage of the economies of scale and reduced fees that could be available through joint or national procurement contracts.
	The assessment of bids and decision on awarding contracts will be taken by independent appointees and not solely by elected members. Hence BMBC members do not have any influence over the process or appointment.
	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 [and ergo potentially the quality].

<b>OPTION 2 – JOINT PROCUREMENT FOR EXTERNAL AUDIT SERVICES</b>	
<b>Benefits / Advantages</b>	<b>Risks / Disadvantages</b>
The costs of setting up the panel, running the bidding exercise and negotiating the contract will be shared across several authorities.	There will be the usual delays and time needed to negotiate and agree joint provision with other LA bodies, with the danger [if agreement cannot be reached in a timely fashion] that the Council is then too late to opt-in to the PSAA arrangements.
	The decision-making body will be further removed from local input, with potentially no input from elected members where a wholly independent audit panel is used, or possibly only one elected member representing each council, depending on the constitution agreed with the other bodies involved.
There is greater opportunity for negotiating some economies of scale by being able to offer a larger combined contract value to the firms.	The choice of auditor could be complicated if individual councils 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 council. 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 audit panel chooses a firm that is conflicted for this Council, then the Council may still need to make a separate appointment with all the attendant costs and loss of economies potentially available through joint procurement.
	The problems in obtaining a range of auditing firms prepared to bid, as discussed under Option One, are equally applicable under this option.
	Lack of enthusiasm for this approach from other LAs contacted [For several reasons there was little appetite for councils from across SY to participate in a joint procurement].

<b>OPTION 3 – SECTOR LED PROCUREMENT OF EXTERNAL AUDIT SERVICES</b>	
<b>Benefits / Advantages</b>	<b>Risks / Disadvantages</b>
The costs of setting up the appointment arrangements and negotiating fees will be shared across all opt-in authorities.	Individual elected members / independent representatives will have less opportunity for direct involvement in the appointment process other than through the LGA and/or stakeholder representative groups.
By offering large contract values, the firms should be able to offer better rates and lower fees than are likely to result from local negotiation.	In order for the national process to be run, councils must indicate that they wish to opt-in by the end March 2022.

**OPTION 3 – SECTOR LED PROCUREMENT OF EXTERNAL AUDIT SERVICES**

<b>Benefits / Advantages</b>	<b>Risks / Disadvantages</b>
Utilise PSAA expertise in compiling the tender, to undertake all the procurement process, so there would be no costs or resource requirements from the Council. Also, PSAA commit to the on-going contract management, QA of contract delivery, and agreement of additional fee requests. Given the Council's current budgetary position, officers would prefer not to devote time to an external audit appointment process.	The re-procurement exercise in 2017 resulted in very considerable reductions in audit fees. However, the auditing firms have not been able to deliver audits to the desired quality / timeliness for these fees, resulting in several increases in fees over the period. Appointing as part of a smaller group or individually might make the firms more reluctant to ask for fee increases, or at least the Council might have more influence over fee negotiations as these would be directly with the firm.
Any conflicts of interest at individual authorities would be managed by PSAA who have several contracted firms to call upon.	
The appointment and subsequent audit are demonstrably independent of the Council.	
PSAA manage any subsequent fee disputes and can apply their knowledge from other clients to determining a reasonable fee.	
Supports the LA collective national procurement process.	

## **Appendix 2 – Summary of Proposed Measures to Improve Local Audit**

<b>Section 1 – Measures relating to audit firms and timely completion of audit</b>	
<b>Measure</b>	<b>Practical Impact / Impact on BMBC</b>
FRC to publish updated Key Audit Partner (KAP) guidance by spring 2022, including new routes for an experienced Registered Individual to become a KAP	Training support for external auditors to allow new route for auditors to become key audit partners.
Work with CIPFA to further develop the proposal for a new local audit training diploma in local government financial reporting and management aimed at different levels of auditor, and a new technical advisory service that could provide support to firms, and in particular new entrants	Designed to increase supply / quality in the audit market, external auditors will have a larger pool of talent to choose from.  The Council should see a better quality of audit as a result.
<b>Section 2 – Measures relating to local bodies and quality of accounts preparation</b>	
<b>Measure</b>	<b>Practical Impact / Impact on BMBC</b>
DLUHC to provide further funding of £45 million over the course of the next Spending Review period to support local bodies with the costs of strengthening their financial reporting, new burdens related to appointment of independent members and other Redmond recommendations and increased auditing requirements.	The Council is due an element [approximately £0.054M] of the £15M for 21/22 to support new burdens from the new VfM requirements placed on audited bodies / external auditors. It is expected that the Council will be entitled to a similar amount p.a. for the next 3 year period (22/23 – 25/26).
DLUHC to provide via the Local Government Association sector grant for a number of targeted training events for audit committee chairs	See funding point above
CIPFA to publish strengthened guidance on audit committees by April 2022. The guidance will emphasise the role that audit committees should have in ensuring accounts are prepared to a high standard, alongside broader changes including appointment of independent members. Following consultation, CIPFA will consider making the guidance, audit committee / independent member processes a statutory requirement.	Council to provide Audit Committee training on new guidance.  No other implications on independent members as already in situ [TBC].
<b>Section 3 – Proposed measures relating to accounting and audit requirements</b>	
<b>Measure</b>	<b>Practical Impact / Impact on BMBC</b>
NAO rolling over of amendments to 20/21 AGN 03 and 07 to allow for alteration of the timing of elements of the VfM arrangements work and to enable more focus on fully delivering opinions on the financial statements in line with statutory timeframes.	Audit of VfM for 2020/21 continues to the revised deadline, following issuing of audit opinion for the financial statements.
CIPFA/LASAAC is undertaking a project to improve the presentation of local authority accounts to inform the development of the 22/23 Accounting Code and comply with IFRS and statutory accounting principles. HMT to undertake thematic review of financial reporting valuations for non-investment properties to inform development of the Accounting Code from 22/23 onwards.	Potential change to the format / structure of the accounts from 22/23, to make financial information more transparent and accessible for lay people.
The government has asked CIPFA/LASAAC to consider the merits of a time-limited change to the Accounting Code for 21/22.	A potential change to how fixed assets are valued for 21/22 which may change both accounting and auditing requirements.
Delaying the implementation of standardised statements and associated audit requirements	Delay to the implementation of these proposals will allow Council finance officers to concentrate on the

	wider issues associated with the current accounting / auditing requirements.
<b>Section 4 – Longer-term measures to help stabilise the market and address long-term supply issues</b>	
<b>Measure</b>	<b>Practical Impact / Impact on BMBC</b>
PSAA to progress their proposed procurement strategy for the next round of local audit contracts from 2023/24	The Council's approach in terms of the next round of local audit contracts is detailed in the first part of this report.
Extending the deadline for publishing audited local authority accounts to 30 November 2022 for 21/22 accounts and the 30 September date for 5 years from 2023/24 – 2027/28.	The auditing period is extended which places elongated pressure on Council finance staff in respect of the resources involved in supporting the audit. Clarity is required on the proposed deadline in terms of whether the Council is still required to submit draft accounts by the end of May.
NAO to prepare for a re-laying of the Code of Audit Practice 2020 in parliament, so that it will apply for the whole of the next appointing period.	This provides clarity of the auditing requirements for the appointing period which will provide stability to audit firms.
Developing an industry-led workforce strategy, working with system leaders and audit firms, to consider the future pipeline of local audits, and associated questions related to training and qualifications.	Provides framework for audit services moving forwards.