



**Hampshire
& Isle of Wight**
FIRE & RESCUE AUTHORITY

HIWFRA Standards and Governance Committee

Purpose: Approval

Date: **16 NOVEMBER 2021**

Title: **Opted in Authority – Public Sector Audit Appointments Ltd**

Report of Chief Financial Officer

SUMMARY

1. The Local Audit and Accountability Act 2014 requires local authorities (including fire authorities) to appoint an external independent auditor. This must be done no later than 31 December in the financial year prior to the year to be audited. The appointment may last for more than one year, but a new appointment must be made at least once every five years.
2. The accounts of the Authority are currently audited by EY. This appointment was made through Public Sector Audit Appointments Limited (PSAA), an 'appointing person' specified by the Secretary of State. The Authority agreed to opt-in to this arrangement rather than conducting its own procurement and appointment exercise.
3. The current contract will conclude with the audit of the 2022/23 accounts, however due to timescales set by PSAA, the governance requirements under the Local Audit and Accountability Act 2014, and procurement lead-in times, the Authority must decide by 11 March 2022 whether to again opt-in to PSAA's arrangements for the 5-year period commencing April 2023.
4. A decision to opt-in will effectively be the appointment decision and in accordance with the Local Audit and Accountability Act, that decision must be made by Full Authority.
5. To appoint an auditor outside of the PSAA scheme, the Authority would need to set up an auditor panel comprising a majority of independent members

and run a procurement exercise. This could be individually or in collaboration with other local authorities.

6. Opting-in to the PSAA scheme has the potential to reduce costs to the Authority. The up-front procurement costs would be shared with other authorities opting-in to the arrangements and the larger contract value should allow audit firms to offer lower fees. In addition, there would be no need to set up and service a local auditor panel and the contract would be administered by the PSAA, with local agreement regarding timescales and approach for each audit assignment. The disadvantages are that authorities that opt-in will do so before knowing contract prices and will have no direct involvement in choosing auditors, as they will be appointed by PSAA. Fees throughout the life of the contract will be agreed by the PSAA, although authorities can provide comments.
7. Conducting an individual or joint auditor procurement and appointment exercise outside of the PSAA's scheme would allow the Authority to have local input into the appointment of its auditor (although the auditor panel would have to comprise a majority of independent members). The Authority would incur the costs of recruiting and servicing the auditor panel as well as the costs of running a procurement exercise and managing contractual arrangements. The lower contract value may also lead to increased audit fees. In addition, the Authority's accounts are produced by the same team producing the accounts for the partner organisations Hampshire County Council, Hampshire Constabulary and the Police and Crime Commissioner for Hampshire and currently benefit from economies of scale where all partners are audited by the same firm. There is a risk that this benefit could be lost if different auditors are appointed by any of the partners.
8. Working jointly with other authorities through a joint exercise could mean costs are reduced as they would be shared across the participating authorities. This approach would however also bring additional complexity and result in decision making being further removed from local input.

BACKGROUND

9. The Local Audit and Accountability Act 2014 (the Act) abolished the Audit Commission and led to the establishment of transitional arrangements for the appointment of external auditors. These transitional arrangements were put in place to cover the period up to and including the audit of the accounts for 2017/18 and resulted in Ernst & Young LLP being appointed as the Authority's external auditors for this period. This appointment was made under a contract let by the Audit Commission and then managed by Public Sector Audit Appointments Limited (PSAA).

10. The Authority then made the decision to opt-in to the PSAA scheme for the sector-led appointment of auditors and Ernst & Young LLP (EY) were appointed by PSAA for the period beginning with the audit of the 2018/19 accounts and concluding with the audit of the accounts for 2022/2. 484 of 493 eligible bodies (98%) opted to join the PSAA scheme for this period.
11. Although the existing arrangements will be used for the audit of the Authority's accounts for the 2021/22 and 2022/23 financial years, the governance requirements under the Act, opt-in deadlines set by PSAA, and the lead in times associated with the procurement and appointment of auditors means that it is now time to review options for the period beginning in April 2023 and for the Standards and Governance Committee to recommend an approach to Full Authority.
12. It is also worth noting that the Authority's accounts are prepared through the shared services partnership by the same finance team that prepares accounts for the partner organisations Hampshire County Council, Hampshire Constabulary and the Police and Crime Commissioner for Hampshire.
13. All partners opted-in to the PSAA arrangements for 2018/19 to 2022/23 and are currently audited by the same audit firm (EY) and use the same financial systems. This has enabled the Authority to benefit from economies of scale in the external audit process. All partners have the same deadline to decide whether to opt-in to the PSAA scheme for the period from April 2023.

Requirements under the Local Audit and Accountability Act 2014

14. The Local Audit and Accountability Act 2014 sets out that the accounts of a relevant authority must be audited in accordance with the Act by an auditor appointed in accordance with the Act. This appointment of an auditor must take place no later than 31 December in the year preceding the audit. An auditor may be appointed for more than one financial year, but a further appointment process must take place at least every 5 years. This does not prevent an authority from re-appointing an auditor at the end of a 5 year period.
15. There are three ways for a local authority to appoint an auditor under the Act:
 - (a) Undertake an individual auditor procurement and appointment exercise
 - (b) Undertake a joint auditor procurement and appointment exercise with other bodies

- (c) Opt-in to arrangements made through an 'appointing person' specified by the Secretary of State.
- 16. It is also worth noting, given recent challenges in the local audit market and the upcoming deadlines for appointing auditors for the 2023/24 accounts, that two consultations were conducted earlier in 2021 on local authority audit arrangements:
 - (a) MHCLG consulted on proposals to implement the recommendations from the independent Redmond Review of local authority financial reporting and external audit and are currently analysing feedback.
 - (b) PSAA consulted on proposals for arrangements for auditor appointments from April 2023 under the national opt-in scheme.
- 17. A joint response to each consultation was submitted by the shared services partners.
- 18. In response to the PSAA consultation, the importance of appointing a competent auditor at a reasonable price was stressed and it was questioned whether evaluating tenders on the basis of 80% quality and 20% price gave sufficient weighting to the price of the audit, given that all audits should be completed to the required legal and auditing standards by default. The efficiency gains to the shared services partners of appointing the same audit firm for all accounts produced by the finance team was also highlighted. In addition, the response noted the need to address issues with the timeliness of audit opinions being issued across the sector.
- 19. In responding to the MHCLG consultation, the response suggested a review of the external audit approach to assessing financial resilience, which currently seems more aligned to private sector cash flows and the going concern concept. This is less relevant to local authorities given the statutory nature of the authorities.

SUPPORTING OUR SAFETY PLAN AND PRIORITIES

- 20. This report deals with the statutory requirement to appoint auditors in accordance with the Local Audit and Accountability Act 2014. It therefore links to the effective governance of the Authority and the role that this plays in the success of the Authority in delivering its safety plan and priorities.

COLLABORATION

21. The Authority is part of a shared services partnership with Hampshire County Council, Hampshire Constabulary and the Police and Crime Commissioner for Hampshire. The accounts of all partners are prepared by the same finance team and all partners use the same finance system, which brings economies of scale. The same audit firm (EY) audits all partners under the current contract following appointments through PSAA's scheme. This brings advantages to the Authority in the accounts and audit process.

RESOURCE IMPLICATIONS

22. This report addresses the statutory need to appoint local auditors in accordance with the Local Audit and Accountability Act 2014. The Authority does not therefore have the option to choose not to appoint an auditor.
23. Option 1 would require the Authority to incur costs in setting up and servicing and auditor panel and of running a procurement exercise. Under Option 2 these costs would also be incurred but with the potential to share costs with other authorities. There will also be resource costs in terms of officer and member time and the opportunity costs resulting from dedicating expert resource to a procurement and appointment exercise. If Option 3 is selected, procurement costs will be incurred by PSAA and shared across all participating authorities. For the existing contract 484 of 493 eligible bodies opted to join the PSAA scheme.
24. Fees payable to the appointed external auditor will not be known until a procurement exercise has been completed under any of the 3 options. It is anticipated that PSAA will offer greater economies of scale for audit firms and therefore be able to deliver lower fees under Option 3 than either of the other options, but this cannot be guaranteed and if the Authority is to opt-in to the PSAA scheme it must do so before contract prices are known.

IMPACT ASSESSMENTS

25. This report deals with the statutory requirement to appoint auditors in accordance with the Local Audit and Accountability Act 2014. The appointment process will be overseen by PSAA and will comply with any relevant legislation.

LEGAL IMPLICATIONS

26. The Authority is required to appoint a local auditor in accordance with the requirements of the Local Audit and Accountability Act 2014. All three options set out in this report are compliant with the requirements of the Act.

OPTIONS

27. Details of the three options available to the Authority for the appointment of auditors from April 2023 are set out below. The potential advantages and disadvantages of each option are then detailed in Table 1. Under all three options, the Authority can only appoint firms registered to conduct local audits.
28. Option 3 is the option that it is recommended the Standards and Governance Committee recommends to Full Authority for approval. This is because it is expected to give the Authority the best chance to minimise costs and secure the lowest audit fees. Given the well documented challenges within the local audit market the option of appointing auditors via a sector-led national scheme is likely to minimise the risk of a procurement process resulting in being unable to appoint a suitable audit firm. The PSAA will be able to appoint the same auditors as for the other shared services partners, assuming all opt-in to the scheme.
29. Options 1 and 2 are not recommended as they result in additional costs and burdens for the Authority in setting up and servicing an auditor panel and running a procurement exercise as well as the opportunity cost of diverting additional member and officer resource to the process without a commensurate additional benefit from this approach.

Option 1 – individual auditor procurement and appointment exercise

30. The auditor appointment arrangements under the Act allow local authorities to appoint their own auditors via an auditor panel, with a requirement to consult with the panel and take its advice into consideration in the selection and appointment of the auditor. The panel is also required to advise the authority on maintaining an independent relationship with its auditor.
31. An auditor panel must be made up of at least 3 members and a majority must be independent members, including the chair. The definition of independence is set out in the Local Auditor (Auditor Panel Independence) Regulations 2014 and includes a requirement that independent panel members have not been a member or officer of the authority within the last 5 years. Further criteria are detailed in Appendix A.
32. To enable the auditor panel to operate, the authority is required to provide information of relevance to the panel's work when requested and in addition members and officers are required to attend meetings of the panel to answer questions when asked. The Act also requires the authority to publish advice from its auditor panel, including details of whether or not advice has been followed and why.

33. The independent make-up of the auditor panel means that elected members will not have a majority input into assessing bids and choosing which firm is awarded the contract to audit the accounts of the Authority.
34. The regulations also allow the use of another authority's auditor panel, which removes the need to constitute a new auditor panel and may increase independence. This however requires finding another authority with an established auditor panel willing to enter into this arrangement. It may also make it more difficult to ensure the specific needs of the authority are understood by the panel and the logistics for members and officers to interact with the panel may be more challenging (although the use of technology may mitigate this to an extent).

Option 2 – joint auditor procurement and appointment exercise

35. The Act also allows a local authority to establish a joint auditor panel with other local authorities for the procurement and appointment of auditors. The requirements around the appointment of an auditor panel are the same as for Option 1, including the independence requirements.
36. The operational arrangements with this option will be more complex due to the need to set up and run an auditor panel jointly with multiple local authorities and the need to set up any associated contractual arrangements. There is also a need to find other authorities with the appetite to join such an arrangement.
37. There will also be procurement considerations to make, for example the decision as to whether to use a single tender process to procure a single contract for all bodies or whether instead to use a joint auditor panel but procure separately.

Option 3 – Opt-in to national scheme for auditor appointments through PSAA

38. The Secretary of State has confirmed PSAA in the role of the appointing person for eligible principal bodies for the period commencing April 2023. The Authority therefore has the option to once again opt-in to this national scheme for auditor appointments.
39. PSAA issued its invitation to opt-in to this scheme in September 2021 alongside its scheme prospectus and procurement strategy. To opt-in the Authority must send its formal acceptance to PSAA by 11 March 2022.
40. PSAA's procurement strategy sets out that its primary aim is to secure the delivery of an audit service of the required quality for every opted-in body at

a realistic market price and to support the drive towards a long term competitive and more sustainable market for local public audit services.

41. PSAA plans to enter into contracts with a number of audit firms to provide capacity across all opted-in bodies and to enable the management of auditor independence issues (e.g. where an audit firm already provides consultancy and advisory services to a local authority it should not also audit the authority's accounts). There is also an aim to grow the number of active suppliers in the market. The expectation is that contracts will be awarded by August 2022 and with further information available in the PSAA [scheme prospectus](#).
42. Under this option, the Standards and Governance Committee would recommend to Full Authority that it accepts the invitation to opt-in to the PSAA scheme for auditor procurement and appointment. A decision by Full Authority is required because this is effectively the appointment decisions for external auditors and must be made in accordance with the Local Audit and Accountability Act.

TIMESCALES

43. To exercise the option to opt-in to the national auditor appointment arrangements (Option 3) the Authority will need to inform PSAA by 11 March 2022. This is because of the lead-in time required to run a national procurement exercise. A decision to opt-in must be taken by Full Authority. If a recommendation to opt-in is taken by the Standards and Governance Committee, the minutes of this meeting along with a copy of this report will be passed to the Full Authority for a decision at the 14th December meeting.
44. If the Authority decides instead to appoint an auditor through either Option 1 or Option 2 (individual or joint procurement and appointment) then an auditor panel will need to be established and a procurement exercise will need to be run. Option 2 will also require the identification of other local authorities to create the joint auditor panel and agreement on any contractual and operational requirements. Any procurement exercise would need to be completed to allow the appointment of auditors no later than 31 December 2022 and the process would therefore need to commence as soon as possible if this decision was taken.
45. The partner organisations Hampshire County Council, Hampshire Constabulary and the Police and Crime Commissioner for Hampshire will also be making decision through their own governance arrangements about whether or not to opt-in to the PSAA scheme by 11 March 2022.

Table 1 – Advantages and disadvantages of the options available to the Authority

	Option 1 – Individual auditor procurement and appointment exercise	Option 2 – Joint auditor procurement and appointing exercise with other bodies	Option 3 – Opt-in to national scheme for auditor appointments through PSAA
Advantages	<ul style="list-style-type: none"> • Setting up an auditor panel allows the Authority to have local input into the appointment of its auditor (although the auditor panel must have a majority of independent members) • Able to set own procurement evaluation criteria rather than this being decided by PSAA (although must take advice from auditor panel) • Able to form a direct contract with the audit provider with the opportunity to agree contractual terms regarding performance and quality 	<ul style="list-style-type: none"> • Costs associated with setting up the auditor panel and running a procurement exercise can be shared across the local authorities involved with the joint process • May increase the chance to negotiate lower fees due to the larger combined contract value than for an individual procurement • Able to form a direct contract with the audit provider with the opportunity to agree contractual terms regarding performance and quality 	<ul style="list-style-type: none"> • Costs are shared across all authorities opting in to the arrangements • The larger contract value should allow audit firms to offer lower fees • Any conflicts at individual authorities would be managed by PSAA who would have a number of contracted firms to call upon • There is no need to set up a local auditor panel • The contract is managed by PSAA
Disadvantages	<ul style="list-style-type: none"> • Costs of recruitment and servicing of the auditor panel including expenses and allowances • Procurement costs to run a selection process and negotiate contracts • Lower contract value than other options reducing opportunities to negotiate lower fees, may result in higher audit fees • May result in the appointment of a different auditor from other partners¹ leading to loss of economies of scale within the finance team • The risk that the procurement process does not result in an appointable audit firm • Can only appoint firms registered for local audit so will not identify any additional suppliers to those available to the PSAA 	<ul style="list-style-type: none"> • Costs of recruitment and servicing of the auditor panel including expenses and allowances • Procurement costs to run a selection process and negotiate contracts • Decision making is further removed from local input. There may be a wholly independent auditor panel or there may be elected member representatives from each authority within an auditor panel that has a majority of independent members. • May lead to reduced control over the audit process if a joint contract is entered into • Potential for complications due to independence issues e.g. where an audit firm is currently or has recently carried out consultancy or advisory work for one of more of the councils conducting the joint procurement • Greater complexity of operational and contractual arrangements to set up and manage 	<ul style="list-style-type: none"> • Individual elected members have less opportunity for direct involvement in the appointment process • Authorities will need to opt-in before contract prices are known • Audit fees are agreed by PSAA not the Authority • The contract is managed by PSAA • Procurement evaluation criteria set by PSAA rather than the Authority (e.g. PSAA has defined a relative price:quality weighting of 20:80)

¹ Hampshire County Council, Police and Crime Commissioner for Hampshire, Hampshire Constabulary

RISK ANALYSIS

46. The main risk under each option is the inability to procure and appoint a suitable auditor in line with the requirements of the Local Audit and Accountability Act 2014. This risk exists because of well documented challenges in the local audit market. This risk is considered to be most effectively mitigated through Option 3 as the procurement and appointments will be managed by PSAA through a sector-led national appointments process under which PSAA are required to appoint auditors to all participating local authorities. Further mitigation is available through the current contractual arrangements whereby PSAA has the option to appoint auditors for two additional years under the existing contract.
47. Additionally, there is a risk that a different audit firm is appointed through Option 1 or Option 2 than for the other shared services partners, resulting in an inefficient accounts and audit process as there are currently benefits from the same team preparing the accounts for all partners using the same systems and the same audit firm. This risk is best mitigated through Option 3 whereby the PSAA can appoint the same audit firm for all the shared services partners.

EVALUATION

48. The effectiveness of the approach chosen to appoint a firm to audit the Authority's accounts will be evaluated on an ongoing basis throughout the life of the contract and will inform any decisions on future procurement and appointments. There is a statutory requirement to appoint auditors in accordance with the Local Audit and Accountability Act 2014.

CONCLUSION

49. This Authority must comply with the requirements of the Local Audit and Accountability Act 2014 in appointing independent external auditors.
50. There are three main routes available to local authorities in making these appointments, each of which bring their own advantages and disadvantages.
51. These advantages and disadvantages are summarised in Table 1 and need to be weighed up in making a decision on which route to recommend to Full Authority for the appointment of auditors for the 5 year period beginning April 2023.
52. Any decision to opt-in to the national scheme through Public Sector Audit Appointments Limited (PSAA) must be made by 11 March 2022. If the Authority does not opt-in to this scheme then it will need to appoint an

auditor panel and begin a procurement exercise to appoint auditors no later than 31 December 2022. This could be individually or jointly with other authorities.

53. It is recommended that the Standards and Governance Committee recommends to Full Authority that the Authority opts-in the the PSAA national scheme. This is because it is considered to be the option that:
- (a) best mitigates the risk of not being able to appoint a local auditor in accordance with the Local Audit and Accountability Act
 - (b) is the option that is most likely to result in the lowest audit fees
 - (c) offers the opportunity of avoiding costs (direct costs and opportunity costs) from an individual or joint auditor procurement and appointment process
 - (d) allows PSAA to appoint the same audit firm for each shared services partner and therefore mitigates the risk of a procurement process resulting in different firms being appointed by the partners (which would increase costs).

RECOMMENDATION

54. That the Standards and Governance Committee recommends to Full Authority that HIWFRA opts-in to the Public Sector Audit Appointments (PSAA) national scheme for the appointment of external auditors for HIWFRA for the 5 year period from April 2023

APPENDICES ATTACHED

55. Appendix A - Independence criteria for auditor panels

Contact: Catherine Edgecombe, Deputy Chief Financial Officer,
catherine.edgecombe@hants.gov.uk, 0370 779 1556