

MERSEYSIDE FIRE AND RESCUE AUTHORITY			
MEETING OF THE:	BUDGET AUTHORITY MEETING		
DATE:	24 FEBRUARY 2022	REPORT NO:	CFO/006/22
PRESENTING OFFICER	IAN CUMMINS		
RESPONSIBLE OFFICER:	IAN CUMMINS	REPORT AUTHOR:	IAN CUMMINS
OFFICERS CONSULTED:	SLT		
TITLE OF REPORT:	ARRANGEMENTS FOR APPOINTING EXTERNAL AUDITORS		
APPENDICES:			

Purpose of Report

1. This report sets out proposals for appointing the external auditor to the Authority for the period from 2023/24 to 2027/28.

Recommendation

2. That, Members accept the invitation from Public Sector Audit Arrangements Limited (PSAA) to opt into the sector-led national scheme for the appointment of external auditors for 2023/24 to 2027/28.

Introduction and Background

3. Under the Local Audit and Accountability Act 2014 ('the Act'), the Authority is required to appoint an auditor to audit its accounts for each financial year.
4. The Authority's current contract with its external auditor, Grant Thornton, ends on 31 March 2023 but will cover the audit of the 2022/23 accounts. The Act requires that a local auditor is appointed no later than 31 December in the financial year preceding the financial year of the accounts to be audited, therefore by 31 December 2022.
5. Regulations made under the Act mean that the Authority has three options for the procurement of the external auditor. In summary these comprise;
 - a. Setting up an independent auditor panel and undertaking an individual external auditor procurement and appointment exercise;
 - b. Joining with other authorities to set up a joint independent auditor panel and undertaking a joint audit procurement and appointing exercise; or
 - c. Opting-in to the national auditor appointment scheme administered by a body designated by the Secretary of State as the 'appointing person'.

The body currently designated for this role is the LGA's Public Sector Audit Appointments Limited (PSAA).

6. If the Authority wishes to opt for option c. and use PSAA then it needs to respond formally to PSAA's invitation by the 11th March 2022. The reason for this deadline is that PSAA need to commence the formal procurement process in February 2022. It then expects to award contracts in August 2022 and consult with authorities on the appointment of auditors during late summer/autumn 2022 so that it can make an appointment by the statutory deadline of December 2022. The Regulations made under the Act requires that Members of an Authority meeting as a whole approve the decision for a sector led arrangement for the appointment of external audit, hence the reason for this report coming to today's Authority meeting.
7. The scope of the audit will be specified nationally with the National Audit Office responsible for writing the Code of Audit Practice, which all firms appointed to carry out the Authority's audit must follow. Auditors are regulated by the Financial Reporting Council, which will be replaced by a new body with wider powers, the Audit, Reporting and Governance Authority (ARGA), during the course of the next audit contract. The auditor appointed at the end of the procurement process will undertake the statutory audit of accounts and Value for Money assessment of the Authority in each financial year, in accordance with all relevant codes of practice and guidance. The Authority has very limited influence over the nature of the audit services they are procuring, the nature and quality of which are determined or overseen by third parties.
8. The Authority may elect to appoint its own external auditor under the Act, **option a.** which would require the Authority to;
 - i. Establish an independent auditor panel to make a stand-alone appointment. The auditor panel would need to be set up by the Authority itself, and the members of the panel must be wholly or a majority of independent members as defined by the Act. Independent members for this purpose are independent appointees, excluding current and former elected members (or officers) and their close families and friends. This means that elected members will not have a majority input to assessing bids and choosing to which audit firm to award a contract for the Authority's external audit.
 - ii. Manage the contract for its duration, overseen by the Auditor Panel.
9. Alternatively, the Act enables the Authority to join with other authorities to establish a joint auditor panel, **option b.** Again, this will need to be constituted of wholly or a majority of independent appointees. Further legal advice would be required on the exact constitution of such a panel having regard to the obligations of each Authority under the Act and the Authority would need to liaise with other local authorities to assess the appetite for such an arrangement. All the neighbouring authorities have used PSAA for their current audit arrangements

10. It is considered that procurement **option c**, the national auditor appointment scheme conducted by PSAA, will produce better outcomes and will be less burdensome for the Authority than any procurement undertaken locally. More specifically:
 - a. Any auditor conflicts or independence issues at individual authorities would be managed by PSAA who would have a number of contracted firms to call upon;
 - b. Without the national appointment, the Authority would need to establish a separate independent auditor panel, which could be difficult, costly and time consuming;
 - c. It provides the best opportunity to secure the appointment of a qualified, registered auditor - there are only nine accredited local audit firms, and a local procurement would be drawing from the same limited supply of auditor resources as PSAA's national procurement;
 - d. PSAA will manage the procurement process to ensure both quality and price criteria are satisfied and will consult on individual auditor appointments
 - e. PSAA will monitor contract delivery and ensure compliance with contractual, audit quality and independence requirements; and
 - f. PSAA will consult with authorities on the scale of audit fees and ensure these reflect scale, complexity and audit risk;
 - g. It is expected that scheme management costs will be minimised and any surpluses returned to scheme members;
 - h. The overall procurement costs would be lower than an individual smaller scale local procurement.
11. Neither option a nor b are being recommended to the Authority, as both options would be more resource-intensive processes to implement and without the bulk buying power of the sector led procurement, and would be likely to result in a more costly service. It would also be more difficult to manage quality and independence requirements through a local appointment process.
12. The Authority approved the use of PSAA when determining the procurement arrangements for the current audit contractor at its meeting in February 2017, CFO/009/17. The recommendation to Members' is that they accept PSAA's invite to opt in for the national scheme run by them for the appointment of the Authority's auditor for the period 2023/24 to 2027/28.
13. The prices submitted by bidders through the procurement will be the key determinant of the value of audit fees paid by opted-in bodies. PSAA will:
 - i. seek to encourage realistic fee levels and to benefit from the economies of scale associated with procuring on behalf of a significant number of bodies;
 - ii. continue to pool scheme costs and charge fees to opted-in bodies in accordance with the published fee scale as amended following consultations with scheme members and other interested parties (pooling means that everyone within the scheme will benefit from the

prices secured via a competitive procurement process – a key tenet of the national collective scheme);

- iii. continue to minimise its own costs, around 4% of scheme costs, and as a not-for-profit, company will return any surplus funds to scheme members. (In 2019, PSAA returned a total £3.5million to relevant bodies and in 2021, a further £5.6million was returned).

Equality and Diversity Implications

14. Not applicable.

Staff Implications

15. Not applicable.

Legal Implications

16. Section 7 of the Local Audit and Accountability Act 2014 requires a relevant Council/Authority to appoint a local auditor to audit its accounts for a financial year not later than 31 December in the preceding year.

Financial Implications & Value for Money

17. There is a risk that the current annual external audit fee, £25k, could increase as the scope of audit work has increased as the FRC, following a number of financial crises and failures, has increased the scope and quality of the audit ask.
18. Opting into a national scheme provides maximum opportunity to ensure fees are as realistic as possible, while ensuring the quality of audit is maintained, by entering into a large-scale collective procurement arrangement.
19. If the national scheme is not used some additional resources may be needed to establish an auditor panel and conduct a local procurement.
20. Until a procurement exercise is completed, it is not possible to state what, if any, additional resources may be required for audit fees from 2023/24. Provision exists within the inflation provision to cover any future cost increases.

Risk Management, Health & Safety, and Environmental Implications

21. The principal risks are that the Authority:
 - i. fails to appoint an auditor in accordance with the requirements and timing specified in local audit legislation; or
 - ii. does not achieve value for money in the appointment process.

22. These risks are considered best mitigated by opting into the sector-led approach through PSAA.

Contribution to Our Vision: *To be the best Fire & Rescue Service in the UK.*

Our Purpose: *Here to serve, Here to protect, Here to keep you safe.*

23. External audit help ensure the Authority's internal controls and financial processes are robust and fit for purpose. Therefore, by having an effective financial administration system it can contribute towards ensuring the long-term sustainability of operational services.

BACKGROUND PAPERS

GLOSSARY OF TERMS

PSAA	Public Sector Audit Appointments Limited.
FRC	Financial Reporting Council
ARGA	Audit, Reporting and Governance Authority