

Name of meeting: Corporate Governance and Audit Committee
 26 November 2021, Council 19 January 2022.

Title of report: Public Sector Audit Appointments (PSAA)
 Process for the 2023-28 Period

Purpose of report

The report updates Members on the Public Sector Audit Appointments (PSAA) process for the appointment of external audit provision.

Key Decision - Is it likely to result in spending or saving £250k or more, or to have a significant effect on two or more electoral wards?	Not applicable
Key Decision - Is it in the Council's Forward Plan (key decisions and private reports) ?	No
The Decision - Is it eligible for "call in" by Scrutiny?	No
Date signed off by Strategic Director & name	
Is it also signed off by the Service Director for Finance?	Eamonn Croston 16/11/2021
Is it also signed off by the Service Director – Legal, Governance & Commissioning?	Julie Muscroft 16/11/2021
Cabinet member portfolio- Corporate	Cllr Shabir Pandor Cllr Paul Davies

Electoral wards affected: Not applicable

Ward councillors consulted: Not applicable

Public or private: Public

GDPR: This report contains no information that falls within the scope of General Data Protection Regulations.

1. Summary

The report updates Members on the proposed procurement exercise for Public Sector Audit Appointments (PSAA) process for the 2023 to 2028 period, which, subject to Local Authorities exercising their right to opt in, is to be undertaken by the PSAA to appoint their external auditors from 1 April 2023 to cover the period 2023-2028.

2. Information required to take a decision

- 2.1 The Audit Commission was formally closed on 31 March 2015, and Public Sector Audit Appointments Limited (PSAA) was incorporated by the Local Government Association (LGA) in August 2014. PSAA is a company limited by guarantee without share capital and is a subsidiary of the Improvement and Development Agency (IDeA) which is wholly owned by the LGA.
- 2.2 In July 2016, the Secretary of State for Housing Communities and Local Government specified PSAA as an appointing person for principal local government and police bodies for audits from 2018/19, under the provisions of the Local Audit and Accountability Act 2014 and the Local Audit (Appointing Person) Regulations 2015.
- 2.3 Acting in accordance with this role PSAA is responsible for appointing an auditor and setting scales of fees for relevant principal authorities that have chosen to opt into its national scheme. PSAA has a responsibility for ensuring that the company delivers the following objectives:
- appointing auditors to all relevant authorities;
 - setting scales of fees, and charging fees, for the audit of accounts of relevant authorities and consulting with relevant parties in relation to those scales of fees;
 - ensuring effective management of contracts with audit firms for the delivery of consistent, quality and effective audit services to relevant authorities;
 - ensuring that public money continues to be properly accounted for and protected;
 - being financially responsible having regard to the efficiency of operating costs and transparently safeguarding fees charged to audited bodies; and
 - leading its people as a good employer, ensuring that it continues to be fit-for-purpose; motivating and supporting its staff; and communicating with them in an open, honest and timely way.
- 2.4 An individual Local Authority could appoint their own auditor if they so choose. In practice the vast majority, including this Council, opted into the procurements undertaken by the PSAA. The current contracts for audit procurement let by the PSAA expire after the end of the financial year 2022/23. One of the recommendations from the Redmond Review was that the PSAA will continue as the appointing body for local audit, in charge of procurement and contract management for local government auditors.
- 2.5 On 22 September 2021, PSAA invited all principal local government including police and fire bodies to become opted-in authorities. At the same time it published its procurement strategy and prospectus for the national scheme from April 2023, for a further 5 years. Both documents have evolved in response to the feedback provided by the PSAA market engagement exercise and consultation on the draft prospectus undertaken during June 2021. A link to the prospectus and strategy is included at Section 9 of this report.

- 2.6 The alternative to using PSAA to appoint an auditor is to carry out a council specific procurement (or one with another consortium of local authorities) compliant with all normal procurement rules, and an additional set of complex rules (including an independent selection panel) required by the Department for Levelling Up, Housing & Communities.
- 2.7 Delayed audit opinions continue to be a major concern in the local audit system. The growing scale of the challenge is illustrated by the latest figures compiled by PSAA. As at the target date of 30 September 2021 only 9% of local government bodies' 2020/21 audits have been completed. The position compares to completion of 45% of 2019/20 audits and 57% of 2018/19 audits by the respective target dates of 30 November 2020 and 31 July 2019.
- 2.8 The challenges posed by Covid-19 have contributed to the current position. However, a range of further pressures documented in the Redmond Report are also continuing to impact performance. In particular, there is a shortage of auditors with the knowledge and experience to deliver the required higher quality audits of statements of accounts, which increasingly reflect complex structures and transactions, within the timeframe expected. The growing backlog of audits is also a concern, with 70 of the 2019/20 audits still incomplete.
- 2.9 The recommendation of the Service Director- Finance is that the Council should opt-in to the procurement exercise undertaken by the PSAA, who remain best placed to drive whole system improvements on the sector's behalf. It is consistent with the principle recommended in the Redmond Review that Local Authorities should not appoint their own auditor. In terms of price, there is a likely benefit from a bulk procurement, and it is uncertain if Kirklees were to undertake its own procurement it would attract an appropriate external auditor. One of the findings from the Redmond review was that there are only limited participants in the market prepared to undertake Local Authority audit.

2. Implications for the Council

3.1 Working with People

N/A

3.2 Working with Partners

N/A

3.3 Placed based working

N/A

3.4 Climate Change and Air Quality

N/A

3.5 Improving Outcomes for Children

N/A

3.6 Other (e.g. Legal/Financial or Human Resources)

The Council wants a qualified, competent supplier at a reasonable cost, to perform their independent certification duties, including the added requirement to report to CGAC with a much expanded value for money commentary requirement from 2020/21 onwards, separate to the audit opinion of the annual financial statements.

4. Consultees and their opinions

N/A

5. Next steps

PSAA guidance states that a decision to become an opted-in authority must be taken in accordance with the Regulations, that is by the members of an authority meeting as a whole, i.e. in Full Council.

Subject to the Corporate Governance & Audit Committee recommendation 'opt-in' being approved at full Council, officers must inform PSAA by returning the Form of Acceptance Notice (issued with the opt-in invitation) no later than midnight on Friday 11 March 2022.

When the Auditor Panel, or Public Sector Audit Appointments Ltd have carried out a tender process, they will recommend an auditor to the Council. An Auditor needs to be appointed by 31st December 2022.

6. Officer recommendations and reasons

- 6.1 That Corporate Governance & Audit Committee having considered the potential options, recommend that Council ask Public Sector Audit Appointments Ltd to carry out Auditor Panel duties on behalf of the Council and nominate a proposed External Auditor to the Council in due course, for the 2023-28 period.

7. Cabinet portfolio holder's recommendations

N/A

8. Contact officer

James Anderson Head of Accountancy
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9. Background Papers and History of Decisions

[https://www.psa.co.uk/
PSAA prospectus-and-procurement-strategy](https://www.psa.co.uk/PSAA-prospectus-and-procurement-strategy)

10. Service Director responsible

Eamonn Croston

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