

## EXTERNAL AUDIT PROCUREMENT EXERCISE

**Summary:** This report provides an update on the options for the upcoming procurement of external audit provider, currently appointed through a joint procurement exercise undertaken by Public Sector Audit Appointments (PSAA) Ltd.

**Options considered:** The options considered are:

1. NNDC opts in to the PSAA Ltd joint procurement exercise
2. NNDC pursues its own procurement exercise

Option 1 is the officer preference, as outlined within the paper.

**Conclusions:** Although the sector has experienced issues with audit timescales following the first PSAA procurement exercise, officers do not believe that opting out of this exercise and procuring directly would solve these issues. NNDC would also miss out on economies of scale arising from a joint procurement, and would risk fewer (or no) bidders coming forward.

**Recommendations:** **That the Committee recommends to Full Council that NNDC opt-in to the PSAA joint procurement exercise, while also providing feedback to them on how the process could be improved.**

**Reasons for Recommendations:** To enable more cost effective procurement of external auditors, which is a statutory requirement.

### LIST OF BACKGROUND PAPERS AS REQUIRED BY LAW

*(Papers relied on to write the report, which do not contain exempt information and which are not published elsewhere)*

None

Cabinet Member(s)	Ward(s) affected
Eric Seward	All

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## 1. Introduction

- 1.1 Under the Local Government Audit & Accountability Act 2014 (“the Act”), NNDC is required to appoint an auditor to audit its accounts for each financial year. A Council may do this either on its own, jointly with other authorities, or by opting in to a national scheme which has a designated “appointing person” as administering body for the procurement process.
- 1.2 Public Sector Audit Appointments Ltd (PSAA) is a company that was set up by the Local Government Association (LGA) following the closure of the Audit Commission to undertake the appointment of external auditors for public sector bodies under a national scheme. This is done on the basis of geographical area. The benefits to this approach are two-fold. Firstly, it is likely that the prices offered by bidders will be more favourable, as bidding for larger contracts enables economies of scale. Secondly, larger contracts are more attractive to bidders, so there are likely to be more to choose from as part of the procurement exercise.
- 1.3 NNDC was part of the joint procurement exercise in 2016/17 which appointed EY as external auditors in the East of England to 2022/23.
- 1.4 PSAA formally invited all eligible bodies to opt in to the national scheme for local auditor appointments for the audits of 2023/24 through to 2027/28 on September 22<sup>nd</sup>, with the deadline to accept the invitation of 11<sup>th</sup> March 2022. In order to formally opt-in to this scheme, a decision must be made by Full Council to that effect. It is expected that a report will be forthcoming to the February meeting of Full Council to that effect to ensure that NNDC meets the deadline.
- 1.5 The current contract period has not been without its well documented issues. There have been significant delays to sign off of audited Accounts as a result of auditor availability, which has only been compounded by the COVID pandemic. Despite efforts of audit firms with respect to recruitment, these issues still exist across the sector. As a result, only 9% of Councils achieved audited accounts for 2020/21 by the deadline of 30<sup>th</sup> September 2021, and at the time of writing no significant progress had been made. Several Councils, including NNDC, are still experiencing delays to completion of their 2019/20 audits.
- 1.6 As a result of these delays, officers have previously contacted PSAA to enquire about what provisions were made in the contract with respect to performance around timeliness of audits, and were told that that information was confidential as the Council was not legal party to the contract. It is officers view that this is not acceptable, and PSAA should be lobbied to make the process more transparent to allow Councils whom they are procuring on behalf of to have greater confidence in the performance which is specified in the contract, and any means that exist to enforce this.
- 1.7 The Redmond Review into Local Government Finance and Audit made recommendations around extra work that should be undertaken by external audit, particularly in respect of Value for Money opinions. This will result in more auditor time needed to complete assignments, which will then have a knock on effect on the cost of the audit to the individual Councils. The Government has

committed to providing £15m of one-off funding to support this, but so far there is no clarity around ongoing support for these extra costs.

## **2. Current Procurement options**

The first procurement option open to NNDC is to opt-in to the joint national exercise as run by PSAA. The second option would be for NNDC to procure alone, or with other Norfolk Councils.

There are risks inherent with not opting in to the national exercise:

- The Council does not achieve value for money during its own appointment process
- Lack of interest from bidders means that the Council fails to appoint an auditor in line with the requirements and timing as required by the relevant legislation

In addition, if NNDC chose to appoint its own auditor, the following would be required, which would have cost implications:

- Establish an independent auditor panel to make a stand-alone appointment. The auditor panel would need to be set up by the Council/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 Council/Authority's external audit.
- Manage the contract for its duration (including managing issues of independence), overseen by the Auditor Panel.

- 2.2 It is the view of Norfolk Section 151 Officers that the lowest risk option is to opt-in to the national exercise (and there was no appetite for a Norfolk-wide procurement option), and the LGA have written to Section 151 officers to encourage their continued involvement. On this basis, this report recommends that NNDC opt-in to the national exercise, while providing feedback to PSAA about the issues of transparency as discussed in section 1.5 of this report.

## **3. Conclusion**

- 3.1 Although the sector has experienced issues with audit timescales following the first PSAA procurement exercise, officers do not believe that opting out of this exercise and procuring directly would solve these issues. NNDC would also miss out on economies of scale arising from a joint procurement, and would risk fewer (or no) bidders coming forward. It is therefore recommended that NNDC accepts the invitation to opt-in to the national exercise.

## **4. Implications and Risks**

As explained in the main body of the report, the main risk of joining the joint procurement is the resulting lack of control of the process. This could be mitigated by feeding back to PSAA on some of the issues that have arisen as a result of the way the procurement was dealt with last time. This is considered lower risk than the alternative, a separate NNDC run procurement exercise, for the reasons discussed in section 2.

**5. Financial Implications and Risks**

By opting in to the joint procurement exercise, NNDC may be able to secure external audit services at a more favourable cost than procuring separately. It is likely that the cost of external audit contracts will rise following this procurement exercise due to market conditions and the extra work resulting from the Redmond Review, but this would be a risk regardless of the procurement option selected.

**6. Sustainability**

Participating in a joint procurement exercise is the option which is least likely to result in disruption to the service provision. In terms of Environmental Sustainability, there are no considerations as a direct consequence of this report, but NNDC will feed back to PSAA that the Environmental, Social and Governance credentials of prospective bidders should be tested as part of the procurement exercise.

**7. Equality and Diversity**

None as a direct consequence of this report.

**8. Section 17 Crime and Disorder considerations**

None as a direct consequence of this report.