

Agenda Item

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| Subject | Process for Future External Audit Appointments | Status | For Publication Not For Publication |
| Report to | Audit Committee | Date | 21 st October 2021 |
| Report of | Director and Treasurer | | |
| Equality Impact Assessment | Not Required | Attached | Yes |
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1 Purpose of the Report

- 1.1 To secure a recommendation from the Audit Committee to the Authority in relation to the route to be used for procuring an external auditor at the end of the current contract.

2 Recommendations

- 2.1 Members are recommended to:
- a. **Recommend to the Authority that future external audit services be procured through the Public Sector Audit Appointments arrangements.**

3 Link to Corporate Objectives

- 3.1 This report links to the delivery of the following corporate objectives:

Effective and Transparent Governance

To uphold effective governance showing prudence and propriety at all times.

4 Implications for the Corporate Risk Register

- 4.1 The actions outlined in this report do not specifically address any identified corporate risks.

5 Background and Options

- 5.1 The Authority's current external auditors, Deloitte LLP, were appointed through national procurement arrangements put in place by Public Sector Audit Appointments Ltd (PSAA), an organisation created and owned by the LGA. Around 99% of principal local authorities, police and fire authorities and other bodies such as National Parks and SYPA subject to the full local authority audit regime made use of this procurement route, rather than the more convoluted arrangements specified in the Local Audit and Accountability Act 2014 to make a local appointment.
- 5.2 Members will be aware of the issues within the local audit market which have been exacerbated but not caused by the pandemic. The combination of shortening accounts deadlines, ever more stringent auditing standards, many of which are arguably not wholly relevant to the local government sector, a declining level of specialist expertise and fee levels which are too low given the level of work required have all resulted in many sets of accounts not being audited on time and large fee variations. While the Authority's size and specialist nature has to some extent insulated us from the worst aspects of this, we have seen increased fees and a need for additional testing and audit procedures.
- 5.3 PSAA's current contracts come to an end following the completion of the 2022/23 accounts audit and the Authority is now being asked to consider whether it wishes to sign up to the next PSAA procurement, which will cover 5 years from the 2023/24 accounts. A decision is required by March 2022 and must be taken by a meeting of the Full Authority (as the equivalent of full council). The alternative is to make a separate appointment either for the Authority alone or in collaboration with other local authorities in South Yorkshire.
- 5.4 An appointment process for the Authority alone would be time consuming and costly as additional external support would be required in the evaluation. In addition it is not clear that a relatively small audit of this sort let as a free-standing contract would attract interest from a potential field which is limited to a small number of firms approved to carry out local authority audits. Thus, this can be ruled out.
- 5.5 The option of working with other local authorities in South Yorkshire is attractive, particularly if such an arrangement could attract a single audit firm for the whole system within the County. Bundled together this would certainly be attractive to the market and could generate additional benefits such as the need to locate a core team somewhere in the County. However, given the other pressures facing the various organisations it is not felt that it would be sensible to devote what would inevitably be not inconsiderable and quite senior resources to such a process at the present time.
- 5.6 Consequently, the option of using the PSAA arrangements is the one that is most convenient and most deliverable. However, from a purely SYPA point of view this is not without risk. As a relatively small audit, albeit one with a number of specialist features there is a danger that we are used as a makeweight to balance our workload between various providers, rather than focussing on the organisation's specific needs. This approach is also likely to result in a similar position to the current one where the local authorities within the County are audited by different firms adopting different approaches and interpretations of auditing standards.

- 5.7 While the procurement process to be undertaken by PSAA will seek to address some of the challenges posed by the current market situation solving them is a much wider issue which the Government is addressing through its response to the Redmond Review.
- 5.8 Ultimately given the impracticality of carrying out a local procurement with other South Yorkshire Authorities there seems to be little option but to recommend to the Full Authority that the procurement of the next external audit contract be undertaken through the PSAA arrangements.

6 Implications

- 6.1 The proposals outlined in this report have the following implications:

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| Financial | None directly from this report. However, given the well-publicised issues within the local authority audit market it is expected that there will be a significant increase in fees following the next procurement exercise. |
| Human Resources | None |
| ICT | None |
| Legal | The proposed procurement route conforms to the requirements of the Local Audit and Accountability Act 2014. |
| Procurement | The procurement will be carried out in a legally compliant way. |

George Graham
Director

Neil Copley
Treasurer

| Background Papers | |
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| Document | Place of Inspection |
| Correspondence from Public Sector Audit Appointments | SYPA Offices Floor 8 Gateway Plaza Barnsley. |