

# LIVERPOOL CITY REGION COMBINED AUTHORITY

To: The Metro Mayor and Members of the Combined Authority

Meeting: 26 November 2021

Authority/Authorities Affected: All

EXEMPT/CONFIDENTIAL ITEM: No

**KEY DECISION** Yes

## REPORT OF THE EXECUTIVE DIRECTOR OF CORPORATE SERVICES AND PORTFOLIO HOLDER FOR POLICY REFORM AND RESOURCES

### EXTERNAL AUDITOR APPOINTMENT

#### 1. PURPOSE OF REPORT

This report sets out proposals for appointing the external auditor to the Authority for the external audit of the Combined Authority's accounts for the five-year period from 2023/24.

#### 2. RECOMMENDATIONS

It is recommended that the Combined Authority:

- (a) note the contents of the report;
- (b) note that the report and proposal have been considered and endorsed by the Audit and Governance Committee; and
- (c) approve the proposal to join the national procurement framework for the Public Sector Audit Appointments Limited (PSAA) to appoint an external auditor for five years from 2023/24.

#### 3. BACKGROUND

3.1 The current auditor appointment arrangements cover the period up to and including the audit of the 2022/23 accounts. The Combined Authority opted into the 'appointing person' national auditor appointment arrangements established by Public Sector Audit Appointments (PSAA) for the period covering the accounts for 2018/19 to 2022/23.

3.2 The process for retendering for external audit in local authorities in England, for contracts due to start from 2023/24, is now underway. The Combined Authority is

asked to decide whether to procure its own external auditor or opt into the national procurement framework again. The approach outlined in this report has been considered by the Combined Authority Audit and Governance Committee.

- 3.3 Under the Local Audit and Accountability Act 2014 , the Combined Authority is required to determine whether to opt in to the national framework for the appointment of external auditors, by 11 March 2022. In the absence of such a decision being made there is a presumption that the organisation is seeking to arrange its own procurement for its external auditors.
- 3.4 There are three broad procurement options available to the Combined Authority for the retender of its external audit services; a standalone procurement exercise, to undertake a joint procurement exercise with other authorities to procure an auditor or to opt into 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 PSSA. Appendix One provides more details on each option.
- 3.5 In determining the appropriateness of these options consideration needs to be given to the current state of the local audit market and the impact that this could have on the desirability of the different options. Over the last couple of years there have been a number of significant changes to the requirements placed on auditors by their regulatory body to strengthen and improve the integrity of the audit process. At the same time the market has suffered from a shortage of firms in the market and too few qualified auditors employed by those firms. These two factors have led to a situation where audits have been delayed, fees have increased as a result of the additional audit work and failure to sign off the completed audit in line statutory deadlines has become common place.
- 3.6 The ability of the Combined Authority to directly address these issues is limited due to the fact that the guidance and regulation of audit work is dictated by the Financial Reporting Council.
- 3.7 The decision to procure outside of the national arrangement is likely to lead to increased costs and administrative burdens being placed on the Combined Authority, and for this reason it is recommended that the sector wide procurement conducted by the PSAA would produce better outcomes and be less burdensome for the Combined Authority than a procurement undertaken locally because:
  - Collective procurement reduces costs for the sector and for individual authorities compared to a multiplicity of smaller local procurements;
  - If it does not use the national appointment arrangements, the Combined Authority will need to establish its own auditor panel with an independent chair and independent members to oversee a local auditor procurement and ongoing management of an audit contract;
  - It is 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; and

- Supporting the sector-led body offers the best way of ensuring there is a continuing and sustainable public audit market into the medium and long term.

3.8 Whilst the deadline for a decision on how to proceed with appointing new external auditors is 11 March 2022, practically speaking arrangements will need to be in place ahead of that deadline. The proposals as detailed in this report have been reported to and considered by the Audit and Governance Committee who have been asked to recommend that the Combined Authority proceed with the option to opt in to the PSAA procurement. A verbal update will be provided at the Combined Authority meeting as the Audit and Governance Committee meeting will take place on 24 November 2021.

## **4. RESOURCE IMPLICATIONS**

### **4.1 Financial**

There is a risk that current external audit fee levels could increase when the current contracts end. It is clear that the scope of audit has increased, requiring more audit work. There are also concerns about capacity and sustainability in the local audit market.

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.

If the national scheme is not used some additional resource may be needed to establish an auditor panel and conduct a local procurement. Until a procurement exercise is completed it is not possible to state what, if any, additional resource may be required for audit fees from 2023/24.

### **4.2 Human Resources**

None arising directly as a consequence of this report.

### **4.3 Physical Assets**

None arising directly as a consequence of this report.

### **4.4 Information Technology**

None arising directly as a consequence of this report.

## **5. LEGAL IMPLICATIONS**

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

Section 8 governs the procedure for appointment including that the Combined Authority must consult and take account of the advice of its auditor panel on the selection and appointment of a local auditor. Section 8 provides that where a relevant Authority is a local Authority operating executive arrangements, the function of appointing a local auditor to audit its accounts is not the responsibility of an executive of the Authority under those arrangements.

Section 12 makes provision for the failure to appoint a local auditor. The Authority must immediately inform the Secretary of State, who may direct the Authority to appoint the auditor named in the direction or appoint a local auditor on behalf of the Combined Authority.

Section 17 gives the Secretary of State the power to make regulations in relation to an 'appointing person' specified by the Secretary of State. This power has been exercised in the Local Audit (Appointing Person) Regulations 2015 (SI 192) and this gives the Secretary of State the ability to enable a sector-led body to become the appointing person. In July 2016 the Secretary of State specified PSAA as the appointing person.

## **6. RISKS AND MITIGATION**

The principal risks are that the Combined Authority:

- fails to appoint an auditor in accordance with the requirements and timing specified in local audit legislation; or
- does not achieve value for money in the appointment process.

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

## **7. EQUALITY AND DIVERSITY IMPLICATIONS**

None arising directly as a consequence of this report.

## **8. PRIVACY IMPLICATIONS**

None arising directly as a consequence of this report.

## **9. COMMUNICATION ISSUES**

None arising directly as a consequence of this report.

## 10. CONCLUSION

The Combined Authority is required to make arrangements for the procurement of external auditors from 2023/24. Whilst there are several options available to address this need, it is recommended that the Authority opts into the PSAA procurement.

JOHN FOGARTY  
Executive Director of Corporate Services

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Appendices:

Appendix One – Options for Procurement of External Auditors

Background Documents:

*None*