



# Doncaster Council

## Report

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Date: 28<sup>th</sup> October, 2021

To the Chair and Members of the  
**AUDIT COMMITTEE**

### **ARRANGEMENTS FOR THE APPOINTMENT OF EXTERNAL AUDITORS**

#### **EXECUTIVE SUMMARY**

1. This report summarises the arrangements for appointing External Auditors and makes recommendations for the future appointment of external auditors by the Council.
2. Regulations relating to external audit appointments require that any decision to opt-in to a sector-led procurement option has to be made by the full Council.

#### **EXEMPT REPORT**

3. Not applicable.

#### **RECOMMENDATIONS**

4. The Audit Committee is asked: -
  - a) to note the options for appointing External Auditors from April 2022 resulting from the Local Audit and Accountability Act 2014, and the advantages and disadvantages of each option
  - b) to support a recommendation to the full Council in January 2022 to appoint the Public Sector Audit Appointments Ltd to negotiate and appoint the External Auditor for Doncaster Council.

#### **WHAT DOES THIS MEAN FOR THE CITIZENS OF DONCASTER?**

5. It is important that a robust appointment process takes place for an external auditor. The external auditor provides independent assurance to the citizens of Doncaster as to whether the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources and an audit opinion on the financial statements.

## BACKGROUND

6. The Local Audit and Accountability Act 2014 abolished the Audit Commission and established transitional arrangements for the appointment of external auditors for all local government and NHS bodies in England.
7. The Council's current external auditor is Grant Thornton, this appointment having been made under a contract managed by Public Sector Audit Appointments Limited (PSAA). The Council's external audit fee for 2020/21 is £212,430.
8. The scope of the audit will continue to be specified nationally. The National Audit Office (NAO) is responsible for writing the Code of Audit Practice which all firms appointed to carry out councils' audits must follow. Not all accounting firms will be eligible to compete for the work as they will need to demonstrate that they have the required skills and experience, and be registered with a Registered Supervising Body approved by the Financial Reporting Council.

## OPTIONS CONSIDERED

9. There are three broad options open to the Council under the Local Audit and Accountability Act 2014 (the Act): -

**Option 1 To make a stand-alone appointment**

**Option 2 Set up a Joint Auditor Panel/local joint procurement arrangements**

**Option 3 Continue to take part in the national procurement undertaken by PSAA**

10. **Option 1:** In order to make a stand-alone appointment the Council will need to set up an Auditor Panel. The members of the panel must be wholly or a majority independent members as defined by the Act and must be chaired by an independent member. Independent members for this purpose are independent appointees, this excludes 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 which firm of accountants to award a contract for the Council's external audit. The new independent auditor panel established by the Council would be responsible for selecting the auditor.

### *Advantages/benefits*

- a) Setting up an auditor panel allows the Council to take maximum advantage of the new local appointment regime and have local input to the decision.

### *Disadvantages/risks*

- a) Recruitment and servicing of the Auditor Panel, running the bidding exercise and negotiating the contract is estimated by the LGA to cost in the order of £15,000 plus on going expenses and allowances.
- b) The Council will not be able to take advantage of reduced fees that may be available through joint or national procurement contracts.
- c) The assessment of bids and decision on awarding contracts will be taken by independent appointees and not solely by elected members.

- d) The external audit market has become very challenging, with firms unable to recruit staff. Often audited bodies nationally in the public and private sector have found that they have at most one bidder for their audit. Consequently single-procurement risks having very little or no choice of audit provider.

11. **Option 2:** The Act enables the Council to join with other authorities to establish a joint auditor panel. Again this will need to be constituted of wholly or a majority of independent appointees (members). Further legal advice will be required on the exact constitution of such a panel having regard to the obligations of each Council under the Act and the Council need to liaise with other local authorities/public sector bodies to assess the appetite for such an arrangement.

*Advantages/benefits*

- a) The costs of setting up the panel, running the bidding exercise and negotiating the contract will be shared across a number of authorities.
- b) There is greater opportunity for negotiating some economies of scale by being able to offer a larger combined contract value to the firms.

*Disadvantages/risks*

- a) The decision making body will be further removed from local input, with potentially no input from elected members where a wholly independent auditor panel is used, or possibly only one elected member representing each council, depending on the constitution agreed with the other bodies involved.
- b) The choice of auditor could be complicated where individual councils have independence issues. An independence issue occurs where the auditor has recently or is currently carrying out work such as consultancy or advisory work for a council. Where this occurs, some auditors may be prevented from being appointed by the terms of their professional standards. There is a risk that if the joint auditor panel choose a firm that is conflicted for this Council then the Council may still need to make a separate appointment with all the attendant costs and loss of economies possible through joint procurement.
- c) Discussions with Directors of Finance from Barnsley, Rotherham and Sheffield Councils has not indicated any particular appetite for this option, which would be likely to mean that the Council would not be acting with its most obvious partners if it were to pursue a joint procurement option.
- d) The problems in obtaining a range of audit firms prepared to bid, as discussed in Option 1, are unaltered by this arrangement.

12. **Option 3:** As with around 98% of local authorities, the Council opted in to the national procurement arrangement run by PSAA in 2017, covering the audits of the Council's 2018/19 to 2022/23 accounts. This option proposes a continuation of this arrangement.

*Advantages/benefits*

- a) The costs of setting up the appointment arrangements and negotiating fees would be shared across all opt-in authorities.
- b) By offering large contract values, the firms would be able to offer lower fees than are likely to result from local negotiation.

- c) Any conflicts at individual authorities would be managed by the PSAA who would have a number of contracted firms to call upon.
- d) The appointment and subsequent audit is demonstrably independent of the Council.
- e) Utilise PSAA expertise in compiling the tender, to undertake all the procurement process, so there would be no costs or resource requirements from the Council. PSAA also provide the on-going contract management, quality assurance of contract delivery and agreement of additional fee requests. Given the Council's current budgetary position, Finance officer time needs to be prioritised on producing a balanced budget for the next 3 years.
- f) PSAA manage any subsequent fee disputes and can apply their knowledge from other clients to determining a reasonable fee.
- g) Supports the local authority collective national procurement process.

#### *Disadvantages/risks*

- a) Individual elected members will have less opportunity for direct involvement in the appointment process other than through the LGA and/or stakeholder representative groups.
- b) In order for the national process to be run, Councils have to indicate that they wish to opt-in by Friday 11<sup>th</sup> March 2022.
- c) The re-procurement exercise in 2017 resulted in very considerable reductions in audit fees. However the auditing firms have not been able to deliver audits for these fees, resulting in increases in fees. Appointing as part of a smaller group or individually might make the firms more reluctant to ask for fee increases, or at least the Council might have more influence over fee negotiations as these would be directly with the firm.

#### **The way forward**

13. The Council must make an appointment before the start of the 2023/24 financial year. In practical terms the option selected will determine the timescale required for a formal decision.
14. If option 1 or 2 are preferred this needs to be agreed by Spring 2022 in order that the contract negotiation process can be carried out during 2022. However, in the case of option 3 – the sector-led option – the PSAA has stated that councils wishing to use the PSAA to make external audit appointments on their behalf must advise the PSAA of their intention to do so by Friday 11<sup>th</sup> March 2022.
15. Option 3, the sector-led route, is an opt-in option. In accordance with Regulation 19 of the Local Audit (Appointing Person) Regulations 2015, any decision to choose the sector-led route must be made by the Full Council. Although it is a Council decision, the Audit Committee should consider the options and is asked to support officers' recommendation to Council to adopt the sector-led route.
16. Consultation with neighbouring local authorities has identified a preference by all to choose the sector-led option.

## REASONS FOR RECOMMENDED OPTION

17. This report recommends that option 3 be recommended to full council for approval on the basis of the financial benefits anticipated through: -

- a) The PSAA's ability to offer large contract values to firms who would be able to offer better rates and lower fees than are likely to result from local negotiation and
- b) Removing the costs of setting up a local audit panel.

There are also advantages in that conflicts of interest would be managed by the PSAA who would have a number of contracted firms to call upon and that the appointment process would be more independent than by a local panel

## IMPACT ON THE COUNCIL'S KEY OUTCOMES

18.

	Outcomes	Implications
	<p><b>Doncaster Working:</b> Our vision is for more people to be able to pursue their ambitions through work that gives them and Doncaster a brighter and prosperous future;</p> <ul style="list-style-type: none"> <li>• Better access to good fulfilling work</li> <li>• Doncaster businesses are supported to flourish</li> <li>• Inward Investment</li> </ul>	
	<p><b>Doncaster Living:</b> Our vision is for Doncaster's people to live in a borough that is vibrant and full of opportunity, where people enjoy spending time;</p> <ul style="list-style-type: none"> <li>• The town centres are the beating heart of Doncaster</li> <li>• More people can live in a good quality, affordable home</li> <li>• Healthy and Vibrant Communities through Physical Activity and Sport</li> <li>• Everyone takes responsibility for keeping Doncaster Clean</li> <li>• Building on our cultural, artistic and sporting heritage</li> </ul>	
	<p><b>Doncaster Learning:</b> Our vision is for learning that prepares all children, young people and adults for a life that is fulfilling;</p> <ul style="list-style-type: none"> <li>• Every child has life-changing learning experiences within and</li> </ul>	

	beyond school <ul style="list-style-type: none"> <li>• Many more great teachers work in Doncaster Schools that are good or better</li> <li>• Learning in Doncaster prepares young people for the world of work</li> </ul>	
	<b>Doncaster Caring:</b> Our vision is for a borough that cares together for its most vulnerable residents; <ul style="list-style-type: none"> <li>• Children have the best start in life</li> <li>• Vulnerable families and individuals have support from someone they trust</li> <li>• Older people can live well and independently in their own homes</li> </ul>	
	<b>Connected Council:</b> <ul style="list-style-type: none"> <li>• A modern, efficient and flexible workforce</li> <li>• Modern, accessible customer interactions</li> <li>• Operating within our resources and delivering value for money</li> <li>• A co-ordinated, whole person, whole life focus on the needs and aspirations of residents</li> <li>• Building community resilience and self-reliance by connecting community assets and strengths</li> <li>• Working with our partners and residents to provide effective leadership and governance</li> </ul>	Ensuring proper procurement processes are followed and utilising a national Sector Led Body (Public Sector Auditor Appointments Limited) will ensure that best value is obtained through negotiating on the council's behalf to obtain better rates and lower fees than are likely to result from local negotiation.

## RISKS AND ASSUMPTIONS

19. This report presents Members with options available to appoint the Council's external Auditors and the advantages and disadvantages and associated risk with these options. Option 3 to appoint PSAA is considered the option most likely to manage risk associated with failing to follow appropriate procurement processes and obtain value for money within these arrangements.

## LEGAL IMPLICATIONS [Officer Initials...SRF Date...07/10/2021]

20. There is a statutory obligation on the Council to appoint an external auditor and these are set out in the Local Audit and Accountability Act 2014. If the Council decides not to partake in the national procurement exercise it will be required to carry out its own procurement process in compliance with Contract Procedure Rules.

### **FINANCIAL IMPLICATIONS [Officer Initials...RLI Date...06/10/2021]**

21. The cost of establishing a local or joint Auditor Panel outlined in options 1 and 2 above would need to be estimated and included in the Council's budget for 2021/22 if either of these options was preferred by the Council. This will include the cost of recruiting independent appointees (members), servicing the Panel, running a bidding and tender evaluation process, letting a contract and paying members fees and allowances.
22. Opting-in to a national sector-led option provides maximum opportunity to limit the extent of any fee increases by entering in to a large scale collective procurement arrangement and would remove the costs of establishing an auditor panel.
23. Government announced £15 million to support principal local bodies to meet the anticipated rise in audit fees in 2021/22, driven by new requirements on auditors, including the 2020 Code of Audit Practice, and to enable local authorities to develop standardised statements of service information and costs. Doncaster's share is £65k. The 2021/22 budget for external audit fees, including the additional allocation, is £263k. This funds the main external audit contract, plus the costs of auditing specific grants per the relevant terms and conditions.

### **HUMAN RESOURCES IMPLICATIONS [Officer Initials...SH Date...14/10/2021]**

24. There are no identified human resources implications arising from this report.

### **TECHNOLOGY IMPLICATIONS [Officer Initials...PW Date...07/10/2021]**

25. There are no identified technology implications arising from this report.

### **HEALTH IMPLICATIONS [Officer Initials...RS Date...07/10/2021]**

26. There are no direct health implications arising from this report. However good governance contributes to good health and wellbeing and this includes the appointment of the external auditors.

### **EQUALITY IMPLICATIONS [Officer Initials...RLI Date...06/10/2021]**

27. We are aware of the council's obligations under the public sector equalities duties and there are no identified equal opportunity issues within this report.

### **CONSULTATION**

28. Consultation has been carried out with neighbouring local authorities which identified no appetite for a local appointment process and all provisionally seeking to use the PSAA.
29. This report seeks to consult with members of the Audit Committee and seek their support to a recommendation to the full Council to opt-in to the sector-led approach.

## **BACKGROUND PAPERS**

30. PSAA – Procurement and Appointment of Auditors

## **GLOSSARY OF ACRONYMS AND ABBREVIATIONS**

LGA	Local Government Association
NAO	National Audit Office
NHS	National Health Service
PSAA	Public Sector Audit Appointments Limited
The Act	Local Audit and Accountability Act 2014

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