



Havering
LONDON BOROUGH

AUDIT COMMITTEE

Subject Heading:

External Audit procurement for the London Borough of Havering and Havering Pension Fund 2023/24 to 2027/28

SLT Lead:

Jane West

Report Author and contact details:

Julie Oldale
Designation: Deputy s151 Officer, Finance
Telephone: 01708 434551
E-mail: julie.oldale@onesource.co.uk

Policy context:

This report proposes the procurement route for external audit requirements 2023/24 to via the PSAA. The referral from Audit committee will be made to council to inform their decision.

Financial summary:

The procurement will establish a contract for the provision of statutory external audit services for the period 2023/24 to 20027/28. The financial implications will become clear as the procurement process progresses.

The subject matter of this report deals with the following Council Objectives

Communities making Havering	<input type="checkbox"/>
Places making Havering	<input type="checkbox"/>
Opportunities making Havering	<input checked="" type="checkbox"/>
Connections making Havering	<input type="checkbox"/>

SUMMARY

- 1.1 Members are being asked to comment on the proposed routes to procure the next external audit contract. A decision needs to be taken by the end of February 2022 as to whether to opt in to the Public Sector Audit Appointments (PSAA) led procurement.

RECOMMENDATIONS

For the reasons set out in the report, the Committee is asked to agree to procure an external audit contract through the PSAA for both the London Borough of Havering and the Havering Pension Fund:

The Committee is asked to:

Discuss the contents of the report and comment accordingly in order that the committee's views are taken into account when the matter is determined by Full Council.

REPORT DETAIL

2 Background

- 2.1 The Local Audit and Accountability Act 2014 sets out the requirements for the appointment of external auditors, referred to as local auditors in the Act, by local authorities, relevant authority. Section 7 (1) of the Act states that a relevant authority must appoint a local auditor to audit accounts for a financial year not later than 31 December in the preceding financial year.
- 2.2 Section 7 (2) of the Act allows a relevant authority to appoint local auditors for more than one year, but must reappoint at least once every five years.
- 2.3 The current contract for the external audit of the annual accounts, currently awarded to Ernst & Young (EY), commenced from the 2018/19 annual audit runs until the end of the audit for the 2022/23 annual accounts, for both the London Borough of Havering and the Havering Pension Fund. This means the latest that the next contract can be awarded is 31 December 2022
- 2.4 The authority has to decide the process for the appointment of the external auditors for the audit of the 2023/24 statement of accounts. The options are;
- to tender as a stand alone organisation, for both the London Borough of Havering and the Havering Pension Fund,

- work as a consortium with a group of other local authorities to procure the new contract
 - or join the Public Sector Audit Appointments (PSAA) procurement.
- 2.5 The PSAA will be inviting all local authorities to opt-in to their procurement process during September 2022 and have asked for responses by 11 March 2022 as to whether authorities wish to opt in to the PSAA tendering process.
- 2.6 To date, since the abolition of the Audit Commission, nearly all local authorities have procured their external auditor via the PSAA. Informal indications are that most authorities will continue down this route. However, the committee should nonetheless consider the matter and make recommendations accordingly.
- 2.7 The decision is a matter for Full Council and the recommendation of this committee will be forwarded for the final decision.

3 Key Considerations & Proposals

- 3.1 There are three options to consider for the procurement of the external audit service. The decision is a matter for Full Council, but the views of the Audit Committee would be taken into account. The options are to:
- undertake an individual auditor procurement and appointment exercise;
 - undertake a joint audit procurement and appointing exercise with other local authorities, such as near neighbours; or
 - join PSAA's sector led national scheme.
- 3.2 Section 9 of the Act requires each relevant authority to have an auditor panel. The relevant authority must consult with and take into account the advice of its auditor panel on the selection and appointment of a local auditor. The exception is if the authority opts to join the PSAA sector led national scheme.
- 3.3 The pros and cons of an individual auditor procurement and appointment exercise are:
- 3.3.1 In pursuing any local procurement approach there would be a further administrative overhead due to the requirement under the legislation to create an auditor panel.
 - 3.3.2 The auditor panel must consist of a majority of independent members and 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 represents an administrative burden for Havering.

- 3.3.3 This means that elected members will not have a majority input to assessing bids and choosing which audit firm to award a contract for the Council's external audit.
- 3.3.4 The Council would retain control of contract management and performance as well as directly negotiating fee variations with the external auditor.
- 3.3.5 The Council could align the external audit so that it and its subsidiaries would use the same audit firm.
- 3.3.6 Informal discussions suggest that the single council Havering audit is likely to be commercially attractive to large audit firms and so there is a reasonable degree of confidence that an appointment could be made. It is difficult to assess whether this is likely to be more expensive or cheaper than the PSAA option. Arguably it might be a little cheaper, since the PSAA model inevitably involves a degree of cross-subsidy for commercially unattractive audits and some audit firms consider that there is an overhead in dealing with the PSAA. However, there is no guarantee of this and in any event price is probably not the most important factor in evaluating a contract of this nature.

3.4 The Council could opt to join with other authorities to establish a joint auditor panel.

- 4.4.1 Again the appointment of the contract would need to be made by a body constituted of wholly or a majority of independent members.
- 4.4.2 Further legal advice would be required on the exact constitution of such a panel having regard to the obligations of each Council under the Act and the Council would need to liaise with other local authorities to assess the appetite for such an arrangement.
- 4.4.3 It is difficult to see the benefits of this arrangement. It adds in the complexity inherent in joint procurements with none of the "strength in numbers" potential arguments of the PSAA approach. Officers recommend that this option should not be pursued as impractical and providing little or no obvious benefits over the other two options.

3.5 The PSAA sector led approach.

- 3.5.1 The Council could join the PSAA's national scheme. At present 498 out of 508 local authority bodies use this and indications are that something like this very clear majority will continue to do so.

Havering would therefore be a clear outlier in not following the approach.

- 3.5.2 This will be the least onerous procurement option for the Council, however the Council has no control over contract performance and relies on the PSAA for contract management and fee variations.
 - 3.5.3 Arguably, the PSAA regime has not been the success intended and many commentators have suggested that the audit market for local authorities has been challenging in recent years. Many of these factors are beyond the control of the PSAA.
 - 3.5.4 Under this option the PSAA holds the contract with the auditor, arguably separating contract management from the client (i.e. Havering). However, there should be a collective bargaining or “strength in numbers” to the PSAA approach and it also clearly separates out the audit appointment from the audited body (i.e. Havering). This is an important point of governance, although the alternative requirement for an auditor appointment panel largely deals with it.
 - 3.5.5 Arguably the downside of this has been a lack of clarity over fees, with a complex system of standard (or “scale”) fees for types of audit and variations, all of which are determined by the PSAA in discussion with the auditor. The Council is consulted on those fees, but as it is not a party to the contract cannot control them.
 - 3.5.6 Despite these possible disadvantages the PSAA approach is without doubt the simplest way to ensure that an appropriately qualified external auditor is appointed for Havering and it is an approach that the vast majority of the sector uses.
- 3.6 Since the current contracts were awarded, the requirements of international auditing standards have changed and increased the work that the external auditors are required to undertake which has resulted in additional fees to local authorities over the contracted price.
- 3.7 The fees in the current contract are unlikely to reduce and it is expected that they will increase in the next procurement round regardless of the option chosen.

IMPLICATIONS AND RISKS

Financial implications and risks:

There are no direct financial implications arising from the decision on the procurement method. However the annual budget requirement for the audit will become clear as a result of the procurement process. The indication is that the annual audit fees will increase from the current contract values. This would need to be managed as part of the medium term financial planning process.

Audit Committee, 22 February 2022

The current fees for the audit are as shown below.

	Actual costs	
	2020/21	2019/20
	£	£
LBH - Audit Fees	226,567	226,567
LBH - Pension Fund - Audit Fees	23,325	21,170
Additional non recurring fee in year.		12,000
	249,892	259,737

Legal implications and risks:

None arising directly.

The Committee has been constituted by the Council to oversee internal and external audit, including arrangements for the same and has authority to consider and comment on the selection of an external auditor.

The Local Audit and Accountability Act 2014 and supporting Regulations specify the PSAA as an appointing person for local auditors. The committee may approve the recommendation to join the PSAA scheme if so minded.

Human Resources implications and risks:

There are no apparent human resources implications in noting the content of the report.

Equalities implications and risks:

The Public Sector Equality Duty (PSED) under section 149 of the Equality Act 2010 requires the Council, when exercising its functions, to have due regard to:

- (i) the need to eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Equality Act 2010;
- (ii) the need to advance equality of opportunity between persons who share protected characteristics and those who do not, and;
- (iii) foster good relations between those who have protected characteristics and those who do not.

Note: 'Protected characteristics' are: age, sex, race, disability, sexual orientation, marriage and civil partnerships, religion or belief, pregnancy and maternity and gender reassignment.

The Council is committed to all of the above in the provision, procurement and commissioning of its services, and the employment of its workforce. In addition, the Council is also committed to improving the quality of life and wellbeing for all Havering residents in respect of socio-economics and health determinants.

There are no Equality implications regarding this matter.

