



LONDON FIRE BRIGADE

Report title

Provision of External Audit Services from 1 April 2023 – Public Sector Audit Appointments Ltd (PSAA)

Report to

Date

**Commissioner's Board
Deputy Mayor's Fire and Resilience Board
London Fire Commissioner**

13 January 2022
8 February 2022

Report classification:

For Decision

The subject matter of this report deals with the following LFB strategic priorities:

Delivering excellent

Report number – LFC-0654y

For Publication

PART I - NON-CONFIDENTIAL FACTS AND ADVICE TO THE DECISION-MAKER

I agree the recommended decision below.

Andy Roe
London Fire Commissioner

Date **This decision was signed remotely
on the 7 March 2022**

Executive Summary

The London Fire Commissioner (LFC) currently opts into a service from Public Sector Audit Appointments Ltd (PSAA), which procures external audit services on its behalf. The current arrangements (approved by the London Fire and Emergency Planning Authority (LFEPA) in 2017)

will expire at the end of the 2022/23 financial year and the LFC has been invited to consider whether to opt in for a further five-year period from 1 April 2023.

PSAA has undertaken a number of consultations over the last couple of years to obtain user feedback and consider options for improvements. Officers have responded to PSAA consultation as well as work with Greater London Authority (GLA) colleagues to consider alternative options for the procurement of external audit services.

Recommended decision(s)

It is proposed that the LFC approves opting in to the PSAA arrangements, by the 11 March deadline, to procure external audit services for a further five year period from 1 April 2023.

For the London Fire Commissioner

That the London Fire Commissioner

- agrees to opt in to the Public Sector Audit Appointments Ltd procurement process, by the 11 March deadline;
- delegates to the Director of Corporate Services authority to confirm the appointment of external auditors following completion of the Public Sector Audit Appointments Ltd procurement process.

Further decisions for the London Fire Commissioner are included in the Part 2 report.

1. Introduction and background

- 1.1 The Local Audit and Accountability Act 2014 and the Local Audit (Appointing Person) Regulations 2015 put in place arrangements for the appointment of auditors by local authorities, necessitated by the winding up of the Audit Commission. The Regulations set out the concept of an 'appointing person', sometimes referred to as a sector led body, and in 2016 Public Sector Audit Appointments Ltd (PSAA) was specified as the 'appointing body'. PSAA was originally established to operate the transitional arrangements following the closure of the Audit Commission under powers delegated by the Secretary of State, and is an independent, not-for profit company established by the Local Government Association (LGA).
- 1.2 Under the Act and the Regulations, one option open to the local authorities, including the London Fire Commissioner (LFC), is to opt-in to such a sector led body. Alternative options are to: set up a Joint Auditor Appointments Committee together with other local authorities responsible for auditor selection; ask another authority's Auditor Appointments Committee to carry out these functions on the LFC's behalf; or make a stand-alone appointment through a LFC Auditor Appointments Committee.
- 1.3 During 2016 and 2017 officers worked with Greater London Authority (GLA) officers to investigate the options available, and the LFC (as its predecessor body, the London Fire and Emergency Planning Authority (LFEPA) (FEP 2685)), considered these options and agreed to accept the PSAA's invitation to opt into the national scheme for the appointment of external

auditors from 1 April 2018. As a consequence of that, Ernst and Young LLP were appointed as the LFC's (and previously LFEPA's) external auditors for the five-year appointing period 2018/19 to 2022/23.

- 1.4 PSAA is now commencing the latest process for appointment of external auditors and has formally invited the LFC to become an opted-in authority to the national scheme in accordance with the Regulations. Further information is contained in the PSAA opt-in invitation letter and additional information at Appendix 1. The length of the compulsory appointing period covers the audits of the five consecutive financial years commencing 1 April 2023.
- 1.5 A decision to become an opted-in authority must be taken by the LFC.
- 1.6 The closing date to give notice to PSAA that the LFC accepts its invitation is Friday 11 March 2022.

Issues for Consideration

- 1.7 There are three formal options currently open to the LFC under the Regulations:
 - opting into the PSAA arrangements;
 - forming a consortium with other authorities to form an Auditor Appointments Committee; or
 - establishing the LFC's own Auditor Appointments Committee.
- 1.8 Chief Finance Officers in the GLA Group and in London Boroughs did consider the scope for opting out of PSAA and into a new collaborative purchasing agreement. However, the disadvantages of local arrangements, identified in 2017, still apply. The options to set up an Auditor Appointment Committee (AAC) as an alternative to the PSAA arrangements, whether for the LFC alone or in conjunction with GLA Group or other London-wide bodies, presents a number of challenges.
- 1.9 Key challenges include establishing an independent AAC, allocating resources to this significant procurement activity, securing pricing comparable to that which could otherwise be secured through the PSAA bulk buying power. It is likely therefore that the LFC would face significant challenges in securing a process to match quality, independence and costs expected from PSAA.

Challenges with Current Arrangements

- 1.10 Whilst there are clear advantages to the PSAA arrangements, there have been some challenges in the arrangements for the five year period from 2018. The key challenges experienced by the LFC have included increasing fees and audits completed after the expected deadlines. These challenges have been set out in the reports to present the Statements of Accounts for 2019/20 and 2020/21. There have of course been substantial external pressures that have impacted on both the fees and the time taken to complete the audits, with the Covid-19 being a key element in this but also the increasing requirements placed on audit firms on the work to be completed before reaching their opinions. This has seen a number of consultations undertaken to address some of the challenges and put in place future arrangements to address these. These consultations have included the independent review undertaken by Sir Tony Redmond into the effectiveness of external audit and transparency of financial reporting in local authorities. LFC officers have responded to the key consultations.

External Audit Fees

1.11 The impact of the further audit requirements has led to fees being incurred that are substantially in excess of the scale fee agreed by PSAA before the start of the financial year to which it relates. The provisional fees, which are subject to review and approval by PSAA, for the audits in 2019/20 and 2020/21 are set out in the table. It is the process for setting, reviewing and updating/amending fees that has in particular been addressed in recent consultations.

Audit Fees	2019/20	2020/21
Scale fee	£51,961	£51,961
Additional Fees	£47,200	£47,200
Further Fees	£69,723	£26,887
Total	£168,884	£126,048

The additional fees for 2020/21 set out in the table above are expected to continue to feature in audit fees for future years. The additional fees for 2019/20 were as a result of additional requirements placed on auditors and were carried forward to 2020/21, and are expected to be addressed as part of the scale fee from 2022/23. The further fees for 2020/21 primarily related to additional requirements in relation to the new Value for Money conclusion, as well as additional further pensions work, and as much of this wasn't LFC specific is expected to be required in future years, and so again should be addressed as part of the scale fee from 2022/23.

1.12 The additional fees for 2020/21 set out in the table above are expected to continue to feature in audit fees for future years. The additional fees for 2019/20 were as a result of additional requirements placed on auditors and were carried forward to 2020/21, and are expected to be addressed as part of the scale fee from 2022/23. The further fees for 2020/21 primarily related to additional requirements in relation to the new Value for Money conclusion, as well as additional further pensions work, and as much of this wasn't LFC specific is expected to be required in future years, and so again should be addressed as part of the scale fee from 2022/23.

1.13 Further consideration of future external audit fees is provided in the Part 2 report.

Conclusions

1.14 The PSAA arrangements are lower risk than an alternative process, and it is understood that 98 per cent of eligible bodies made the choice to opt-in for the five-year period commencing in April 2018. It is expected that a sector-wide procurement might produce better outcomes and will be less burdensome for the LFC 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;
- it avoids the need to establish our own Auditor Appointment Committee with an independent chair and independent members to oversee a local auditor procurement and ongoing management of an audit contract;

- it may be the best opportunity to secure the appointment of a qualified, registered auditor – it is understood that 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
- despite the current criticism of the external audit process, 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.

Next Steps

- 1.11 PSAA will commence the formal procurement process in early February 2022. Should the LFC agree to opt into the latest PSAA scheme by the 11 March deadline, it expects to award contracts in August 2022 and will then consult with authorities on the appointment of auditors so that it can make appointments by the statutory deadline of 31 December 2022.

2. Objectives and expected outcomes

- 2.1 The report is to seek LFC approval to again opt in to the PSAA arrangements to procure external audit services for the five years from 1 April 2023. LFC officers have worked with GLA colleagues to consider alternative options to PSAA and have concluded that opting in to the PSAA arrangements is expected to offer the best solution.

3. Equality comments

- 3.1 The LFC and the Deputy Mayor for Fire and Resilience are required to have due regard to the Public Sector Equality Duty (section 149 of the Equality Act 2010) when taking decisions. This in broad terms involves understanding the potential impact of policy and decisions on different people, taking this into account and then evidencing how decisions were reached.
- 3.2 It is important to note that consideration of the Public Sector Equality Duty is not a one-off task. The duty must be fulfilled before taking a decision, at the time of taking a decision, and after the decision has been taken.
- 3.3 The protected characteristics are: age, disability, gender reassignment, pregnancy and maternity, marriage and civil partnership (but only in respect of the requirements to have due regard to the need to eliminate discrimination), race (ethnic or national origins, colour or nationality), religion or belief (including lack of belief), sex, and sexual orientation.
- 3.4 The Public Sector Equality Duty requires decision-takers in the exercise of all their functions, to have due regard to the need to:
- eliminate discrimination, harassment and victimisation and other prohibited conduct.
 - advance equality of opportunity between people who share a relevant protected characteristic and persons who do not share it.
 - foster good relations between people who share a relevant protected characteristic and persons who do not share it.

- 3.5 Having due regard to the need to advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it involves having due regard, in particular, to the need to:
- remove or minimise disadvantages suffered by persons who share a relevant protected characteristic where those disadvantages are connected to that characteristic.
 - take steps to meet the needs of persons who share a relevant protected characteristic that are different from the needs of persons who do not share it.
 - encourage persons who share a relevant protected characteristic to participate in public life or in any other activity in which participation by such persons is disproportionately low.
- 3.6 The steps involved in meeting the needs of disabled persons that are different from the needs of persons who are not disabled include, in particular, steps to take account of disabled persons' disabilities.
- 3.7 Having due regard to the need to foster good relations between persons who share a relevant protected characteristic and persons who do not share it involves having due regard, in particular, to the need to:
- tackle prejudice.
 - promote understanding.
- 3.8 The procurement of external audit services and opting in to the PSAA arrangements to do so is not expected to have any direct equalities impact. Therefore, no EIA has been completed.

4. Other Considerations

Workforce comments

- 4.1 This report is not expected to have a direct workforce impact.

Sustainability comments

- 4.2 This report is not expected to have a direct sustainability impact.

Procurement comments

- 4.3 This report proposes that the LFC opts in to the PSAA arrangements to procure external audit services from 1 April 2023. This will allow significant efficiency in the procurement process, and for the last procurement in 2018 saw 98 per cent of eligible bodies opt in to the PSAA arrangement.
- 4.4 LFC officers have worked with GLA officers to consider alternative options that would allow the LFC to procure audit services in its own right or in collaboration with perhaps the GLA Group and possibly London Boroughs, however no option that was expected to deliver results at least as good as those expected from the PSAA option was identified.

5. Financial comments

- 5.1 The report proposes that the LFC opts in to the PSAA arrangements for the procurement of external audit services from 1 April 2023. The total costs of the last audit, of the 2020/21

Statement of Accounts, are provisionally calculated at £126,048 and these are to be met from the budget held by Finance for this purpose (see part 2).

- 5.2 This report proposes the continuation of the current budget for Audit Fees from 2023-24.
- 5.3 If future costs of the external audit cannot be contained within the existing budget a pressure will arise on the overall budget, which is reported quarterly, and may require funds to be vired from other budget lines and/or the use of reserves in-year; then a growth bid may need to be submitted to the Mayor as part of his 2024-25 budget setting process.

6. Legal comments

- 6.1 The London Fire Commissioner (LFC) is required to comply with the provisions of the Local Audit and Accountability Act 2014 ("2014 Act") and subsidiary legislation and guidance by virtue of Schedule 2 of the 2014 Act.
- 6.2 The 2014 Act requires that the LFEPA and LFC's accounts for a financial year must be audited both:
- in accordance with the 2014 Act and provision made under it, and,
 - by an auditor (a "local auditor") appointed in accordance with this Act or provision made under it.
- 6.3 Regulation 19 of the Local Audit (Appointing Person) Regulations 2015 requires that the decision to opt in to the Public Sector Audit Appointments Ltd procurement process must be made by the London Fire Commissioner and cannot be delegated.

List of Appendices

Appendix	Title	Open or confidential
1.	PSAA Invitation to opt in to national scheme to appoint external auditors from 1 April 2023	Open

Part 2 Confidentiality: Only the facts or advice considered to be exempt from disclosure under the FOI Act should be in the separate Part 2 form, together with the legal rationale for non-publication.

Is there a part 2 form – YES/NO

ORIGINATING OFFICER DECLARATION:

Drafting
officer to
confirm the

following
(✓)

Drafting officer

Adrian Bloomfield has drafted this report and confirms the following:

Assistant Director/Head of Service

Adrian Bloomfield has reviewed the documentation and is satisfied for it to be referred to Board for consideration.

Advice

The Finance and Legal teams have commented on this proposal;

Thomas Davies Legal Advisor, on behalf of General Counsel (Head of Law and Monitoring Officer)

Adrian Bloomfield, Financial Advisor, on behalf of the Chief Finance Officer

22 September 2021

To: Mr Roe, Chief Executive
London Fire Commissioner

Copied to: Ms Budden, S151 Officer
Ms Phillips, Chair of Audit Committee or equivalent

Dear Mr Roe,

Invitation to opt into the national scheme for auditor appointments from April 2023

I want to ensure that you are aware the external auditor for the audit of your accounts for 2023/24 has to be appointed before the end of December 2022. That may seem a long way away but, as your organisation has a choice about how to make that appointment, your decision-making process needs to begin soon.

We are pleased that the Secretary of State has confirmed PSAA in the role of the appointing person for eligible principal bodies for the period commencing April 2023. Joining PSAA's national scheme for auditor appointments is one of the choices available to your organisation.

In June 2021 we issued a draft prospectus and invited your views and comments on our early thinking on the development of the national scheme for the next period. Feedback from the sector has been extremely helpful and has enabled us to refine our proposals which are now set out in the [scheme prospectus](#) and our [procurement strategy](#). Both documents can be downloaded from our website which also contains a range of useful information that you may find helpful.

The national scheme timetable for appointing auditors from 2023/24 means we now need to issue a formal invitation to you to opt into these arrangements. In order to meet the requirements of the relevant regulations, we also attach a form of acceptance of our invitation which you must use if your organisation decides to join the national scheme. We have specified the five consecutive financial years beginning 1 April 2023 as the compulsory appointing period for the purposes of the regulations which govern the national scheme.

Given the very challenging local audit market, we believe that eligible bodies will be best served by opting to join the scheme and have attached a short summary of why we believe that is the best solution both for individual bodies and the sector as a whole.

I would like to highlight three matters to you:

1. if you opt to join the national scheme, we need to receive your formal acceptance of this invitation by Friday 11 March 2022;

2. the relevant regulations require that, except for a body that is a corporation sole (e.g. a police and crime commissioner), the decision to accept our invitation and to opt in must be made by the members of the authority meeting as a whole e.g. Full Council or equivalent. We appreciate this will need to be built into your decision-making timetable. We have deliberately set a generous timescale for bodies to make opt in decisions (24 weeks compared to the statutory minimum of 8 weeks) to ensure that all eligible bodies have sufficient time to comply with this requirement; and
3. if you decide not to accept the invitation to opt in by the closing date, you may subsequently make a request to opt in, but only after 1 April 2023. We are required to consider such requests and agree to them unless there are reasonable grounds for their refusal. PSAA must consider a request as the appointing person in accordance with the Regulations. The Regulations allow us to recover our reasonable costs for making arrangements to appoint a local auditor in these circumstances, for example if we need to embark on a further procurement or enter into further discussions with our contracted firms.

If you have any other questions not covered by our information, do not hesitate to contact us by email at ap2@psaa.co.uk. We also publish answers to [frequently asked questions](#) on our website.

If you would like to discuss a particular issue with us, please send an email also to ap2@psaa.co.uk, and we will respond to you.

Yours sincerely

Tony Crawley
Chief Executive

Encl: Summary of the national scheme

Why accepting the national scheme opt-in invitation is the best solution

Public Sector Audit Appointments Limited (PSAA)

We are a not-for-profit, independent company limited by guarantee incorporated by the Local Government Association in August 2014.

We have the support of the LGA, which in 2014 worked to secure the option for principal local government and police bodies to appoint auditors through a dedicated sector-led national body.

We have the support of Government; MHCLG's Spring statement confirmed our appointment because of our "strong technical expertise and the proactive work they have done to help to identify improvements that can be made to the process".

We are an active member of the new Local Audit Liaison Committee, chaired by MHCLG and attended by key local audit stakeholders, enabling us to feed in body and audit perspectives to decisions about changes to the local audit framework, and the need to address timeliness through actions across the system.

We conduct research to raise awareness of local audit issues, and work with MHCLG and other stakeholders to enable changes arising from Sir Tony Redmond's review, such as more flexible fee setting and a timelier basis to set scale fees.

We have established an advisory panel, which meets three times per year. Its membership is drawn from relevant representative groups of local government and police bodies, to act as a sounding board for our scheme and to enable us to hear your views on the design and operation of the scheme.

The national scheme for appointing local auditors

In July 2016, the Secretary of State specified PSAA as an appointing person for principal local government and police bodies for audits from 2018/19, under the provisions of the Local Audit and Accountability Act 2014 and the Local Audit (Appointing Person) Regulations 2015. Acting in accordance with this role PSAA is responsible for appointing an auditor and setting scales of fees for relevant principal authorities that have chosen to opt into its national scheme. 98% of eligible bodies made the choice to opt-in for the five-year period commencing in April 2018.

We will appoint an auditor for all opted-in bodies for each of the five financial years beginning from 1 April 2023.

We aim for all opted-in bodies to receive an audit service of the required quality at a realistic market price and to support the drive towards a long term competitive and more sustainable market for local audit. The focus of our quality assessment will include resourcing capacity and capability including sector knowledge, and client relationship management and communication.

What the appointing person scheme from 2023 will offer

We believe that a sector-led, collaborative, national scheme stands out as the best option for all eligible bodies, offering the best value for money and assuring the independence of the auditor appointment.

The national scheme from 2023 will build on the range of benefits already available for members:

- transparent and independent auditor appointment via a third party;
- the best opportunity to secure the appointment of a qualified, registered auditor;
- appointment, if possible, of the same auditors to bodies involved in significant collaboration/joint working initiatives, if the parties believe that it will enhance efficiency;
- on-going management of any independence issues which may arise;
- access to a specialist PSAA team with significant experience of working within the context of the relevant regulations to appoint auditors, managing contracts with audit firms, and setting and determining audit fees;
- a value for money offer based on minimising PSAA costs and distribution of any surpluses to scheme members - in 2019 we returned a total £3.5million to relevant bodies and more recently we announced a further distribution of £5.6m in August 2021;
- collective efficiency savings for the sector through undertaking one major procurement as opposed to a multiplicity of smaller procurements;
- avoids the necessity for local bodies to establish an auditor panel and undertake an auditor procurement, enabling time and resources to be deployed on other pressing priorities;
- updates from PSAA to Section 151 officers and Audit Committee Chairs on a range of local audit related matters to inform and support effective auditor-audited body relationships; and
- concerted efforts to work with other stakeholders to develop a more sustainable local audit market.

We are committed to keep developing our scheme, taking into account feedback from scheme members, suppliers and other stakeholders, and learning from the collective post-2018 experience. This work is ongoing, and we have taken a number of initiatives to improve the operation of the scheme for the benefit of all parties.

Importantly we have listened to your feedback to our recent consultation, and our response is reflected in [the scheme prospectus](#).

Opting in

The closing date for opting in is 11 March 2022. We have allowed more than the minimum eight-week notice period required, because the formal approval process for most eligible bodies is a decision made by the members of the authority meeting as a whole [Full Council or equivalent], except police and crime commissioners who are able to make their own decision.

We will confirm receipt of all opt-in notices. A full list of eligible bodies that opt in will be published on our website. Once we have received an opt-in notice, we will write to you to request information on any joint working arrangements relevant to your auditor appointment, and any potential independence matters which may need to be taken into consideration when appointing your auditor.

Local Government Reorganisation

We are aware that reorganisations in the local government areas of Cumbria, Somerset, and North Yorkshire were announced in July 2021. Subject to parliamentary approval shadow elections will take place in May 2022 for the new Councils to become established from 1 April 2023. Newly established local government bodies have the right to opt into PSAA's scheme under Regulation 10 of the Appointing Person Regulations 2015. These Regulations also set out that a local government body that ceases to exist is automatically removed from the scheme.

If for any reason there is any uncertainty that reorganisations will take place or meet the current timetable, we would suggest that the current eligible bodies confirm their acceptance to opt in to avoid the requirement to have to make local arrangements should the reorganisation be delayed.

Next Steps

We expect to formally commence the procurement of audit services in early February 2022. At that time our procurement documentation will be available for opted-in bodies to view through our e-tendering platform.

Our recent webinars to support our consultation proved to be popular, and we will be running a series of webinars covering specific areas of our work and our progress to prepare for the second appointing period. Details can be found on [our website](#) and in [the scheme prospectus](#).