



LONDON FIRE BRIGADE

DMFD157 Appendix 1

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-0654

For Publication

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

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 Deputy Mayor

The decision for the Deputy Mayor is included in the Part 2 report.

This LFC decision will only be taken after further consultation with the Greater London Authority's finance and legal advisers and Corporate Investment Board.

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

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

Conclusions

- 1.13 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 This report proposes that the LFC opts in to the PSAA arrangements for the procurement of external audit services from 1 April 2023. The fees from 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. Further Finance comments are provided in the Part 2 report.

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