

GREATER LONDON AUTHORITY

REQUEST FOR MAYORAL DECISION – MD2938

Title: Public Sector Audit Appointments

Executive summary:

The GLA currently opts into a service from Public Sector Audit Appointments Ltd (PSAA), which procures external audit services on our behalf. The current arrangements (approved by the Mayor and the Assembly in 2017) will expire at the end of the 2022-23 financial year, and the GLA has been invited to consider whether to opt in for a further five-year period.

This form provides background on the proposal and sets out various alternative options. It seeks a decision from the Mayor to opt in to the scheme, a decision which will be taken jointly with the Assembly.

Decision:

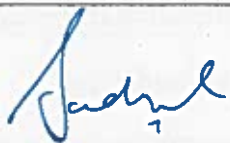
That the Mayor, acting jointly with the Assembly, approves the acceptance of the PSAA's invitation to opt into the national scheme for the appointment of external auditors, from 1 April 2023 for a five-year period, subject to assurances that their assessment of 'quality' includes an ability to ensure that audits are signed off by the target date.

Mayor of London

I confirm that I do not have any disclosable pecuniary interests in the proposed decision and take the decision in compliance with the Code of Conduct for elected Members of the Authority.

The above request has my approval.

Signature:



Date:

15/2/22

PART I – NON-CONFIDENTIAL FACTS AND ADVICE TO THE MAYOR

Decision required – supporting report

1. Introduction and background

- 1.1. The Local Audit and Accountability Act 2014 (“the Act”) and the Local Audit (Appointing Person) Regulations 2015 (the Regulations) 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; it is an independent, not-for-profit company established by the Local Government Association.
- 1.2. Under the Act and the Regulations, one option open to local authorities 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 our behalf; or make a stand-alone appointment through a GLA-only Auditor Appointments Committee.
- 1.3. During 2016 and 2017 the GLA considered these options and agreed to accept the Public Sector Audit Appointments' invitation to opt into the national scheme for the appointment of external auditors from 1 April 2018. Mayoral authority was provided through MD2074. As a consequence of that, PSAA extended the appointment with the GLA's existing auditors Ernst & Young for the five-year appointing period, 2018-19 to 2022-23.
- 1.4. PSAA is now starting the latest process for appointment of external auditors and has formally invited the GLA to become an opted-in authority to its national scheme, in accordance with the Regulations. Further information is contained in the opt-in invitation letter and additional information appended at Appendix A. The length of the compulsory appointing period covers the audits of the five consecutive financial years commencing 1 April 2023.
- 1.5. There are three formal options currently open to the GLA under the Regulations:
 - opting into the PSAA arrangements
 - forming a consortium with other authorities to form an Auditor Appointments Committee
 - establishing the GLA's own Auditor Appointments Committee.
- 1.6. Chief Finance Officers in the Group, and Chief Finance Officers 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 our own Auditor Appointment Committee (whether by ourselves, or in conjunction with the GLA Group or other London-wide bodies) require that the members of such a body must be wholly, or by majority, independent members as defined by the Act. Independent members for this purpose are independent appointees, which excludes current and former elected members (or officers) and their close families and friends. In short, this presents considerable difficulties in finding a pool of suitably qualified people who could sit on this Appointments Committee. These options would mean more resource-intensive processes for their implementation; and without the bulk-buying power of the sector-led procurement, might be likely to result in a more costly service. It would also be more difficult to manage quality and independence requirements through a local appointment process.

- 1.7. The PSAA arrangements are clearly lower-risk; indeed 98 per cent of eligible bodies made the choice to opt in for the five-year period commencing in April 2018. Such a sector-wide procurement might produce better outcomes and will be less burdensome for the GLA 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 – 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
 - 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.
- 1.8. Both GLA officers and the Audit Panel (who was consulted on this matter at its meeting of 7 December 2021) have expressed concern over the lateness of external audits, and emphasised that any new auditor appointment would be expected to deliver audits on time. It is therefore suggested this approval is contingent on seeking assurances that their assessment of ‘quality’ includes an ability to ensure that audits are signed off by the target date.
- 1.9. A decision to become an opted-in authority must be by both the Assembly (in plenary session) and the Mayor (through a Mayoral Decision). This decision is being prepared in parallel with a report to the Assembly’s Plenary meeting on 10 February 2022, which seeks the same decision.
- 1.10. The closing date to give notice to PSAA that the GLA accepts its invitation is Friday 11 March 2022.

2. Objectives and expected outcomes

- 2.1. The objective of participating in the PSAA arrangements is to find a quality and cost-effective solution to the procurement of external audit services.
- 2.2. Effective external audit ensures that independent and professional assurance is provided that the Authority is being well governed, and that its financial resources are being managed efficiently.

3. Equality comments

- 3.1. Under section 149 of the Equality Act 2010, the Mayor and GLA are subject to the public sector equality duty and must have due regard to the need to:
- eliminate unlawful discrimination, harassment and victimisation
 - advance equality of opportunity between people who share a relevant protected characteristic and those who do not

- foster good relations between people who share a relevant protected characteristic and those who do not.
- 3.2. The “protected characteristics” are age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex, sexual orientation, and marriage/civil partnership status. The duty involves having appropriate regard to these matters as they apply in the circumstances, including having regard to the need to: remove or minimise any disadvantage suffered by those who share or is connected to a protected characteristic; take steps to meet the different needs of such people; and encourage them to participate in public life or in any other activity where their participation is disproportionately low. This can involve treating people with a protected characteristic more favourably than those without one.
 - 3.3. This proposal is not expected to have any particular negative impacts on any group sharing a protected characteristic under the Act.

4. Other considerations

Key risks and issues

- 4.1. The principal risks are that the GLA 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.
- 4.2. There has been an issue with the timeliness of reports and signing off of accounts with the current external auditors. As a result this decision recommends that a decision to appoint through PSAA is contingent on timeliness being addressed as one of the quality considerations.

Links to Mayoral strategies and priorities

- 4.3. Effective governance and resource management is a necessary foundation of the achievement of all the Mayor’s priorities for Londoners.
- 4.4. There are no conflicts of interest to declare from any person involved in the drafting or clearance of this decision form.

5. Financial comments

- 5.1. The estimated audit fee for the 2020-21 audit, is £220,240, though this will increase when some additional areas identified during the completion of their work are added in. Fees for financial years from April 2023 will be payable in accordance with the outcome of the procurement to be conducted by PSAA.

6. Legal comments

- 6.1. Regulation 19 of the Local Audit (Appointing Person) Regulations 2015 requires that a decision to opt in must be made by a meeting of the council/authority (meeting as a whole). In the case of the GLA this appears to require a joint decision by the London Assembly (and which cannot be delegated to a committee) and the Mayor. This has been how the appointment requirement has been interpreted in the past.

7. Planned delivery approach and next steps

Activity	Timeline
PSAA to commence the formal procurement process	February 2022
PSAA formally advised of GLA intention to opt in	By 11 March 2022
PSAA awards contracts and consults opted-in bodies on appointments	August 2022
Appointments of auditors made	By 31 December 2022
New audit arrangements commence	1 April 2023
Procurement process restarts	2027 and 2028
Current arrangements conclude	31 March 2028

Appendices and supporting papers:

Appendix A- Invitation letter and supporting documentation

Public access to information

Information in this form (Part 1) is subject to the Freedom of Information Act 2000 (FoIA) and will be made available on the GLA website within one working day of approval.

If immediate publication risks compromising the implementation of the decision (for example, to complete a procurement process), it can be deferred until a specific date. Deferral periods should be kept to the shortest length strictly necessary. **Note:** This form (Part 1) will either be published within one working day after it has been approved or on the defer date.

Part 1 – Deferral

Is the publication of Part 1 of this approval to be deferred? **NO**

Part 2 – Sensitive information

Only the facts or advice that would be exempt from disclosure under FoIA should be included in the separate Part 2 form, together with the legal rationale for non-publication.

Is there a part 2 form –**NO**

ORIGINATING OFFICER DECLARATION:

Drafting officer to confirm the following (✓)

Drafting officer:

Andrew Nathan has drafted this report in accordance with GLA procedures and confirms the following:

✓

Sponsoring Director:

David Gallie has reviewed the request and is satisfied it is correct and consistent with the Mayor's plans and priorities.

✓

Mayoral Adviser:

David Bellamy has been consulted about the proposal and agrees the recommendations.

✓

Advice:

The Finance and Legal teams have commented on this proposal.

✓

Corporate Investment Board

This decision was agreed by the Corporate Investment Board on 7 February 2022

✓

EXECUTIVE DIRECTOR, RESOURCES:

I confirm that financial and legal implications have been appropriately considered in the preparation of this report.

Signature



Date

7 February 2022

CHIEF OF STAFF:

I am satisfied that this is an appropriate request to be submitted to the Mayor

Signature



Date

7 February 2022