

Leaders' Committee

Appointment of External Auditor

Item no: 12

Report by: David Sanni

Job title: Director, Corporate Resources

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Summary

At its meeting on 1 December 2022, the Audit Committee received a report providing details on the outcome of the external audit procurement process. The Audit Committee reviewed the procurement process carried out by London Councils officers and recommended that the Leaders' Committee approve the appointment of PKF Littlejohn LLP as London Councils' external auditor for a four-year period, commencing with the audit of the 2022/23 accounts and ending with the completion of the audit of the 2025/26 accounts.

Recommendations The Leaders' Committee is asked to:

- note the recommendation of the Audit Committee; and
- approve the appointment of PKF Littlejohn LLP as London Councils' external auditor for a four-year period commencing with the audit of the 2022/23 accounts and ending with the completion of the audit of the 2025/26 accounts.

Introduction

1. In accordance with the requirements of London Councils' governing agreement, the Director of Corporate Resources must make appropriate arrangements to procure the audit of London Councils' annual accounts. An audited version of the annual accounts is presented to the Audit Committee for approval before circulation to all member boroughs each year. In June 2019, following the recommendation from the Audit Committee, this Committee approved the appointment of Grant Thornton as London Councils external auditor for a four-year period covering the audit of the 2019/20 to 2022/23 accounts.
2. A decision was taken by the Audit Committee to retender the external service a year early following a significant increase to Grant Thornton's proposed fee to audit the 2021/22 accounts. In addition, the firm has been unable to complete its audits within the September deadline set out in the audit contract due to the impact of Covid-19 working restrictions and other factors affecting the public sector audit profession.
3. London Councils officers carried out a procurement exercise to appoint an auditor for the four-year period commencing with the audit of the current year's accounts. The outcome of the procurement exercise was considered by the Audit Committee at its meeting on 1 December 2022. The Audit Committee's Terms of Reference includes the responsibility to make a recommendation to the Leaders Committee on the appointment, reappointment and removal of the external auditor. The Audit Committee was asked to review the procurement process and recommend the appointment of the successful tenderer.

Procurement Process

4. As a joint committee, London Councils is ineligible to join the Public Sector Audit Appointments Limited (PSAA) scheme to procure its external audit service. PSAA is specified as an appointing person under the provisions of

the Local Audit and Accountability Act 2014 and appoints auditors to local government bodies that opt into its scheme. PSAA is unable to appoint an auditor to joint committees as they are not listed as relevant bodies within Schedule 2 of the act and do not have an obligation to produce statutory accounts. Joint committees that opt to produce annual accounts have to make their own arrangements to appoint an auditor.

5. An open tender exercise was published in June 2022 for the procurement of an external auditor to audit the accounts and annual returns for the 2022/23 to 2025/26 financial years. A decision to proceed with an open tender procedure rather than a procurement framework, as used in previous exercises, was taken in order to open up the process to a wider number of firms. A previous requirement for local government experience was removed to attract more interest from audit firms and improve competition. The tender was advertised on the government Find a Tender portal for a 30-day period in accordance with the procurement regulations. The tender was also advertised on London Councils website. Despite a reasonable number of views of the tender advert on the portal, there were no bids received by the submission deadline.
6. As no bids were received, officers sought legal advice from the City of London Solicitor's department on whether the negotiated procedure without prior publication allowed under Regulation 32 of the Public Contracts Regulations 2015 could be used as an alternative procurement process. The legal team confirmed that Regulation 32 is permitted as no bids were submitted in response to the open tender procedure. The negotiations under this process are subject to certain conditions which include no substantial changes to the contract terms and conditions set out in the original advertised tender.
7. Following initial discussions, London Councils officers invited six firms to bid for the audit contract. The firms were asked to provide responses to questions based on the assessment criteria included in the Invitation to Tender (ITT) to describe how they intend to meet the requirements of the service. The assessment criteria which formed the basis of evaluating the tenders comprised of the following key areas:

- Audit approach
- Expertise and performance
- Accounting framework
- Leadership
- Staffing Structure
- Client relationship
- Implementation

8. Out of the six firms invited to bid for the work, one firm submitted a bid, three firms declined to bid and no response was received from the remaining two firms. The bid received was from PKF Littlejohn LLP. An assessment and evaluation of the bid was carried out by London Councils officers during October 2022. PKF Littlejohn submitted a convincing bid which showed its ability to deliver an effective external audit service. It is a top 30 audit firm in the UK that has extensive experience auditing membership organisations such as London Councils. Its clients include the Local Government Association (LGA), the National Council for Voluntary Organisations, Academy of Medical Sciences, British Beer and Pub Association and British Property Association. Its not-for-profit client base also includes schools, universities, charities and parish councils.
9. It provided a detailed description of its audit approach which include an in-depth planning process to identify key audit risks and the evaluation of financial and operational controls. Its proposed team is led by a partner and manager with significant experience auditing not-for-profit organisations, including the LGA. The firm's technical partner has experience of auditing local authority accounts and will be involved in the training and briefing of staff assigned to the audit team. The firm will use its experience of working in the public sector through a framework contract with Small Authorities' Audit Appointments to audit small bodies such as parish councils. Through this work it attends the National Audit Office's (NAO) Local Authority Auditor Group which considers and discusses the NAO's Code of Audit Practice that sets out what auditors of local public bodies are required to do to fulfil their

statutory responsibilities. PKF Littlejohn quoted and annual audit fee £53,273 in its bid. This fee represents a decrease of £11,727 (18%) on Grant Thornton's proposed fee for 2021/22 of £65,000.

Audit Committee Recommendation

10. The Audit Committee reviewed the procurement process carried out by London Councils officers. The Committee was provided with the final scores resulting from the assessment and evaluation of the tender received. In accordance with its Terms of Reference, the Audit Committee recommends that the Leaders' Committee approve the appointment of PKF Littlejohn LLP as London Councils' external auditor for a four-year period commencing with the audit of the 2022/23 accounts and ending with the completion of the audit of the 2025/26 accounts.

Recommendation

11. The Leaders' Committee is asked to:

- note the recommendation of the Audit Committee; and
- approve the appointment of PKF Littlejohn LLP as London Councils' external auditor for a four-year period commencing with the audit of the 2022/23 accounts and ending with the completion of the audit of the 2025/26 accounts.

Financial Implications for London Councils

The contract will be for a four-year period, commencing with the audit of the 2022/23 accounts and ending on the completion of the audit of the 2025/26 accounts. If PKF Littlejohn LLP is appointed, the annual cost of the external audit contract for 2022/23 will be £53,273 which can be met from existing budget provisions. The contract terms stipulate that fee increases cannot exceed the Consumer Price Index.

Legal Implications for London Councils

London Councils' governing agreement requires the Director of Corporate Resources to make appropriate arrangements to procure the audit of the annual accounts.

Equalities Implications for London Councils

None

Appendices

None

Background Papers

London Councils Leaders' Committee Governing Agreement.

London Councils Audit Committee – Terms of Reference

External audit tender documents 2022