

Wiltshire Council

Full Council

15 February 2022

Subject: Retender of External Audit Contracts

Cabinet Member: Cllr Richard Clewer – Leader of the Council and Cabinet Member responsible for MCI, Economic Development, Heritage, Arts, Tourism and Health & Wellbeing and Interim Cabinet Member responsible for Finance & Procurement, Commissioning and Commercialisation

Key Decision: Non-Key

Executive Summary

This report presents the procurement options on the process for retendering external audit services and the preferred approach recommended by Audit & Governance Committee.

Proposal

It is recommended that Full Council approve the option for the council to opt into the national arrangement for the procurement of external audit services for the accounts that relate to the financial years 2023/24 to 2027/28 through Public Sector Audit Appointments Ltd.

Reason for Proposal

External Audit services are required to be in place by regulation and form part of the overall annual accounts and audit process. There are procurement options for the council to consider so that proper procurement processes are followed and the most appropriate route to market for those services is taken. The council must make a decision whether to opt into the national arrangement for the procurement of external audit or procure external audit for itself.

Terence Herbert
Chief Executive

Andy Brown
Corporate Director of Resources & Deputy Chief Executive (S151 Officer)

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Purpose of Report

1. The process for retendering for external audit in local authorities in England, for contracts due to start from 2023/24, is now underway and the council will need to decide whether to procure its own external auditor or opt into the national procurement framework. The national arrangement covers external audit services for the financial years 2023/24 to 2027/28.

Relevance to the Council's Business Plan

2. It is a statutory requirement to have external audit services in place and if the council chooses to opt into the national arrangement Full Council must approve this by 11 March 2022 and the council confirm this decision to Public Sector Audit Appointments Ltd.

Background

3. The Audit Commission was an independent public corporation that existed between 1 April 1983 and 31 March 2015, with one of its responsibilities being providing external audit services to councils. The Audit Commission was replaced by Public Sector Audit Appointments Ltd, National Audit Office, Financial Reporting Council and Cabinet Office in April 2015.
4. Following the closure of the Audit Commission, a new local audit framework was put in place with the National Audit Office setting standards for public audit, and external audit services were provided by Public Sector Audit Appointments Ltd (PSAA), who took on existing audit contracts until their expiry in 2017. From that point councils were able to choose to join the national arrangement managed by PSAA, or to implement a local arrangement independently.
5. Wiltshire Council received audit services from KPMG LLP under the transfer of contracts to the PSAA up to and including the financial year 2017/18. The council opted into the national arrangement for audit services for the period that cover the financial years 2018/19 to 2022/23 and receives these services from Deloitte LLP.

6. Planning is underway for external audit services for the financial year 2023/24 onwards and if the council wish to join the national arrangement with PSAA a decision must be made and PSAA informed of this decision by 11 March 2022.

Main Considerations for the Council

7. The way external audit has operated over the last couple of years has been extremely disappointing. A lack of capacity in the audit market has been exacerbated by increased requirements placed on external auditors by the audit regulator. There is also a limited number of firms in the market and limited resources within those firms to provide the level of services across local councils nationally. This has led to a situation where many audits have been delayed and dozens of audit opinions remain outstanding from 2019/20 and 2020/21, including those for Wiltshire Council. Auditors have also been asking for additional fees to pay for extra work.
8. Dealing with these issues is not quick or easy. Nevertheless, it is the Local Government Association's view that the national framework remains the best option for councils with a view that it is imperative that councils act together to have the best chance of influencing the market and for nationally coordinated efforts to improve the supply side of the market to be effective.
9. Following on from the review undertaken by Sir Tony Redmond looking at financial reporting and local auditing it is clear that the national picture is one of strain and distress. The issues raised in the review highlighted the need for change and set out recommendations to government, which are being considered. Everyone, even existing suppliers, agrees that the supply side of the market needs to be expanded, which includes encouraging bids from challenger firms. PSAA has suggested various ways this could be done, but these initiatives are much more likely to be successful if a large number of councils sign up to the national scheme.
10. The auditors are required to be independent and are bound by the Codes and need to deliver to them in line with the regulator's expectations or face action under the regulatory framework. Auditors are running at full capacity and have to deploy resources according to their assessment of audit risks in accordance with professional standards.
11. PSAA are responsible, not only for appointing auditors for local public bodies, but also for setting scales of fees and charges, overseeing the delivery by its appointed auditors of consistent, high quality and effective external audit services to opt-in bodies, and also for ensuring effective management of the contracts with audit firms for the delivery of audit services to opt-in bodies. PSAA are aware of the level of uncertainty in the current system and will be able to take this into account when awarding the next contracts.
12. If the council were to procure external audit services for itself rather than opt into the national arrangement, as the client in the contract, the council would have little influence over what it is procuring due to the nature and scope of the audit being one determined by codes of practice and guidance and the regulation of the audit market is undertaken by a third party, currently the Financial Reporting

Council. With auditors running at full capacity, it is very unlikely that auditors could give preference to some clients rather than others even if they wanted to.

13. There is also an option to set up a joint procurement with other councils. This would ensure that any risk is shared across the councils involved in the joint procurement process, would provide greater purchasing power and influence, however it would not address some of the other inherent issues such as the limited number of providers in the market, the limited influence over what is being procured, and would still require administrative resource commitment for the initial procurement process and on-going contract management.
14. Following the Audit & Governance Committee on 24 November 2021 soft market testing has been carried out and no expressions of interest have been received. As at 28 January 2022 164 bodies have opted-in to the national arrangement.

Overview and Scrutiny Engagement

15. No overview and scrutiny engagement has taken place due to the statutory nature of the annual accounts and audit process and those charged with governance i.e. Audit and Governance Committee, are responsible for the review and approval of all matters concerning the annual accounts and audit process. This report was considered by Audit & Governance Committee on 24 November 2021.

Safeguarding Implications

16. There are no safeguarding implications as a result of this decision.

Public Health Implications

17. There are no public health implications as a result of this decision.

Procurement Implications

18. There are options for the council to consider so that proper procurement processes are followed and the most appropriate route to market for those services is taken. Opting into the national arrangement through PSAA ensures a compliant route to market is undertaken with the procurement risk remaining with PSAA. If the council chooses to procure external audit services itself the procurement exercise will need to commence so that the route to market is compliant with the procurement risk in this instance remaining with the council.

Equalities Impact of the Proposal

19. There are no equalities implications as a result of this decision.

Environmental and Climate Change Considerations

20. There are no equalities implications as a result of this decision.

Risks that may arise if the proposed decision and related work is not taken

21. External audit services are required to be in place and there is no option to not procure such services.
22. As stated within the report the council could choose to procure external audit services for itself, or as part of a consortium. To undertake such a process would require the council to set up an Audit Panel with an independent chair to oversee the procurement and running of the contract. The procurement process is also an administrative burden on council staff already struggling for capacity with priorities to support other projects, such as Evolve. Contract management is also an ongoing burden that would need to be put in place to robustly manage the contract.

Risks that may arise if the proposed decision is taken and actions that will be taken to manage these risks

23. External audit services are defined by statute and by accounting and auditing codes. Ensuring a compliant procurement process for these services is critical for the council. The known issues as reported will not be affected by the decision on which procurement route to market will be taken so the council will still face these, with a risk of increased audit fees and on-going delays to audit opinions.

Financial Implications

24. PSAA are responsible for setting scales of fees and charges for external audits of public bodies. The council has a budget set aside for these services and has increased the budget for the following financial years (from 2022/23 onwards) following the Redmond Review recommendations and likely increase in external audit costs that the public sector will see over the up coming years. Any additional increase in fees will not be as a result of this decision but will reflect the changes in the sector and will be captured in the budget setting processes for the relevant years.

Legal Implications

25. It is a statutory requirement to have external audit services in place and if the council chooses to opt into the national arrangement Full Council must approve this by 11 March 2022.

Workforce Implications

26. There are no equalities implications as a result of this decision.

Options Considered

27. External audit services are required to be in place. The options are detailed within the report, with an option to opt into the national arrangement or procure external audit services for itself.

Conclusions

28. It is recommended that the council opt into the national arrangement for external audit services through the PSAA.

Andy Brown

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Appendices

Appendix A - Considerations

Background Papers

Public Sector Audit Appointments Ltd – Appointing Period 2023/24 – 2027/28:

[Appointing period 2023/24 – 2027/28 – PSAA](#)

Appendix A – Considerations

- I. A council procuring its own auditor or procuring through a joint arrangement means setting up an Audit Panel with an independent chair to oversee the procurement and running of the contract.
- II. The procurement process is an administrative burden on council staff already struggling for capacity. Contract management is an ongoing burden.
- III. Procuring through the appointing person (PSAA) makes it easier for councils to demonstrate independence of process.
- IV. Procuring for yourself provides no obvious benefits:
 - a. The service being procured is defined by statute and by accounting and auditing codes
 - b. Possible suppliers are limited to the small pool of registered firms with accredited Key Audit Partners (KAP).
 - c. Since the last procurement it is now more obvious than ever that we are in a 'suppliers' market' in which the audit firms hold most of the levers.
- V. PSAA has now built up considerable expertise and has been working hard to address the issue that have arisen with the contracts over the last couple of years:
 - a. PSAA has the experience of the first national contract. The Government's selection of PSAA as the appointing person for a second cycle reflects DLUHC's confidence in them as an organisation.
 - b. PSAA has commissioned high quality research to understand the nature of the audit market.
 - c. It has worked very closely with DLUHC to enable the government to consult on changes to the fees setting arrangements to deal better with variations at national and local level, hopefully resulting in more flexible and appropriate Regulations later this year.