



**WEST OXFORDSHIRE  
DISTRICT COUNCIL**

## WEST OXFORDSHIRE DISTRICT COUNCIL

Name and date of Committee	<b>Audit and General Purposes Committee</b> <b>Thursday 17 February</b>
Report Number	<b>Agenda Item No. 5</b>
Subject	<b>External Audit Contract</b>
Wards affected	All
Accountable member	Cllr Suzi Coul, Cabinet Member for Finance Email: <a href="mailto:suzi.coul@westoxon.gov.uk">suzi.coul@westoxon.gov.uk</a>
Accountable officer	Elizabeth Griffiths, Section 151 Officer Tel: (01993) 861188 Email: <a href="mailto:elizabeth.griffiths@westoxon.gov.uk">elizabeth.griffiths@westoxon.gov.uk</a>
Summary/Purpose	To consider the options for procuring the Council's external audit services for the period from 2023/24 and to make a recommendation to the Council.
Annexes	Annex A – Public Sector Audit Appointments Ltd Prospectus
Recommendation	a) That the committee considers the options for procuring the Council's external audit service for the period from 2023/24; and b) Recommends to Council procurement through the National Procurement Framework using Public Sector Audit Appointments Ltd.
Corporate priorities	
Key Decision	No
Exempt	No
Consultees/Consultation	

## **I. BACKGROUND**

- I.1** The process for re-tendering 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.
- I.2** Legislation requires a resolution of Council if a Local Authority wishes to opt into the National arrangement. The deadline for this decision is the 11th March 2022. If the Council doesn't make such a decision, the legislation assumes that the Council will procure its own External Audit Service.
- I.3** It's been several years since Council has had to consider this. Since then 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 too few qualified Auditors employed by those firms. 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. Auditors have also been asking for additional fees to pay for extra work.
- I.4** As the client in the Contract, a Council has little influence over what it is procuring. The nature and scope of the Audit is 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. Essentially, Councils find themselves operating in what amounts to a suppliers' market.
- I.5** The supply side of the market needs to be expanded, which includes encouraging bids from challenger firms. Public Sector Audit Appointments Ltd (PSAA), the body nominated by the Government to run the national arrangements, 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.
- I.6** 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. The procurement process and Contract management present an administrative burden to the Council, which is currently performed by PSAA. The number of potential suppliers is limited to the small pool of registered firms with accredited Key Audit Partners (KAP).
- I.7** PSAA has now built up considerable expertise and has been working hard to address the issue that has arisen with the Contracts over the last couple of years.
- I.8** PSAA has commissioned high quality research to understand the nature of the Audit market and has worked very closely with the Ministry for Housing Communities and Local Government (MHCLG), now the Department for Levelling Up, Homes and Communities (DLUHC) to enable the Government to consult on changes to the fee setting arrangements to deal better with variations at national and local level.

## 2. MAIN POINTS

- 2.1 The PSAA Prospectus is included at **Annex A** and includes a proposed timescale for the procurement which commences in February 2022 and awards Contracts in August 2022. Subject to consultations with opted-in bodies and Audit firms, the plan is to make Auditor appointments by 31 December 2022 (as required by the Regulations).
- 2.2 PSAA's preferred option for the length of the Contract is 5 years.
- 2.3 In discussions with both the CFOs from Cotswold District Council and Forest of Dean District Council, and the other S151 officers from across Oxfordshire County, no one has stated an intention of leaving the PSAA framework. This means that should West Oxfordshire District Council choose to leave, there would be no readily available alternative group to partner with through the process of selecting an alternative.
- 2.4 While there have been delays and difficulties in the current year's audit, everyone has suffered equally and the PSAA will have to take that into consideration in awarding a contract going forward. There is no expectation that leaving the framework would result in these issues being removed. We may find ourselves with a less experienced auditor or significantly higher fees and while it is possible that we could find ourselves in a better position, the downside risk is that any issues we faced would be ours alone as we would be outside the collective.

## 3. FINANCIAL IMPLICATIONS

- 3.1 Audit fees are rising in all sectors in response to increased regulatory requirements for Audit quality and changes in Audit scope and Technical Standards. PSAA will consult each year on the fee scale and will consult in 2023 on the 2023/24 fee scale.
- 3.2 Fee variations would continue to apply where the local circumstances of an audited body require additional audit work that was not expected at the time the fee scale was set. Current local Audit Regulations allow PSAA to approve fee variation requests only at individual bodies, for additional audit requirements that become apparent during the course of an audit year. MHCLG has announced the intention to amend the Regulations, following a consultation, to provide more flexibility. This would include the ability for PSAA to approve standardised fee variations to apply to all or groupings of bodies where it may be possible to determine additional fees for some new requirements nationally rather than for each opted-in body individually. Where it is possible to do this, it would have the effect of reducing the need for local fee variations.

## 4. LEGAL IMPLICATIONS

- 4.1 Public Sector Audit Appointments Limited (PSAA) is an independent company limited by guarantee incorporated by the Local Government Association in August 2014. 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 Auditors and setting scales of fees for relevant principal Authorities that have chosen to opt into

its national scheme, overseeing issues of Auditor independence and monitoring compliance by the Auditor with the contracts.

## **5. RISK ASSESSMENT**

- 5.1 The key risks relate to the market for External Audit provision which are set out in the main body of the Report at paragraphs 1.4 to 1.6. Should the Council decide to procure its External Audit services outside of the PSAA route, there are risks of failing to procure a suitable Audit partner and the costs of the Contract being higher as there is a failure to achieve economies of scale.

## **6. ALTERNATIVE OPTIONS**

- 6.1 The Council's Chief Finance Officer is proposing that procurement is commissioned through PSAA. The alternative option is for the Council to procure its own Contract for External Audit services. This option lacks the benefits of economies of scale offered by the PSAA route and crystallises the risks in the External Audit market as set out in paragraphs 1.4 to 1.6.

## **7. BACKGROUND PAPERS**

- 7.1 None