



**DORSET & WILTSHIRE
FIRE AND RESCUE
AUTHORITY**

Item 22/35

MEETING	Finance & Audit Committee
DATE OF MEETING	7 December 2022
SUBJECT OF THE REPORT	Appointment of external auditors
STATUS OF REPORT	For open publication
PURPOSE OF REPORT	For information
EXECUTIVE SUMMARY	<p>A report to the Finance & Audit Committee in December 2021 outlined the options available to the Authority for appointing an external auditor for the Statutory Statement of Accounts for the five-year period from 2023-24. The Committee voted unanimously to support the option of opting into the national auditor appointment scheme and this was subsequently approved by the Fire Authority in February 2022.</p> <p>Since then, Public Sector Audit Appointments (PSAA) has been undertaking the national procurement process to select audit service providers. They announced in a press release on the 3 October 2022 that they have retained the services of three existing suppliers, Grant Thornton, Mazars and Ernst & Young; welcomed former supplier KPMG back to the market and will be entering into contracts with two new suppliers, Bishop Fleming and Azets Audit Services.</p> <p>They subsequently advised on 17 October 2022 that they propose appointing Bishop Fleming as auditor for the Authority for the five years from 2023-24.</p> <p>PSAA have advised that the level of audit fees have considerably increased from the previous procurement and that an increase of fees is to be expected in the</p>

	<p>region of 150% on average compared to 2022-23. Scale fees for audit work will not be confirmed until later on in 2023. Actual fees are always dependent on the amount of work required. We will keep Members informed as to the proposed fees and the appointed auditors.</p>
RISK ASSESSMENT	<p>The principal risks are that the Authority:</p> <ul style="list-style-type: none"> • 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. <p>These risks were considered best mitigated by opting into the sector-led approach through PSAA.</p>
COMMUNITY IMPACT ASSESSMENT	None for the purposes of this report
BUDGET IMPLICATIONS	<p>PSAA have advised that external audit fee levels will increase by up to 150% on average compared to 2022-23. Individual authority fee increases will vary around this dependent on audit risks and the scale of work required. We have good financial management processes in place with no significant concerns raised or additional work required by Deloitte LLP in delivering the current external audit contract.</p>
RECOMMENDATIONS	<p>That the Committee notes the outcome of the PSAA procurement process and the appointment of Bishop Fleming to undertake external audits for Dorset & Wiltshire Fire and Rescue Authority for the period 2023-24 to 2027-28.</p>
BACKGROUND PAPERS	<p>Fire Authority report, 9 February 2022 - National Scheme for External Auditor Appointments</p> <p>Finance & Audit Committee report, 8 December 2021 - 21/48 National Scheme for External Auditor Appointments</p>

APPENDIX	None
REPORT ORIGINATOR AND CONTACT	Name: Ian Cotter, Head of Financial Services & Treasurer Email: ian.cotter@dwfire.org.uk Tel no: 07500 066130

1. Introduction

- 1.1 This report sets out the outcomes from the process for appointing the external auditor to the Authority for the Statutory Statement of Accounts for the five-year period from 2023-24.

2. Background

- 2.1 Under the Local Government Audit & Accountability Act 2014 (“the Act”), the Authority is required to appoint an auditor to audit its accounts for each financial year. The Authority has three options to achieve this:
- To appoint its own auditor, which requires it to follow the procedure set out in the Act.
 - To act jointly with other authorities to procure an auditor following the procedures in the Act.
 - To opt into the national auditor appointment scheme administered by a body designated by the Secretary of State as the ‘appointing person’. The body currently designated for this role is Public Sector Audit Appointments Limited (PSAA).
- 2.2 In February 2022 the Authority elected to opt into the national auditor appointment scheme administered by PSAA following a recommendation from the Finance & Audit Committee.
- 2.3 PSAA let five-year audit services contracts in 2017 for the first appointing period, covering audits of the accounts from 2018-19 to 2022-23. It invited eligible bodies to opt into a new process to complete a procurement for audit services for the next appointing period, from the 2023-24 audit onwards.
- 2.4 In summary the national opt-in scheme provided the following:
- the appointment of a suitably qualified audit firm to conduct audits for each of the five financial years commencing 1 April 2023;
 - appointing the same auditor to other opted-in bodies that are involved in formal collaboration or joint working initiatives to the extent this is possible with other constraints;
 - managing the procurement process to ensure both quality and price criteria are satisfied. PSAA has sought views from the sector to help inform its detailed procurement strategy;

- ensuring suitable independence of the auditors from the bodies they audit and managing any potential conflicts as they arise during the appointment period;
- minimising the scheme management costs and returning any surpluses to scheme members;
- consulting with authorities on auditor appointments, giving the Authority the opportunity to influence which auditor is appointed;
- consulting with authorities on the scale of audit fees and ensuring these reflect scale, complexity, and audit risk; and
- ongoing contract and performance management of the contracts once these have been let.

3. Outcomes from the procurement process

- 3.1 PSAA announced the outcome of the procurement process on 3 October 2022. In total 470 local government, police and fire bodies (99% of eligible local bodies) opted into the national scheme for appointments covering the audits from 2023-24 to 2027-28.
- 3.2 The procurement process took place against at a difficult time with many challenges including a local audit system that is facing unprecedented difficulties including large volumes of delayed audit opinions. Only ten audit suppliers are currently registered to undertake local audits in England, three of which opted not to take part in this procurement. That included Deloitte LLP our current auditors.
- 3.3 PSAA have offered contracts to six suppliers following a competitive process that was protracted reflecting the limited capacity available in the market. The scale of the contracts varies widely depending upon the capacity which each supplier is able to provide.
- 3.4 Three existing suppliers have been retained, Grant Thornton, Mazars and Ernst & Young; former supplier KPMG have returned back to the market, and there will be contract with two new suppliers, Bishop Fleming and Azets Audit Services.
- 3.5 PSAA have advised that the bid prices received through the procurement reflect a significant increase compared to the previous procurement process. This is reflective of the major challenges faced over the past few years including capacity issues, additional regulatory pressures and increased audit risk particularly in those local authorities that have invested in commercial property and other ventures. The combination of these factors has led to significant delays in audits. The advice at this stage is that bodies should anticipate a major re-set of total fees, something of

the order of 150% on average compared to the total fees for 2022-23. The actual total fees will depend on the amount of work required.

- 3.6 In Autumn 2023 PSAA will consult on the proposed scale of audit fees payable by bodies in respect of the audit of 2023-24 accounts. Our current scale fee is £34,650 and we have had to pay additional fees for extended Value for Money and audit risk work. These additional fees have been offset by grant funding from Government.

- 3.7 Commenting on the procurement outcome, Steve Freer, Chair of PSAA, said,

“The outcomes of our procurement reflect the backcloth of a troubled audit profession, a challenged local audit system and a sellers’ market. We are relieved to have succeeded in securing sufficient capacity to meet local bodies’ needs for the five years commencing 2023/24. Unfortunately, we simply do not have levers to mitigate the very significant increase in audit fees anticipated in twelve months’ time. We have therefore requested Government to give urgent consideration to providing further special support to local bodies to help fund the expected dramatic increase in audit fees.

Even after a significant reset of fees, the local audit system is likely to continue to face enormous problems. The position has become far more stressed since the Redmond Review undertook its work in 2019 and 2020. Recruitment and retention and regulatory risks are now even more pronounced. In our view we need a radical examination of the measures necessary to restore order and confidence in local audit, followed by urgent decision making and rapid implementation.”

4. Dorset & Wiltshire Fire and Rescue Authority appointment

- 4.1 In developing appointment proposals PSAA considered information provided to them by both opted-in bodies and audit firms, and had regard to and sought to balance a range of factors including:

- auditor independence, the most critical of all the factors;
- joint/shared working arrangements and information from bodies, where they have prioritised those requests that are most relevant to the auditor’s responsibilities;
- their commitments to the firms under the audit contracts;
- bodies’ main offices and firms’ geographical preferences;
- the status of prior years’ audits; and
- continuity of auditor where appropriate.

- 4.2 PSAA notified us on 17 October 2022 that they proposed appointing Bishop Fleming as the authority's external auditor for the five years from 2023-24.
- 4.3 Bishop Fleming is a top 30 UK accountancy firm, providing audit, accountancy, tax and business consultancy services to both the public and private sectors. Bishop Fleming has extensive experience working with public sector organisations in the housing, education, charity and healthcare sectors along with a number of local authority subsidiaries. Their public sector audit team is led by two Institute of Chartered Accountants in England and Wales (ICAEW) registered key audit partners, both having previous experience of providing external audit services to local authorities.
- 4.4 Bishop Fleming has 37 partners and around 500 staff working from 7 offices across the South West and West Midlands, who are committed to delivering the very best client experience.
- 4.5 Consultation on the proposed appointment ran until 14 November 2022. The consultation invited authorities to set out any reasons why the proposed appointment should not be made, for example:
- there is an independence issue in relation to the firm proposed as the auditor, which had not previously been notified to us; or
 - there are formal and joint working arrangements relevant to the auditor's responsibilities which had not previously been notified to us.
- 4.6 There were no reasons for this authority to oppose the proposed appointment and, having consulted with the Chair of Finance & Audit and the Chief Fire Officer, I confirmed this to PSAA by email on 14 November 2022.
- 4.7 PSAA will be writing to all bodies to provide final confirmation of appointments on or before 31 December 2022.

5. Summary

- 5.1 In February 2022 the Authority elected to opt into the national auditor appointment scheme administered by PSAA following a recommendation from the Finance & Audit Committee.
- 5.2 The procurement process for this scheme has now concluded and PSAA have offered contracts to six suppliers. These do not include Deloitte LLP, our current external auditors, who opted not to take part in the process.
- 5.3 PSAA have advised that the level of audit fees will increase considerably compared to current levels with a suggested average increase of 150%. Scale fees for audit work will not be confirmed until later on in 2023. Actual fees are always dependent

on the amount of work required. We will keep Members informed as to the proposed fees and the appointed auditors.

- 5.4 PSAA have advised that Bishop Fleming are proposed as the authority's external auditor for the five years from 2023-24 and this should be confirmed by 31 December 2022. We look forward to working with Bishop Fleming in the future but in the meantime will continue to work effectively with Deloitte LLP as we conclude the 2021-22 audit process and move into the process for 2022-23.