



NHS AUDIT MARKET STUDY – EMERGING FINDINGS

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ICAEW welcomes the opportunity to comment on the NHS Audit Market Study - Emerging Findings, published by the Financial Reporting Council (FRC) on 12 December 2024, a copy of which is available from this [link](#).

ICAEW agree with the emerging findings identified

- Challenges identified mirror that of our initial response.
- In our view, a lack of market capacity remains the issue of biggest concern.
- Compounding matters such as procurement difficulties, tight and conflicting deadlines, and there being a lack of recognition of the value of the audit process, are also of concern.

Measures taken must enhance market resilience

- There is a danger that without adequate reform some NHS bodies will be unable to appoint an auditor in future periods.
- Reform must increase the number of auditors, simplify procurement processes, and reduce the burdens on accounts preparers and auditors alike.

There remains an opportunity for more radical solutions

- We remain of the view that NHS audit opinions could be signed by Responsible Individuals as well as Key Audit Partners.
- Consideration could also be given to centralising procurements as per the arrangements for most local government audits.

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INTRODUCTION

1. ICAEW is a world-leading professional body established under a Royal Charter to serve the public interest. In pursuit of its vision of a world of strong economies, ICAEW works with governments, regulators and businesses and it leads, connects, supports and regulates more than 169,000 chartered accountant members in over 146 countries. ICAEW members work in all types of private and public organisations, including public practice firms, and are trained to provide clarity and rigour and apply the highest professional, technical and ethical standards.
2. We are the only recognised supervisory body (RSB) for local audit in England. We have 11 firms and 107 key audit partners registered under the Local Audit and Accountability Act 2014.
3. This response has been prepared by ICAEW's Public Sector team in consultation with ICAEW's Public Sector Advisory Group. ICAEW's Public Sector team supports members working in and with the public sector to deliver public priorities and sustainable public finances, including over 14,000 in ICAEW's Public Sector Community. ICAEW engages with policy makers, public servants, and others to promote the need for effective financial management, audit and assurance, financial reporting and governance and ethics across the public sector to ensure public money is spent wisely.
4. ICAEW welcome the publication of emerging findings to the NHS audit market study by the FRC. We agree with the emerging findings identified.
5. While the market is functioning, there are matters which are currently impacting the market's performance and there are issues which may impact its overall resilience in the future. A key concern remains the overall lack of market capacity, with only nine firms active and only three of these having NHS audit clients across all of England's regions. Furthermore, there are only 107 Key Audit Partners (KAPs) who are suitably qualified to sign the audit opinion of NHS bodies, with these KAP requirements acting as a barrier to new and existing firms from entering into the market and expanding further.
6. This is compounded by timetabling pressures, conflicts with local government audit deadlines, and difficulties within the audit tendering process which reduce the overall attractiveness of the sector. There is a real danger that some NHS bodies may be unable to appoint an auditor in the future, if further issues develop or if existing issues worsen.
7. It therefore remains of paramount importance that measures are introduced to increase market capacity, which simplify procurement processes, and which reduce the burden of the auditing process for NHS finance teams and auditors alike. We welcome the suggestions discussed within the emerging findings and support many of these measures being implemented.
8. Our [vision](#) for local financial reporting and audit sets out steps we believe are necessary to improve the quality and rigour of the financial information provided to councillors to enable them to be effective in holding their local authorities to account. It also sets out steps to strengthen local audit to assure that information. Many of the themes set out within our vision can also be applied to the NHS market.
9. We submitted [evidence](#) on 28 March 2022 to the FRC consultation on the Revision of the FRC Statutory Guidance under the Local Audit and Accountability Act 2014, in response to the Redmond Review 2019.
10. We submitted [evidence](#) on 17 April 2023 to the House of Commons Levelling Up, Housing and Communities Committee (now the Housing, Communities and Local Government Committee) setting out how we believe financial reporting and audit in local authorities can be improved.
11. We submitted [evidence](#) on 7 March 2024 to the Department for Levelling Up, Housing and Communities (now the Ministry of Housing, Communities and Local Government) consultation on addressing the local audit backlog in England.
12. We submitted our initial market study [response](#) on 17 October 2024 to the FRC. Our response remains relevant to this phase of the market study, highlighting recommendations

for increasing auditor capacity, reducing the burden on auditors and financial preparers, and for increasing the overall attractiveness of the NHS audit market.

13. We submitted [evidence](#) on 29 January 2025 to MHCLG regarding their strategy for local audit reform and the establishment of the Local Audit Office.
14. For questions on this response please contact us at representations@icaew.com quoting REP 14/25.

ANSWERS TO SPECIFIC QUESTIONS

Question 1

Do you agree with our emerging findings? Please explain.

15. ICAEW agrees with the emerging findings identified by the FRC.
16. Our initial [response](#) highlighted the lack of market capacity across audit firms, with only eight firms being appointed for audits of NHS bodies in 2022/23, however most audits were conducted by only six of these firms. It is worth highlighting that for 2023/24, nine firms are now active within the market.
17. Barriers to entering the market hinder overall capacity, with the Key Audit Partner (KAP) requirements being particularly prohibitive for new firms interested in taking on NHS audits, as they require such an individual to sign the audit opinion. This often reduces the resources of an alternative firm, as most KAPs are employed by one of the other firms already operating in the market.
18. The market is also seen to be increasingly unattractive, with there being tight and competing deadlines with local government audits, and a perceived high level of regulation for those NHS bodies which are classified as a major local audit (MLA). This also leads to challenges in maintaining and enhancing auditor capacity, with many audit firms concerned about taking on MLAs, as noted by MHCLG's local audit reform [consultation](#).
19. Our initial response also highlighted concerns regarding the procurement process itself, noting that there are tight timescales to complete audit tenders, insufficient time between the tender and audit start date to enable effective resource planning and handover arrangements, and non-relevant items being included in the tender documentation. We also highlighted concerns from stakeholders across the sector that some bodies are giving high weighting to the cost of the audit, rather than its value or quality. Such issues may act as a deterrent to audit firms from operating in this market, which in turn impacts NHS bodies with there being a lack of choice of auditors.
20. As noted above, we also agree that there are differing views across the sector in respect of the value and purpose of an audit. Ensuring the creation of high-quality audited accounts which are published in a timely manner should be the primary aim of an NHS audit, however it is concerning that some NHS bodies may have different priorities and expectations from the auditing process.
21. It is also concerning that some NHS bodies have expressed the view that work on VFM arrangements were unnecessary. It is our view that such work is vital for assessing whether entities have significant weaknesses in their control processes and their governance frameworks so that they can make improvements, while the general public also deserve to have an understanding of the processes underpinning how public money is being utilised.

Question 2

Do you have any views or suggestions on any actions that should be taken in light of our emerging findings, including any actions that could be implemented quickly?

22. We believe that it may be challenging to implement actions quickly, due to the recent MHCLG consultation which seeks to reform the local audit system and establish the new Local Audit Office. Many potential reforms may fall under the LAO's remit and therefore, may not be possible to implement in the immediate future.

23. However, the most urgent action which should be addressed at pace is a review of the KAP eligibility criteria to enhance the pool of auditors who can operate in the market. Our initial [response](#) reiterated our view that the requirement for local auditors should not be more burdensome than those for other sectors. We do not believe that the audits of NHS trusts differ hugely in substance to NHS Foundation Trusts, for which Responsible Individuals (RI) are able to sign off the audit opinion. Aligning these requirements is an appropriate action to consider, as it would enable a far greater range of highly competent auditors to undertake NHS audits and enable audit firms to use their professional judgment to utilise staff with the required competence and expertise.
24. In light of the study's findings that there are differing views across the sector in terms of the overall value of an audit, we would also recommend that further support and training is provided to finance teams and audit committee/board members regarding its purpose and value. Such support should also highlight the importance of ensuring an entity's control processes and governance frameworks secure value for money through the economic, efficient, and effective use of their resources, as well as re-emphasising the importance of this aspect of the auditing process.
25. The MLA thresholds are also an area which may benefit from review – our [response](#) to MHCLG's consultation on local audit reform called for an inflationary increase to these thresholds. This is discussed further in our response to Question 3.

Question 3

In the first part of the market study, we identified increases in NHS audit fees in recent years. We heard from some stakeholders that fee increases may be driven by changes to audit standards and regulations including in relation to whether the audit is an MLA. We intend to explore this issue further and welcome any further views and information including on the threshold for MLA status, and information that highlights any risks and unintended consequences of the current thresholds for designating MLAs?

26. As referenced in our response to Question 2, ICAEW are of the view that the threshold for designating MLAs would benefit from an inflationary increase. The current threshold - £500m – has not been updated since the inception of the Local Audit (Professional Qualifications and Major Local Audits) Regulations 2014. This has meant that more NHS bodies have become MLAs over the previous 10-year period, with approximately 150 bodies in scope of becoming an MLA in the 2024/25 financial year.
27. It is also likely that MLA status has played a part in increasing audit fees, along with inflationary pressures and changes to auditing standards. As noted by the most recent [Major Local Audit Quality Inspection Report](#), there is a significant increase in firms using Engagement Quality Control Reviewers within the audit of an MLA – 59% of MLAs had such an arrangement compared to only 1% of other local audits. MHCLG's consultation also notes that audit firms consider the MLA regulatory regime to carry higher reputational risk, thus firms are undertaking increasing levels of audit testing and quality control procedures to mitigate this risk.
28. The MHCLG consultation also notes that the MLA thresholds create a barrier to entry – with some firms refusing to take on MLAs when they enter the market. For the NHS audit market, this may be a partial explanation as to why some NHS bodies have difficulties in procuring an auditor, along with the limited choice of firms which currently undertake NHS audits.
29. ICAEW are not of the opinion however that some NHS bodies should be classified as exempt from the regulatory focus of an MLA, as is suggested by MHCLG's consultation. Public bodies which incur appropriately high levels of expenditure should be subject to appropriate levels of regulatory scrutiny, and it is not necessarily the case that an NHS audit is less risky than that of a local authority. Reform across other areas of the system which increase market capacity and encouraging an improvement focussed regulatory regime which does not create perceived higher levels of regulatory risk, would go some way to easing the concerns of audit firms and may make it easier for NHS bodies with MLA status to appoint auditors.

Question 4

In the first part of the market study, we heard that a barrier to entry and expansion could be a lack of experience in NHS/local government audit. Do you think auditors with experience in auditing other sectors could deliver good quality NHS audits if there was no requirement for KAP accreditation? Should audit firms have more discretion on the staff responsible for NHS audits?

30. ICAEW believe that auditors with experience in auditing other sectors would deliver high quality audits if there were no requirements for KAP accreditation. As discussed in our [initial response](#), and as noted in our response to Question 2, we do not consider that the requirements to sign off NHS audits should be more burdensome than that for other sectors.
31. We do not believe that the audits of NHS trusts differ hugely in substance to that of NHS Foundation Trusts, which are not subject to the same KAP requirements but are governed by the Companies Act 2006 and require RIs to sign off audit reports. Audits of NHS trusts also require less sector-specific knowledge than completing an audit of a local government body, as they do not contain statutory overrides. Additionally, auditors of NHS bodies do not have to respond to objections from electors.
32. The core skills required to complete an audit – such as the application of professional scepticism, understanding of auditing standards, and the use of clear communication, are common across all audits. In our view, auditors operating across other sectors therefore have the necessary competence and expertise to complete high-quality audits of NHS bodies.
33. Our [response](#) to MHCLG’s consultation also recommends that audit firms should have further discretion on the use of staff responsible for completing NHS audits. When completing all audits, including the audits of NHS bodies, the engagement partner already has the responsibility under ISA (UK) 220, [paragraph 25](#), to ensure that ‘sufficient and appropriate resources to perform the engagement are assigned or made available to the engagement team in a timely manner.’ ISA (UK) 220, [paragraph 26](#), also requires an engagement partner to determine that members of the engagement team ‘collectively have the appropriate competence and capabilities, including sufficient time, to perform the audit engagement.’
34. Furthermore, ISQM (UK) 1 requires audit firms to have systems of quality management which are tailored to the nature of the firm and the engagements they perform. More specifically, [paragraph 32](#) requires firms to ‘hire, develop, and retain’ personnel which have the ‘competence and capabilities to consistently perform quality engagements, including having knowledge or experience relevant to the engagement the firm performs.’
35. As such, the requirements for audit firms to ensure the use of staff who have the necessary competence, experience and expertise are central to auditing and quality management standards. Thus, allowing discretion to audit firms would therefore enable them to more adequately assess and utilise their resources to meet the overall needs of the NHS market, while still ensuring that the resources allocated to the engagements of NHS bodies have appropriate levels of competence and expertise.

Question 6

In the first part of the market study, we received mixed comments on the usefulness of the VFM reporting element of NHS audits. We welcome any further information on this issue and any views on changes, if any, that should be made to the VFM reporting element.

36. ICAEW believe that the VFM reporting element of NHS audits provides vital oversight into NHS bodies’ systems of internal control, which support the delivery of their objectives. In addition, it provides vital oversight into how they secure value for money using the resources at their disposal, and vital oversight into how the body makes informed decisions and manages its risks.
37. Such reporting arrangements should therefore be valuable to the audited bodies, and to the general public. They should provide comfort to NHS bodies that they are maintaining good

governance structures, that they have effective control processes, and that they are effectively and efficiently managing their resources to secure value for money. Similarly, this information provides good information to users of NHS accounts that public money is being managed properly.

38. It is therefore disappointing that the value of VFM audit work is questioned by some NHS bodies, especially considering that in 2023/24, 65 NHS bodies were found to have significant weaknesses in their arrangements to secure value for money by their auditors.
39. We therefore do not believe that any changes should be made to this area of work; rather, as noted in our response to Question 2, we believe that training and support should be provided to NHS bodies to reiterate its value and the value of an audit more broadly.

Question 7

In the first part of the market study, we received some comments about different options for procurement arrangements for NHS audits. DHSC and NHSE have indicated an intention to explore this further following the final report of the market study. We welcome any views on options for procurement arrangements, which may help inform further exploration of this issue.

40. ICAEW concur that a centralised procurement arrangement, similar to that which exists for local authorities through Public Sector Audit Appointments (PSAA) and smaller authorities through Smaller Authorities' Audit Appointments (SAAA), could be an effective way to improve the audit tendering process.
41. Centralised procurement has been a success across other areas of local government. For example, the vast majority of local authorities – 470 out of 475 – opt in to the PSAA's arrangements to appoint their auditors. Furthermore, all smaller authorities have opted in to SAAA's central procurement arrangements and an auditor has been continuously appointed for those bodies where they have remained below the smaller authority statutory threshold.
42. A centralised arrangement could take advantage of block procurements, similar to how the PSAA operate, ensuring that the tendering process only occurs once every few years and providing vital clarity to all parties as to who are the appointed auditors across the system. This could mitigate some of the various issues with the process currently, with our initial [response](#) highlighting concerns surrounding a lack of time for auditors to consider tenders, non-relevant items being included within tender documentation, and there being a lack of time between the tender and the audit start date to enable effective resource planning and handover procedures.
43. The Local Audit Office (LAO), once established, may be well-placed to take up procurement responsibilities and we are pleased that MHCLG's [consultation](#) notes this as a possibility pending consideration of the market study's final results.
44. Alternatively, if a centralised procurement model is not considered the best approach, we support many of the suggestions noted within the emerging findings. In particular:
 - Greater standardisation in NHS bodies' procurement processes and documentation – this would reduce the level of inappropriate tender documentation submitted by local authorities and should reduce the time needed for audit firms to appropriately consider tenders and whether they are able to accept the engagement.
 - Enforcement of NHSE's procurement guidance to ensure sufficient time for invitations to tender (ITTs) to be completed and submitted – enforcement of the guidance should assist in improving the overall quality of tender documentation and remind NHS bodies of their procurement responsibilities. Higher quality documentation would subsequently assist the auditing process, with audit firms finding it easier to assess and review tenders.
 - Mandating that procurement processes are concluded within appropriate timeframes to allow audit firms to incorporate tender opportunities into workforce planning – ensuring conclusion of procurement processes well before the audit start date, would enable

audit firms to more appropriately plan their resources and implement effective planning procedures.

45. Furthermore, as noted in our response to Question 2, we also believe that the value of an audit should be re-emphasised to NHS bodies through training opportunities. Such training should subsequently cover the procurement process, the importance of following NHSE procurement guidance, and the importance of allowing subsequent time for audit firms to consider tenders as ways to improve the overall audit process.