

RIBBLE VALLEY BOROUGH COUNCIL

REPORT TO ACCOUNTS AND AUDIT COMMITTEE

meeting date: 29 SEPTEMBER 2021
title: PSAA CONSULTATION RESPONSES AUDITOR APPOINTMENTS FOR
PERIOD 2023/24 to 2027/28
submitted by: DIRECTOR OF RESOURCES
principal author: JANE PEARSON

1 PURPOSE

1.1 To inform members of the report issued by the Public Sector Audit Appointments regarding their consultation responses for the appointment of auditors for the period 2023/24 to 2027/28.

1.2 Relevance to the Council's ambitions and priorities:

- The council aims to be a well-managed council.

2 BACKGROUND

2.1 Public Sector Audit Appointments Limited (PSAA) is an independent company limited by guarantee incorporated by the Local Government Association in August 2014.

2.2 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 entered into with the audit firms.

2.3 In 2014 when the Local Audit and Accountability Act received Royal Assent the audit market was relatively stable. In 2017 PSAA benefitted from that continuing stability. Their initial procurement on behalf of more than 480 bodies (98% of those eligible to join the national scheme) was very successful, attracting very competitive bids from firms. As a result they were able to enter into long term contracts with five experienced and respected firms and to make auditor appointments to all bodies.

2.4 As a district council we are therefore eligible to join the appointing person scheme and opted to do so. We were notified in December 2017 that Grant Thornton (UK) were appointed to carry out our audits for the 5 year period 2018/19 to 2022/23. Prior to this, following the abolition of the Audit Commission, audit contracts were awarded for a 5 year period from 2012/13 to 2016/17 with Grant Thornton awarded the contract for bodies in the North West. This was subsequently extended by 1 year for 2017/18.

2.5 2018 proved to be a significant turning point for the audit industry. A series of financial crises and failures in the private sector gave rise to questioning about the role of auditors and the focus and value of their work. In rapid succession four independent reviews were commissioned by Government:

- Sir John Kingman's review of the Financial Reporting Council (FRC), the audit regulator;
- the Competition and Markets Authority review of the audit market;

- Sir Donald Brydon’s review of the quality and effectiveness of audit; and
 - Sir Tony Redmond’s review of local authority financial reporting and external audit.
- 2.6 In total the four reviews set out more than 170 recommendations which are now in various stages of consideration by Government with the clear implication that a series of significant reforms will follow. In some cases where new legislation is not required, significant change is already underway. A particular case in point concerns the FRC, where the Kingman Review has inspired an urgent drive to deliver rapid, measurable improvements in audit quality. This has already created a major pressure for firms and an imperative to ensure full compliance with regulatory requirements and expectations in every audit they undertake.
- 2.7 In order to deliver the necessary improvements in audit quality firms were requiring their audit teams to undertake additional work to gain deeper levels of assurance. However, additional work requires more time, posing a threat to firms’ ability to complete all of their audits by the target date for publication of audited accounts (then 31 July) – a threat accentuated by growing recruitment and retention challenges, the complexity of local government financial statements and increasing levels of technical challenges as bodies explored innovative ways of developing new or enhanced income streams to help fund services for local people.
- 2.8 This risk to the delivery of timely audit opinions first emerged in April 2019 when one of PSAA’s contracted firms flagged the possible delayed completion of approximately 20 audits. Less than four months later, all firms were reporting similar difficulties, resulting in more than 200 delayed audit opinions.
- 2.9 2019/20 audits have presented even greater challenges. With Covid-19 in the mix both finance and audit teams have found themselves in uncharted waters. Even with the benefit of an extended timetable targeting publication of audited accounts by 30 November, more than 260 opinions remained outstanding. Co-ordinated action is needed across the system by all involved in the accounts and audit process to address the current position and achieve sustainable improvement without compromising audit quality. PSAA state they are fully committed to do all it can to contribute to achieving that goal.
- 2.10 Delayed opinions are not the only consequence of the FRC’s drive to improve audit quality. Additional audit work must be paid for. As a result, many more fee variation claims have been received than in prior years.
- 2.11 PSAA state none of these problems are unique to local government audit. Similar challenges have played out throughout other sectors where increased fees and disappointing responses to tender invitations have been experienced during the past two years.
- 2.12 In summary the audit industry is under enormous pressure and the local audit system is experiencing its share of the strain with unavoidable instability as impacts cascade down to the frontline of individual audits.

3 APPOINTMENT OF AUDITORS 2023/24 ONWARDS

- 3.1 During Autumn 2021 all local government and police bodies need to make important decisions about their external audit arrangements for the period commencing from the financial year 2023/24.
- 3.2 Local bodies will have options to arrange their own procurement for auditors and make the appointment themselves or in conjunction with others, or they can join the national collective scheme administered by PSAA

- 3.3 A draft prospectus was issued in summer which provided an introduction to the PSAA national scheme and invited views and comments from local bodies and other interested parties in relation to the aims of the scheme and how it needs to develop going forward ahead of issuing formal invitations to opt in to all eligible bodies in the Autumn.
- 4 SUMMARY OF THE RESPONSE TO PSAA'S CONSULTATIONS ON ITS INITIAL THINKING OF PROPOSED ARRANGEMENTS FOR THE APPOINTING PERIOD STARTING APRIL 2023
- 4.1 The full report issued by PSAA regarding their recent consultation is attached at Annex 1.
- 4.2 On 29 July, PSAA reported the consultation findings and the specific areas requiring urgent action to the new Local Audit Liaison Committee (Liaison Committee) established by MHCLG, which is attended by senior representatives of local audit stakeholders.
- 4.3 PSAA highlighted the need for a range of actions, sometimes by individual organisations but more often collectively across the system, to tackle the identified issues that are essential to support a more stable, more resilient, and more sustainable local audit system. The Liaison Committee will oversee those actions being taken forward.
- 4.4 As might be expected in some areas of the consultation, the responses received from the two constituencies of eligible bodies and suppliers do not fully align. These issues therefore require particularly careful consideration.
- 5 CONCLUSION
- 5.1 PSAA is currently finalising both its prospectus for the national scheme from April 2023 and its procurement strategy. Both documents will be published at www.psa.co.uk in late September 2021 and referenced in the opt-in invitation that will be issued to all eligible bodies at the same time.

DIRECTOR OF RESOURCES

AA12-21/JP/AC
7 September 2021

For further information please ask for Jane Pearson

Summary of the response to PSAA's consultations on its initial thinking of proposed arrangements for the appointing period starting April 2023

1. Executive summary

PSAA has consulted with eligible bodies and other stakeholders on our draft prospectus for the national scheme for local auditor arrangements from April 2023, and with the audit services market on important features of its procurement strategy.

The insight provided through these important consultations will help to shape the arrangements that PSAA will develop by building on and evolving the current scheme, ready for the beginning of the next appointing period which will commence with the audits of accounts for 2023/24.

Having carefully considered all consultation responses, the need for system-wide change remains crystal clear. In many areas, it is not within PSAA's remit to effect the significant change required to address the issues of significance raised. On 29 July, PSAA reported the consultation findings and the specific areas requiring urgent action to the new Local Audit Liaison Committee (Liaison Committee) established by MHCLG, which is attended by senior representatives of local audit stakeholders. PSAA highlighted the need for a range of actions, sometimes by individual organisations but more often collectively across the system, to tackle the identified issues that are essential to support a more stable, more resilient, and more sustainable local audit system. The Liaison Committee will oversee those actions being taken forward.

As might be expected in some areas of the consultation, the responses received from the two constituencies of eligible bodies and suppliers do not fully align. These issues therefore require particularly careful consideration.

PSAA is currently finalising both its prospectus for the national scheme from April 2023 and its procurement strategy. Both documents will be published at www.psa.co.uk in late September 2021 and referenced in the opt-in invitation that will be issued to all eligible bodies at the same time.

2. Introduction

During Autumn 2021 all eligible bodies will need to make important decisions about their external audit arrangements for the period commencing from the financial year 2023/24.

In relation to appointing auditors, local bodies have options to arrange their own procurement and make the appointment themselves or in conjunction with others, or they can join and take advantage of the national collective scheme administered by PSAA.

In June 2021 PSAA consulted all eligible bodies and other stakeholders (Government departments, NAO, FRC, ICAEW, CIPFA and Treasurers' Societies) on the aims of the national scheme and proposals for how it might develop going forward. This provided consultees with the opportunity to help shape some of the important features of the scheme ahead of issuing the formal invitation to opt in to all eligible bodies in the Autumn.

In parallel, PSAA consulted current and potential suppliers on our initial thinking on some of the key characteristics of a potential procurement strategy and provided the opportunity for suppliers to

propose alternative approaches for PSAA to consider. We indicated the intention to initiate a procurement in early 2022 for the delivery of audit services from April 2023.

The consultation took place in the context of the significant current tensions and pressures in the audit market, and the expectation of significant reform following four reviews commissioned by government (the Kingman review of audit regulation, the Competition and Markets Authority review of the audit market, the Brydon review of the quality and effectiveness of audit, and the Redmond review of local audit and financial reporting). MHCLG published its Spring statement on 19 May which provided further detail on its plan to reshape local audit. Then on 28 July it published a further consultation on its proposed response to the recommendations from the independent Redmond Review of local authority financial reporting and external audit.

3. PSAA's role in local audit

PSAA's responsibilities as the appointing person in the local audit framework are specifically to appoint auditors to opted-in bodies, set scales of fees, and manage contracts with audit firms for delivery of external audit services to opted-in bodies.

The local audit framework regulations determine the way in which we carry out many of our functions. For example, they require PSAA to formally invite all eligible bodies to opt into our scheme for each appointing period, they determine the process and timescales through which auditor appointments must be made, the scale fees set and they impose the duty to consider and process every fee variation on a case-by-case basis, irrespective of its value.

Under the current arrangements, the National Audit Office sets the scope of auditors' work in the Code of Audit Practice, published on an up to five-yearly cycle. The Financial Reporting Council determines regulatory requirements, taking into account its latest annual audit quality reviews once an audit year is completed. CIPFA/LASAAC prescribes the financial reporting requirements applicable to local government bodies.

MHCLG's Spring statement proposes changes to the current arrangements. At the time of writing, a formal consultation on the proposals in the Spring statement is underway and is due to close on 22 September 2021. The outcome of MHCLG's recent consultation on changes to the regulations, designed to provide the appointing person with greater flexibility to allow a fee scale to be set during the audit year (rather than before it starts), is also awaited. If implemented, these changes will enable approved recurring fee variations to be baked into the scale fee at an earlier date so the scale fees are more accurate and the volume of fee variations is reduced.

The significant work to reform audit in the wake of the four independent reviews is underway. Further wide-ranging change is almost certain to occur during the next few years, and is very likely to have an impact during the appointing period that will commence in April 2023. Alongside changes to the general and local audit framework, the Government is reviewing the public sector procurement regulations, following the UK's withdrawal from the European Union.

Given this context we intend to publish our procurement strategy in late September but we will keep it under review and may make appropriate revisions as a result of regulation changes, where these might enable all parties to gain increased benefits.

4. Consultation approach and themes

Our two consultations set out proposals for key characteristics of the procurement strategy. The questions used in the two consultation documents deliberately included some slight differences to reflect the differing perspectives of the respective groups but the same core areas were covered. In addition, the consultation with eligible bodies sought their feedback on our proposals for scheme

membership, whilst the consultation with the market sought its feedback on more detailed points of the procurement strategy given its special relevance to that group.

The consultation on the draft prospectus contained 11 questions (the answer format was generally “yes / no / maybe” with the option to provide supporting comments). The market engagement consultation contained 19 questions (the answer format invited comments and opinions). Across both consultations, all questions were optional.

For ease of reference, the question themes are sub-divided into these three groupings:

Themes covered in the consultation with eligible bodies, other stakeholders, and the market

- Prioritisation to award new longer-term contracts
- Duration of audit services contract
- Tender evaluation ratio
- Market sustainability
- Approach to social value within the procurement
- Timeliness of audit opinion delivery

Themes only covered with eligible bodies and other stakeholders

- Duration of scheme membership (duration of the appointing period)
- Potential to introduce minimum audit fees
- Specific benefits of the national scheme
- Key issues which will influence your decision about scheme membership
- Indication of whether or not you anticipate that your organisation is likely to opt into our scheme

Themes only covered in the market engagement consultation

- Procurement aim and objectives
- Procurement route
- Establishment of a Dynamic Purchasing System (DPS) in parallel for future use
- Lot structure, composition, and size
- Basis for pricing and ways to seek to reduce bidder uncertainty
- Indicative procurement timetable
- Key factors most likely to influence your firm's decision to bid
- Other issues

5. Consultation findings - headlines

We received a very encouraging response to both consultations.

There were 113 responses to the consultation on the draft prospectus (of which 106 were from eligible bodies, and 7 were from other stakeholders including representative organisations), and 10

responses to the market engagement questionnaire (of which 8 were from ICAEW registered firms, 1 from a firm currently unaccredited as local auditors and the ICAEW itself).

Responses from eligible bodies covered most body types, including combined authorities, councils, police, fire bodies, and other local government bodies. Responses from councils were from district councils, county councils, metropolitan districts, unitary councils, and London boroughs.

For eligible bodies, the proportion of “yes”, “maybe” and “no” responses to each question were:

| Question | % Yes | % Maybe | % No |
|---|-------|---------|------|
| Is PSAA right to prioritise the awarding of new longer term contracts with firms, based on realistic market bid prices, mitigating the risks of a less than fully successful procurement by holding in reserve the option to extend one or more of the existing audit services contracts for up to two years if required? | 83% | 14% | 2% |
| Is five years an appropriate term for bodies to sign up to scheme membership? | 88% | - | 8% |
| Is five years with the option to extend for up to two years subject to the supplier's agreement an appropriate term for the next audit services contracts? | 83% | - | 13% |
| Is PSAA right to evaluate tender submissions on the basis of 80% quality and 20% price to align with market expectations and other recent public sector audit procurements? | 57% | - | 36% |
| Is PSAA right to seek to encourage market sustainability within the local audit market by accepting bids from firms that are currently proceeding through the local audit registration process; by accepting consortia bids which may involve an unregistered firm gaining experience by working alongside a registered firm; and by considering the inclusion of one or two lots specifically aimed at seeking to encourage additional capacity into the market? | 56% | 37% | 5% |
| Is PSAA's proposed approach to social value appropriate given the services to be procured will be delivered across the whole of England? Are there any alternative approaches that should be considered? | 81% | - | 13% |
| Is PSAA right to carry out research and to consider setting a minimum audit fee in the next appointing period, recognising the increasing level of audit work now required and the risk that smaller scale fees may not be sufficient to cover the actual cost of the audit? What would be the key issues for PSAA to consider in the event that it opts to set a minimum fee for a Code-compliant audit? | 67% | - | 25% |
| In the context of the recent NAO report, should PSAA and other market participants strive to prioritise the timeliness of audit opinions in the next appointing period? What actions should PSAA or other market participants take in order to avoid delayed opinions blighting the next period? | 95% | - | 4% |
| Which specific benefits of the national scheme are most valuable to you? Are there other benefits we should strive to develop? | - | - | - |
| What are the key issues which will influence your decision about scheme membership for the second appointing period? | - | - | - |
| To inform the further development of our procurement approach, please indicate whether or not you anticipate that your organisation is likely to opt into our scheme? | 57% | 34% | 5% |

From the market, the responses to the questions about our proposals are reflected using a coloured scale indicating the degree of support amongst respondents to our proposals, given the small size of the cohort and that the qualitative nature of the response format.

| N/A | 0-20% | 21-40% | 41-60% | 61-80% | 81-100% |
|-----|-------|--------|--------|--------|---------|
| | | | | | |

| Question | % support |
|---|-------------|
| What are your views on the draft aim and objectives for the procurement proposed by PSAA? | Green |
| What are your views on the procurement route proposed by PSAA? | Green |
| What are your views on the proposal to establish a DPS, in parallel to the main procurement, with a very simple and straightforward entry process? | Green |
| What are your views on the contract duration proposed by PSAA, in particular the proposal to make the option to extend the contract subject to mutual agreement? | Green |
| What are your views on PSAA's preference to enter into new long-term contracts with suppliers rather than extending the existing contracts? | Light Green |
| What are your views on our current thinking about the circumstances in which, and the basis on which, PSAA might, if necessary, make a decision to extend one or more of the current contracts? | Orange |
| What are your views on our initial thinking about lot structure and the suggestion that bidders identify the maximum annual portfolio value of work they could undertake? | Yellow |
| We are considering the inclusion of one or more lots targeted at attracting additional capacity into the market, most likely involving some form of joint working/consortia arrangements between more experienced suppliers and new entrants or less experienced suppliers. What are your views on this proposal which would be a new feature of the procurement strategy compared to the current contracts? | Yellow |
| What could PSAA or other players in the local audit system do to support potential suppliers to enter the market? | Grey |
| What are your views on the proposed lot composition and potential way in which bidders might reflect geographical preferences within their bids which has been developed in response to previous market feedback? Your views on other potential ways to address this would also be welcomed. | Orange |
| Please use the box below to add any further commentary to support your responses, or to comment more broadly on matters related to Lot structure, composition, and size that PSAA should consider. | Grey |
| What are your views on the proposed basis for pricing and the potential options outlined as ways through which to seek to reduce bidder uncertainty which have been developed in response to previous market feedback? Your views on other potential ways in which to seek to reduce bidder uncertainty would be welcomed. | Orange |
| What are your views on this indicative timetable for the procurement? | Yellow |
| Our initial thinking is to attach a weighting of 80% for the quality aspects of tender responses, including social value. This reflects the views and expectations of the market as expressed to PSAA over the past 15 months. It is in line with the approach taken in recent similar public audit procurements. What are your views on this proposal which has been developed in response to previous market feedback? | Green |
| We are considering the inclusion of one or more lots targeted at attracting additional capacity into the market. We are mindful that such lots may require the application of different evaluation criteria to recognise the specific circumstances and deliver the desired outcome. What are your views on the desirability of creating lots with this particular focus and the need for a different evaluation approach to such lots? Are there specific factors that we should consider when developing the evaluation criteria? | Light Green |
| What action would you recommend PSAA and/or other market participants take in order to avoid delayed opinions becoming a feature of the next appointing period? | Grey |
| Please use the box below to share with PSAA those key factors that are most likely to influence your firm's decision on whether to participate in a procurement for audit services for opted-in bodies undertaken in the early part of 2022. | Grey |
| Finally, please use the box below to identify any other issues that you wish to bring to our attention as we progress the development of our procurement strategy. We are also happy to receive comments on other aspects of the local audit system, including any barriers to entry or other constraining factors, which you feel have the potential to inhibit the development of a more stable and sustainable system. | Grey |

6. Consultation findings - key themes from topics asked of all stakeholder groups

Many consultation responses provided detailed additional comments for each question and on the consultation in more general terms. While there is clearly overall support for the majority of PSAA's proposals, the comments suggest that some respondents have different views and concerns in a few aspects of the detail.

Prioritisation to award new longer-term contracts, holding in reserve the option to extend one or more of the existing audit services contracts for up to two years if required

There was overwhelming support (83%) for this proposal as respondents at eligible bodies recognised the importance of having contingency arrangements. Some respondents (14%) answered "Maybe", caveating their responses with the need for improved performance management of suppliers – which is a recurring theme across some responses. Less than 2% of respondents stated that the current contracts should not be extended in any circumstances.

Market respondents expressed strong support for our preference to enter into new long-term contracts but were less persuaded (40%) on our thinking about the circumstances in and basis on which we might invoke the option to extend one or more of the current contracts.

PSAA response: Our intention remains to continue to prioritise new longer-term contracts.

Five-year duration of scheme membership

Again, the vast majority (88%) of respondents at eligible bodies supported our proposal, with a few supporting comments which mainly related to the need for improved performance management of suppliers.

A few respondents suggested there should be an exit clause to enable them to leave the scheme. This is not statutorily possible as the appointing person regulations state that an opted-in body cannot exit the scheme until the end of the appointing period for which it has opted in.

PSAA response: No change: adopt a five-year appointing period spanning the audits of 2023/24 to 2027/28.

Contract duration of five years with the option to extend for up to two years subject to PSAA and the supplier's agreement

Again, the vast majority (83%) of respondents at eligible bodies supported our proposal with very few providing supporting commentary. Comments focused on the need for ensuring appropriate contingency arrangements, auditor independence and flexibility to accommodate the possibility of bodies merging during the contract term.

A range of alternative options for the contract duration were suggested by some respondents (14%).

The vast majority of market (90%) respondents were supportive of our proposal, with individual respondents indicating they would also support a longer contract term or some form of staggered approach. Conversely, one respondent felt that the term should be shorter given potential changes to the market.

PSAA response: No change: adopt a contract duration of five years with an option to extend for up to a further two years by mutual agreement. We will seek to use the DPS to support market sustainability and address bodies' concerns regarding independence and the need to accommodate merging bodies during the second appointing period.

Evaluation of tender submissions on the basis of 80% quality and 20% price

Just over half (57%) of respondents at eligible bodies supported our proposal, many commenting on the need for a proportion of the quality score to be focused on delivering the audit on time. Several respondents made the point that public funds are limited, and it is essential that value for money is achieved in agreeing fees. Some respondents (6%) were keen to understand how we will evaluate quality.

Just over one third (36%) of respondents did not support such a ratio commenting that an 80% quality weighting was too high. Within this group, some suggested we consider alternative quality/price ratios of 70:30, 60:40 or 50:50.

There was universal support (100%) from market respondents for our proposal to have an increased weighting on quality in the tender evaluation than in the 2017 audit services procurement. Half of this group commented on the need for careful consideration of the ways in which quality will be evaluated and to ensure that price does not become the distinguishing factor, despite its decreased weighting.

PSAA response: No change: evaluate tender submissions on the basis an 80% weighting for the quality aspects of tender responses, including social value, and 20% weighting for price. PSAA will seek the views of the FRC to inform the development of our approach to the evaluation of quality. In due course we will also consider how we can best share details of our approach with eligible bodies.

Encouraging market sustainability

Over half of respondents (56%) at eligible bodies supported our proposal, with a further 37% answering "Maybe". Three quarters of these respondents commented that encouraging market sustainability should not result in either increased costs (or effort) or a reduced quality of service for local bodies.

Overall market respondents (70%) agreed in principle with our proposal whilst also raising questions about how such arrangements would work in practice.

PSAA response: No change, implement arrangements with a strong focus on market sustainability. PSAA will seek the support of the ICAEW to facilitate the exploratory discussions between interested experienced suppliers and potential new entrants.

Approach to social value in the audit services procurement

The vast majority (81%) of respondents at eligible bodies supported our proposed approach to focus solely on audit apprenticeships which demonstrate a commitment to local audit and are awarded to residents of deprived areas, with around a quarter commenting that it was the most obvious choice for a contract of this nature, especially given the shortage of skills facing the local audit profession.

Other respondents (13%) commented that we should also consider other relevant social value factors in our social value considerations such as equality, diversity and inclusion, sustainability and environmental concerns, and the provision of training for local councillors.

There were also a few comments about how the scheme would work, whether each audit firm should demonstrate how they will deliver proportionate and relevant social value to those bodies they audit and that our proposal value of 5% weighting is less than applied in their own organisations.

Some caution was urged by the market (30%) who commented that criteria should support the delivery of a high-quality audit and that commitments on local social impact/apprenticeships may conflict with changing service provision modes and recruitment necessities.

PSAA response: PSAA will review its proposal including seeking the views of MHCLG and the LGA.

Consideration of setting a minimum audit fee in the next appointing period

A significant majority (69%) of respondents at eligible bodies supported the proposal for a minimum fee. Around one third of these provided comments, which were broad ranging including citing the potential financial impact on smaller authorities, better quality of service and timeliness would be a pre-requisite for a minimum fee, or that the level of additional fees would need to reduce.

One quarter of respondents did not agree that a minimum fee is appropriate, citing reasons such as the market, rather than PSAA, should determine the minimum fee, and that a minimum fee will not in their view secure the best quality at the lowest price.

Some respondents were keen to understand in more detail the potential impact on their organisations of the proposal.

PSAA response: The PSAA Board at its September meeting will consider the potential to introduce a minimum fee based on the outcome of the independent research undertaken. If a minimum fee is to be introduced, the reasoning and arrangements will be explained in the prospectus.

Prioritisation of the timeliness of audit opinions in the next appointing period

Almost all (96%) of respondents at eligible bodies agreed that PSAA and others should prioritise timeliness, with the remainder stating that quality should be the priority.

Most respondents consider that audit resources are the primary cause of delays, although other factors were acknowledged such as the scope of the audit, the timetable and need for audited bodies to deliver on their responsibilities.

More than half (60%) of market respondents called for the audit deadlines to be realistic for the complexity of accounts and modern audit requirements, with two referring to the challenge of the sector being juxtaposed with NHS audits.

Some market respondents (40%) referenced insufficient audit capacity and issues at the audited bodies as being underlying causes of the delays. For example, the limited capacity of finance teams, the limited ability to use the latest audit techniques due to bodies' working practices, and the quality of the accounts and working papers submitted for audit.

There was also a reflection that the Redmond reforms will impact on the medium to long term position, but that the short term may get worse before it starts to improve. There is a concern that new entrants to the market might simply recruit the staff of existing suppliers making no impact upon the overall pool of people with the credibility to deliver the sector's audits.

PSAA response: We will take the feedback on capacity into account when designing the quality evaluation questions and seek the support and advice of the FRC. We recognise that acting alone PSAA can have limited impact on these issues. We will therefore continue to collaborate with partners and to urge a system-wide response aimed at delivering improvements.

Specific benefits of the national scheme

The benefit most frequently cited by respondents of eligible bodies (64%) is that the national scheme is simpler and likely to deliver lower fees than achievable through a local procurement with less administrative cost and less effort.

Other benefits frequently mentioned by respondents were:

- consistency and standardisation (27%);
- ability to hold auditors to account, scrutiny of scale fee variations (15%);
- risk mitigation by having a central body to negotiate on problems or changes to the audit processes on behalf of individual bodies (14%); and
- not having to appoint our own independent Auditor Appointment panel (11%).

When asked whether there are other benefits that PSAA should strive to develop, the most mentioned were:

- provision of more management information around quality metrics and more robust contract management;
- greater consistency, particular in relation to fees; and
- more ongoing engagement with bodies (as was undertaken as part of this consultation).

PSAA response: We will develop a series of short, single topic focused webinars during the Autumn/Winter period aimed at S151 Officers and Audit Committee Chairs with the aim of furthering understanding of PSAA's role and remit, specific areas of its work highlighted by consultation feedback and the wider local audit framework.

Key issues which will influence your decision about scheme membership

The key issues that were mentioned by multiple eligible bodies were:

- improvements to the existing issues related to quality of service, delays in audits and auditors staffing issues, more assurance of contract management, and timely resolution of issues (46%); and
- ensuring value for money (31%).

PSAA response: We will take the feedback into account when developing the detailed terms of the new audit services contracts. Importantly we will continue to communicate that PSAA is unable to address these issues on its own, highlight the challenges to other stakeholders in the local audit system and play an active role in a system-wide response aimed at delivering improvements.

Do you anticipate that your organisation is likely to opt into our scheme?

Over half of eligible bodies (57%) answered “Yes”, with a further third of respondents (34%) answering “Maybe”. Only one respondent from an eligible body answered “No”, other “No” respondents represented stakeholder organisations for whom the question was not relevant.

The most frequently cited supporting comments related to:

- the fact that the decision to accept the opt-in invitation requires members’ approval;
- seeing evidence of the current issues being addressed and/or PSAA responding to the consultation feedback; and
- the outcome of consideration of the option to make local arrangements.

7. Consultation findings – market feedback on proposed procurement characteristics

In addition to the topics covered in section 6 above, the consultation with the market sought feedback on PSAA’s initial thinking on the key characteristics of a potential procurement strategy. The findings are described below.

Procurement aim and objectives

All market respondents (100%) supported our proposals.

PSAA response: No change to the proposed aim and objectives. We will continue to engage with the market until the formal commencement of the procurement to inform the development of and to “road test” various aspects of our approach as it is further developed.

Procurement route

All market respondents (100%) supported our proposals. One respondent noted the requirement for auditors to be registered and commented that “the registration process needs to encompass a wider picture and not focus purely on ‘relevant public sector experience’ as this is a barrier to entry.”

PSAA response: No change to the original proposal to follow the Restricted procurement procedure. We are aware that MHCLG is currently consulting on its proposals for ensuring the supply of appropriately experienced and qualified local authority auditors, including amending guidance related to Key Audit Partners. We will keep our approach under review as we are mindful of the potential for change that might attract additional capacity into the market, which we would want to reflect in our audit services procurement strategy.

Establishment of a DPS in parallel for future use

Again, all market respondents (100%) supported our proposal. One respondent highlighted an advantage of a DPS model could be to stagger future tenders through variability in contract term.

Potential areas of concern were expressed by two respondents (shown below), however, neither are proposed features of our approach.

- the requirement to be delivering work under the main procurement to be considered for any subsequent appointment under a DPS procurement; and

- we would not wish to see contract awards changed once made unless there is a specific requirement to do so.

PSAA response: We will establish a DPS as proposed.

Lot structure, composition, and size

Our consultation posed several questions in relation to our proposals for lot structure, composition, and size, and the collective findings are set out below.

Overall there was a mixed response from the market to our proposals, but this provided us with helpful insights.

There was broad support for an increased number of lots, with some respondents indicating individual preferences about lot sizes, lot composition and maximum volumes of work to be awarded to any one bidder.

Our proposal to accept bids from organisations working as a consortium or in some form of joint working arrangement (rather than joint audit) attracted equal numbers who supported it and those who did not (the latter group expressing concerns of risks to quality and reputation).

Two respondents referenced the risk that our proposed approach could result in a small number of bidders winning the majority of the lots. PSAA is mindful of this risk and is seeking to strike a balance between allowing bidders to win work up to their capacity, and achieving a broader distribution.

Fewer than half (40%) of market respondents were supportive of our proposal to apply a geographical premium where there is no alternative to appointing an auditor to an audit in an area that is least attractive to the audit firm. Three respondents offered differing alternative suggestions.

One respondent suggested that at least some of the lots should exclude any audits designated as Public Interest Entities.

PSAA response: We will re-examine our proposed approach to lot structure, composition, and size in light of the market feedback. We will continue to engage with the market until the formal commencement of the procurement to inform the development and to “road test” various aspects of our approach. Given the potential for change that influences the market over the next six months, we will keep our lotting approach under review, and reference the potential for further change in our procurement strategy.

Support for potential suppliers to enter the market

All market respondents addressed this question, with the vast majority indicating the need for a system-wide approach.

Some respondents commented on individual aspects of our proposals including the basis on which a decision may be made to either enter into new long-term contracts or extend the current contracts, lot composition, and the fee variation process.

PSAA response: We will consider the feedback as we develop proposed contract terms for the next procurement. Fee variations will continue to be processed in accordance with the regulations, which currently require a case-by-case consideration of each proposed variation.

Basis for pricing and ways to seek to reduce bidder uncertainty

The proposal set out five potential ways in which PSAA might seek to reduce uncertainty for bidders.

Overall, the market's view was mixed with some support for some of the individual options we proposed. However, there were a greater number of respondents' who expressed concerns on the proposed basis for pricing and fee variations.

PSAA response: We will re-examine elements of our proposed basis for pricing in response to feedback to see if other viable options exist that can be delivered in accordance with the regulations.

Indicative procurement timetable

Once again, the market's view of the proposed timetable was mixed. Those respondents with NHS audits in their portfolios expressed concern, requesting the tender return date was moved to either before mid-April 2022 or commencing mid-July. The proposed timetable was supported by the remaining respondents.

PSAA response: It is not feasible to bring forward the date of tender return as the deadline for eligible bodies to accept the opt-in invitation is not until 11 March 2022, and information on opted-in bodies will need to be provided in the ITT documents. The option to delay the tender return date until mid-July 2022 is possible, although it would compress the available time in which to consult with both audit firms and eligible bodies on proposed auditor appointments for the appointing period from April 2023. The regulations require the appointing person (PSAA) to confirm all auditor appointments by 31 December 2022. MHCLG officials have informed PSAA that they would be unable to amend the regulations within the required timeframe. We will review the auditor appointment process to assess the potential to compress the consultation process without detriment to conducting a meaningful process.

Key factors most likely to influence your firm's decision to bid

Market respondents outlined the factors that they will take into account when considering whether to participate in the audit services procurement. This feedback aligned with responses received to other areas of the consultation.

PSAA response: We will consider the feedback as we develop the strategy and proposed contract terms for the next procurement.

Other issues that you wish to raise

More than half (60%) of respondents did not answer this question. The issues highlighted by respondents reiterated points covered in responses received to other areas of the consultation, namely the fee variation process and the basis for pricing. Several issues raised are directed at the wider local audit system, such as the need for early clarity on the future direction of local audit in the wake of the various government reviews, greater coordination across public sector relevant bodies of timetabling and supporting new entrants into the market.

PSAA response: We will we share the issues raised with MHCLG's Local Audit Liaison Committee.

8. Next steps

The PSAA Board has carefully considered the outcome of the consultations on its plans to develop the national scheme for local auditor appointments from April 2023 and agreed to move forward with many of the proposals in the light of the largely positive response.

In those areas where consultation feedback suggested that PSAA needs to revisit its proposed approach work is progressing to explore ways in which to evolve the proposals. PSAA will complete this work by mid-September 2021, and the outcomes will be set out in the prospectus for the national scheme from April 2023 and/or the procurement strategy. Both of these documents will be published at www.psa.co.uk in late September 2021 and referenced in the formal opt-in invitation to be issued to all eligible bodies around the same time.

Given the potential for change over the next six months in relation to both audit-related and procurement regulations, the detail of the procurement strategy will be kept under review to retain flexibility to evolve in response to external factors. In early 2022 PSAA intends to initiate a procurement for the delivery of audit services from April 2023.

Following the positive response to the webinars held to support the consultation process, PSAA will be holding a series of free single-topic webinars during the Autumn/Winter. They will provide an opportunity for eligible bodies to ask questions about the preparations for the second appointing period including the opt-in process and auditor appointment process, as well as seeking to increase awareness of PSAA's role and remit and understanding of key aspects of our work.

We will continue to work closely with MHCLG and the other bodies represented at the Local Audit Liaison Committee to respond to the challenges of a fragile system, and work with other local audit stakeholders to help design and implement a system for local audit which is more stable, more resilient, and more sustainable.