

Public Sector Auditor Appointments Action Plan in response to the Cardiff Business School report – ‘Review of lessons learned by Public Sector Audit Appointments Limited in its role as an Appointing Person 2016 – 18.’

Lessons	Recommendations	PSAA response
<p>CFOs were generally very positive about PSAA communications. Audit Committee Chairs, on the other hand, presented a more mixed picture - some were relatively satisfied while others were less so; some felt that PSAA should communicate more directly with them while others preferred not to receive direct communications. A majority of authorities appear to have engaged with PSAA (and the LGA) and clearly felt well placed to make timely informed decisions; others were less engaged and felt that they had limited time to make important decisions.</p>	<p>Direct communication and consultation with Audit Committee Chairs (and Committees) should be further developed by PSAA, and they may benefit from further sector wide programmes, ideally involving the LGA, to clarify and underpin their roles.</p> <p>Consultation on the next scheme should be undertaken in good time before the end of the current scheme in 2023.</p>	<p>PSAA introduced its Local Audit Quality Forum (LAQF) with the aim of communicating and consulting with key Audit Committee members, and the officers that advise and support them. PSAA will also evaluate ways to communicate directly with Audit Chairs when developing its new communications strategy.</p> <p>PSAA recognises that elements of the consultation process for the latest procurement round were not ideal as they were dictated by the legislative process rather than design. As much flexibility as possible was built in to the timetable. Consultation will begin in good time for the next round.</p>

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<p>PSAA was very successful in attracting eligible bodies to joining the scheme for its first round of audit appointments. Our research indicates that future rounds are likely to contain further challenges, and to maintain its market share it will be increasingly important for PSAA to ensure that it meets the aspirations and requirements of eligible bodies.</p>	<p>PSAA should engage on a continuous basis with eligible bodies to ensure that:</p> <ul style="list-style-type: none"> • audited bodies understand what they can expect from their auditors; and • it is alerted at an early stage to any audited body concerns about their auditors. 	<p>PSAA is committed to an on-going dialogue with its clients (individually and via groups such as Treasurers' societies) about what they can expect from their auditors, and actively seeking feedback from both S151 officers and Audit Committee Chairs on the audit service that they receive.</p> <p>PSAA will continue to communicate in other ways, including responding to consultation comments, sharing the Statement of Responsibilities, quality reporting and by participating in discussions on audit.</p>
<p>A number of aspects of the procurement including the price: quality evaluation rating and lot sizes and composition remain live issues.</p>	<p>PSAA should remain open-minded about its procurement approach and use the time between now and the next procurement to conduct further research.</p>	<p>PSAA will be researching options for all aspects of its approach ahead of the next procurement.</p>

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<p>There are significant challenges to ensuring a long term sustainable competitive and quality audit supply market including:</p> <ul style="list-style-type: none"> • the lower fees, increased regulatory requirements and higher audit risks arising from local government financial challenges may discourage firms from remaining in the market (although firms stated that they are currently intending to stay in the market); • there is evidence that gaining new entrants will be challenging; • the relationship between number and size of audit firms in a market and quality and price is not clear. But there is a clear preference from CFOs for larger firms for their assumed higher quality. <p>Given the above factors, positive 'market making' action may be advisable.</p>	<p>A Market Strategy should be developed in the near future setting out the best route to ensure a strong competitive supply market from 2023 (which may include more or less emphasis on different types of firms).</p> <p>Following this, feasibility work can be undertaken in good time to facilitate required actions before 2023 to nurture smaller/larger non/registered firms in the market.</p> <p>Dialogue with all registered firms should be maintained on a regular basis including gaining their views on how the new contracts are in practice, and what approach can be developed for the procurement of new contracts in 2023.</p>	<p>PSAA recognises that maintaining a long term sustainable competitive and quality audit supply is a significant and critically important challenge, and will conduct research to evaluate the options for achievement. This will include reviewing options for attracting additional firms into the market.</p> <p>PSAA has regular dialogue with the current providers, and will seek discussions with the other registered firms. PSAA will review the current contract with firms with a view to whether changes are appropriate for the next procurement round.</p>

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<p>There is evidence that the process of gaining agreement to fee variations or additional work may be unnecessarily protracted.</p>	<p>A review should be completed to ascertain if the fee variation/additional work processes can be speeded-up.</p>	<p>PSAA has reviewed the current process and is committed to a new IT system that facilitates easier submission of information, including fee variations, and quicker processing by PSAA itself. PSAA will provide training on the key aspects to enable roll-out through the firms.</p>

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<p>In light of the concerns raised by CFOs regarding future quality standards and their views on what constitutes audit quality there is a need to engender and communicate a common understanding of audit quality.</p>	<p>Further informational work with opted-in bodies is needed to ensure the requirements of auditors to apply the Code of Audit Practice, the NAO's responsibility and sovereignty in relation to the content of the Code and PSAA's inability to alter the Code is fully understood.</p> <p>A new Code of Audit Practice will need to be approved and issued by no later than April 2020. In formulating its input into the consultation on the updated code, PSAA should explore more fully some CFOs' concerns regarding future audit quality, and the latter's preference for a wider scope audit, identified in this report.</p> <p>The LAQF should also be used as a vehicle to test further local authorities' views on the scope of the audit, again with the aim of informing PSAA's input into the consultation on the updated code.</p>	<p>PSAA is committed to becoming more outward-facing, and will actively seek opportunities to discuss its new role, and the various measures which it has put in place to strive to maintain and continuously improve audit quality.</p> <p>PSAA will respond to the Code of Audit Practice consultation, and encourages audited bodies, firms and other interested parties also to do so. PSAA is aware that there is a range of views on these matters as a result of regular dialogue with various groups and individuals.</p> <p>The NAO has presented at both LAQF events to-date, with the Code of Audit Practice being a key theme, and the discussions will help to inform PSAA's response to the consultation. PSAA recognises the opportunity that the Code review provides to debate different views about audit scope, and to try to find a way forward which will best meet the needs of the sector.</p>

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<p>Although it is too early in the process of results, performance and quality monitoring and reporting to evaluate, the concerns about quality raised more generally highlight the importance of the monitoring process.</p>	<p>PSAA should continue to prioritise seeking feedback from local bodies on audit quality issues and further refine its approach to quality monitoring and reporting once the new system is up and running.</p>	<p>PSAA has based its approach to assessing audit services quality on the Framework for Audit Quality developed by the International Audit & Assurance Standards Board (IAASB).</p> <p>The three main areas auditors will be assessed on are whether they meet contractual requirements, comply with all of the relevant professional standards and guidance, and are underpinned by positive auditor-client relationships. The quality assessments will be published openly and transparently on the PSAA website. PSAA will review its approach to quality monitoring on an ongoing basis and refine it where necessary.</p>

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<p>PSAA was successful in delivering the Appointing Person role during a short time scale with very efficient use of resources. Whilst the organisation had a very successful start, our findings suggest space for strengthening</p> <p>Board-staff interactions and investing in ongoing dialogues with external stakeholders, including but not limited to audit suppliers.</p>	<p>PSAA needs to put increased effort in building relationships with current and potential suppliers, as part of a wider package of risk mitigation strategies needed to assure a “long term competitive, sustainable market for audit services”.</p> <p>The Board and new management of PSAA should ensure the effective approach to project management (including clear objectives, milestones and methods to achieve them) for the Appointing Person scheme continues to be used in the future.</p> <p>The opportunity of the arrival of new management should be used to review how the Board works with the staff team to underpin the future challenging agenda.</p>	<p>PSAA is committed to working with its suppliers on a partnership basis, whilst also respecting the contractual nature of the relationship. PSAA will also seek to build relationships with potential suppliers.</p> <p>The PSAA Board and new management recognise the importance of the project management processes in place, and the need to ensure that they are continued. The Board/staff relationship is being reviewed with a view to ensuring that we make the most of the collective skills and knowledge, recognising the challenging agenda ahead.</p>