

DRAFT PROSPECTUS

**Your chance to help
us shape the national
scheme for local
auditor appointments
from April 2023**

All eligible bodies

June 2021

www.psaa.co.uk

About PSAA

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

In July 2016, the Secretary of State specified PSAA as an appointing person for principal local government and police bodies for audits from 2018/19, under the provisions of the Local Audit and Accountability Act 2014 and the Local Audit (Appointing Person) Regulations 2015. Acting in accordance with this role PSAA is responsible for appointing auditors and setting scales of fees for relevant principal authorities that have chosen to opt into its national scheme, overseeing issues of auditor independence and monitoring compliance by the auditor with the contracts we enter into with the audit firms.

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Context: changes in the audit market

During Autumn 2021 all local government and police 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 other bodies, or they can join and take advantage of the national collective scheme administered by PSAA.

This draft prospectus provides an introduction to the PSAA national scheme, and discusses and invites 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. Through this process we want to give you the opportunity to help us shape some of the important features of the scheme ahead of issuing formal invitations to opt in to all eligible bodies in the Autumn.

However, before we look forward, we need to look back. 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. Our 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 we were able to enter into long term contracts with five experienced and respected firms and to make auditor appointments to all bodies. However, we did not know at the time that this was the calm before the storm.

2018 proved to be a very 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 we have then had the results of four independent reviews 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.

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. Indeed, 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.

By the time firms were conducting 2018/19 local audits, the measures which they were putting in place to respond to a more focused regulator, determined to achieve change, were clearly visible. 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.

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.

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. The timeliness problem is extremely troubling. It is deep-seated and has a range of causes. There are no easy solutions, and so it is vital that co-ordinated action is taken 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 is fully committed to do all it can to contribute to achieving that goal.

Delayed opinions are not the only consequence of the FRC's drive to improve audit quality. Additional audit work must also be paid for. As a result, many more fee variation claims have been received than in prior years.

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.

All of this paints a picture of an audit industry under enormous pressure and of a local audit system which is experiencing its share of the strain and unavoidable instability as impacts cascade down to the frontline of individual audits. We highlight some of the initiatives which we have taken to try to manage through this troubled post-2018 audit era in this draft prospectus.

We look forward to the challenge of getting beyond managing serial problems within a fragile system and working with other local audit stakeholders to help design and implement a system which is more stable, more resilient, and more sustainable.

Responding to the post-2018 pressures

In our view the audit market will continue to be relatively unstable and difficult to predict for a further period of time as the Government continues to develop and implement its policy response to the four independent reviews - Kingman, CMA, Brydon, and

Redmond; as further regulatory pressure is applied; and as firms respond and adapt. Organisations attempting to procure audit services of an appropriate quality during this period are likely to experience markedly greater challenges than pre-2018.

Local government audit will not be immune from these difficulties. However, we do believe that bodies which opt into PSAA's national scheme will be in a better position than those which choose to make their own separate arrangements. Firms are more likely to make positive decisions to bid for larger, long term contracts, offering secure income streams, than they are to invest in bidding for a multitude of individual opportunities.

The national scheme already offers a range of benefits for its members:

- transparent and independent auditor appointment via a third party;
- the best opportunity to secure the appointment of a qualified, registered auditor;
- appointment, if possible, of the same auditors to bodies involved in significant collaboration/joint working initiatives, if the parties believe that it will enhance efficiency and value for money;
- on-going management of any independence issues which may arise;
- access to a dedicated team with significant experience of working within the context of the relevant regulations to appoint auditors, managing contracts with audit firms, and setting and determining audit fees;
- a value for money offer based on minimising PSAA costs and distribution of any surpluses to scheme members;
- collective savings for the sector through undertaking one major procurement as opposed to a multiplicity of smaller procurements;
- a sector-led collaborative scheme supported by an established advisory panel of sector representatives to help inform the design and operation of the scheme;
- avoiding the necessity for local bodies to establish an auditor panel and undertake an auditor procurement, enabling time and resources to be deployed on other pressing priorities;
- providing regular updates to Section 151 officers on a range of local audit related matters and our work, to inform and support effective auditor-audited body relationships; and
- concerted efforts to develop a more sustainable local audit market.

However, the challenge for 2023 and beyond is to develop the scheme further, by listening to the feedback from scheme members, suppliers and other stakeholders and learning from the collective post-2018 experience. This work is already firmly underway. During the past three years we have taken a number of initiatives to improve the operation of the scheme for the benefit of all parties including:

- proactively and constructively engaging with the numerous high-profile industry reviews, including the significant Redmond Review into Local Authority Financial Reporting and External Audit;
- commissioning an independent review undertaken by Cardiff Business School of the design and implementation of our appointing person role to help shape our thinking about future arrangements;
- commissioning an independent review by consultancy firm Touchstone Renard of the sustainability of the local government audit market, which identified a number of distinctive challenges in the current local audit market. We published the report to inform debate and support ongoing work to strengthen the system and help to deliver long term sustainability;
- working with MHCLG to identify ways to address concerns about fees by developing a new approach to fee variations which would seek wherever possible to determine additional fees at a national level where changes in audit work apply to all or most opted-in bodies;
- the establishment of a Local Audit Quality Forum, which is free of charge to opted-in bodies and has to date held five well attended events on relevant topics;
- using our advisory panel and attending meetings of the various Treasurers' Societies and S151 officer meetings to share updates on our work, discuss audit-related developments, and listen to feedback;
- maintaining contact with those registered audit firms that are not currently contracted with us, to build relationships and understand their thinking on working within the local audit market;
- undertaking research to enable a better understanding of the outcomes of electors' objections and statements of reasons issued since our establishment in April 2015; and
- sharing our experiences with and learning from other organisations that commission local audit services such as Audit Scotland, the NAO, and Crown Commercial Services.

Importantly, we are also currently working closely with a range of local audit stakeholders including MHCLG, FRC, NAO, and the LGA to help identify and develop further initiatives to strengthen the local audit. In many cases desirable improvements are not within PSAA's sole gift and accordingly it is essential that this work is undertaken collaboratively with a common aim to ensure that local government continues to be served by an audit market which is able to meet the sector's needs and which is attractive to a range of well-equipped suppliers.

One of PSAA's most important obligations is to make an appropriate auditor appointment to each and every opted-in body. Prior to making appointments for the second appointing period, commencing on 1 April 2023, we plan to undertake a major procurement enabling suppliers to enter into new long term contracts with PSAA.

In the event that the procurement fails to attract sufficient capacity to enable auditor appointments to every opted-in body, we have fallback options to extend one or more existing contracts for the period spanning 2023/24 and 2024/25.

We are very conscious of the value represented by these contract extension options, particularly given the current challenging market conditions. However, rather than simply extending existing contracts for two years (with significant uncertainty attaching to the outcomes of a further procurement to take effect from 1 April 2025), we believe that it is preferable, if possible, to enter into new long term contracts with suppliers at realistic market prices to coincide with the commencement of the next appointing period.

Prior to initiating the procurement we will set out the detailed basis on which, if necessary, the fallback decision to extend one or more current contracts will be taken. One of the objectives of our approach will be to encourage firms to participate in the procurement and in doing so to ensure that their tenders reflect realistic market bid prices.

The MHCLG has recently undertaken a consultation proposing amendments to the Appointing Person Regulations. Subject to its outcome and the approval of relevant changes to the regulations, we are minded to set the length of the next compulsory appointing period as the five consecutive financial years commencing 1 April 2023.

In late September we plan to formally invite all eligible bodies to opt into the scheme for the second appointing period. We intend that bodies will be able to commit to join the scheme until the end of January 2022.

IMPORTANT TO NOTE: A decision to become an opted-in authority must be taken in accordance with the Regulations, that is by the members of an authority meeting as a whole, except where the authority is a corporation sole, such as a police and crime commissioner, in which case this decision can be taken by the holder of that office.

We hope you will be interested in the development of the national scheme for the second appointing period. We are keen to hear your views to help us shape our approach. Details of how you can send us your views are set out on page 16.

Audit does matter

The purpose of audit is to provide an independent opinion on the truth and fairness of the financial statements, whether they have been properly prepared and to report on certain other requirements. In relation to local audit the auditor has a number of distinctive duties including dealing with electors' objections and issuing public interest reports.

Good quality independent audit is one of the cornerstones of public accountability. It gives assurance that taxpayers' money has been well managed and properly expended. It helps to inspire trust and confidence in the organisations and people responsible for managing public money.

“The LGA set up PSAA to provide a way for councils to meet the legislative requirements of audit procurement without unnecessary bureaucracy and to provide leverage for councils by collaborating in a difficult market. It is now more important than ever that councils work together to ensure we get what we need from the audit market.”

James Jamieson. Chairman of the Local Government Association

PSAA is well placed to lead the national scheme

As outlined earlier, the past few years have posed unprecedented challenges for the UK audit market. Alongside other stakeholders PSAA has learned a great deal as we have tried to address the difficulties and problems arising and mitigate risks. It has been a steep learning curve but nevertheless one which places us in a strong position to continue to lead the national scheme going forward.

The company is staffed by a team with significant experience of working within the context of the regulations to appoint auditors, managing contracts with audit firms, and setting and determining audit fees. All of these roles are undertaken with a detailed, ongoing, and up-to-date understanding of the distinctive context of a highly regulated service and profession which is subject to dynamic pressures for change.

We believe that the national collective, sector-led scheme stands out as the best option for all eligible bodies - especially in the current challenging market conditions. It offers excellent value for money compared to alternative approaches and assures the independence of the auditor appointment.

Membership of the scheme will save time and resources for local bodies - time and resources which can be deployed to address other pressing priorities. Bodies can avoid the necessity to establish an auditor panel (required by the Local Audit & Accountability Act, 2014), and the need to manage their own auditor procurement. Assuming a high level of participation, the scheme can make a significant contribution

to supporting market sustainability and encouraging realistic prices in a challenging market.

The scope of a local audit is fixed. It is determined by the Code of Audit Practice (currently published by the NAO¹), the format of the financial statements (specified by CIPFA/LASAAC) and the application of auditing standards regulated by the FRC. These factors apply to all local audits irrespective of whether an eligible body decides to opt into PSAA's national scheme or chooses to make its own separate arrangements.

The scope of public audit is wider than for private sector organisations. For example, for 2020/21 onwards it involves providing a new commentary on the body's arrangements for securing value for money, as well as dealing with electors' enquiries and objections, and in some circumstances issuing public interest reports.

Auditors must be independent of the bodies they audit to enable them to carry out their work with objectivity and credibility, and to do so in a way that commands public confidence. We will continue to make every effort to ensure that auditors meet the relevant independence criteria at the point at which they are appointed, and to address any identified threats to independence which arise from time to time. We will also monitor any significant proposals for auditors to carry out consultancy or other non-audit work with the aim of ensuring that these do not undermine independence and public confidence.

The scheme will also endeavour to appoint the same auditor to bodies involved in formal collaboration/joint working initiatives, if the parties consider that a common auditor will enhance efficiency and value for money.

PSAA's commitments

PSAA will contract with appropriately qualified suppliers

In accordance with the 2014 Act, audit firms must be registered with one of the chartered accountancy institutes - currently the Institute of Chartered Accountants in England and Wales (ICAEW) - acting in the capacity of a Recognised Supervisory Body (RSB). The quality of their work will then be subject to inspection by either or potentially both the RSB and the FRC. Currently there are fewer than ten firms registered to carry out local audit work.

We will take a close interest in the results of RSB and FRC inspections and plans which firms develop to address any areas in which inspectors highlight the need for improvement. We will also focus on the rigour and effectiveness of firms' own internal quality assurance arrangements, recognising that these represent some of the earliest and most important safety nets for identifying and remedying any problems arising. To help inform our scrutiny of both external inspections and internal quality assurance

¹ MHCLG's Spring statement proposes that overarching responsibility for Code will in due course transfer to the system leader, namely ARGA, the new regulator being established to replace the FRC.

processes, we will invite regular feedback from both audit committee chairs and chief finance officers of audited bodies.

PSAA will support market sustainability

We are very conscious that our next procurement will take place at a very difficult time given all of the fragility of and uncertainties within the external audit market.

Throughout our work we will be alert to new and relevant developments that may emerge from the Government's response to the Kingman, CMA and Brydon Reviews, as well as its response to the issues relating specifically to local audit highlighted by the Redmond Review. We will adjust or tailor our approach as necessary to maximise the achievement of our procurement objectives.

A top priority must be to encourage market sustainability. Firms will be able to bid for a variety of differently sized contracts so that they can match their available resources and risk appetite to the contract for which they bid. They will be required to meet appropriate quality standards and to reflect realistic market prices in their tenders, informed by the scale fees and the supporting information provided about each audit. Where regulatory changes are in train which affect the amount of audit work which suppliers must undertake, firms will be informed as to which developments should be priced into their bids. Other regulatory changes will be addressed through the fee variation process.

PSAA will offer value for money

Audit fees must ultimately be met by individual audited bodies. The prices submitted by bidders through the procurement will be the key determinant of the value of audit fees paid by opted-in bodies.

We believe that the most likely way to secure competitive arrangements in a suppliers' market is to work collectively together as a sector.

We will seek to encourage realistic fee levels and to benefit from the economies of scale associated with procuring on behalf of a significant number of bodies. We will also continue to seek to minimise our own costs (which represent less than 5% of overall scheme costs). We are a not-for-profit company and any surplus funds will be returned to scheme members. For example, in 2019 we returned a total £3.5million to relevant bodies.

We will continue to pool scheme costs and charge fees to opted-in bodies in accordance with our published fee scale as amended from time to time following consultations with scheme members and other interested parties. Pooling, sometimes referred to as 'Post Office pricing', means that everyone within the scheme will benefit from the prices secured via a competitive procurement process – a key tenet of the national collective scheme.

Additional fees (fee variations) are part of the legal framework. They only occur if auditors are required to do substantially more work than anticipated, for example, if local circumstances or the Code of Audit Practice change or the regulator (the FRC) increases its requirement on auditors.

If the changes that relate to audit fees, proposed in MHCLG's recent consultation on the Appointing Person Regulations, are ultimately approved and implemented, PSAA will be able to manage the scale of fees and fee variations more flexibly. This will enable scale fees to be determined taking into account the outcome of more recently completed audits, and fee variations to be managed differently depending on whether they are driven by national or local factors.

It is important to emphasise that by opting into the national scheme you have the reassurance that we review and robustly assess each fee variation proposal. We draw on our technical knowledge and extensive experience in order to assess each submission, comparing with similar submissions in respect of other bodies/auditors before reaching a decision.

Audit developments since 2018 have focused considerable attention on audit fees. The drive to improve audit quality has created significant fee pressures as auditors have needed to extend their work to ensure compliance with increased regulatory requirements. Changes in audit scope and technical standards, such as the requirement in the new Code of Audit Practice 2020 for the auditor to provide a VFM arrangements commentary, have also had an impact.

Scale audit fees are rising in response to the volume of additional audit work now required. However, in the case of audits which currently attract relatively modest scale fees, we are concerned that these may be insufficient to cover the actual cost of the audit. We therefore plan to carry out research to explore this risk more fully and to consider the possibility of introducing a minimum scale fee, to ensure that all fees are sufficient to cover the actual costs of a Code-compliant audit. Striving to ensure realistic fee levels is a vital prerequisite in relation to achieving a more sustainable local audit market.

If we decide to introduce a minimum fee, we would do so at the outset of the next appointing period in respect of the audit of 2023/24 accounts. We anticipate that the introduction of a minimum fee would be likely to lead to an increase in fees for a relatively small number of local bodies. It may also impact the scale fees of some pension fund audits.

Procurement Strategy

Our primary aim is to secure the delivery of an audit service of the required quality for every opted-in body at a realistic market price and to support the drive towards a long term competitive and more sustainable market for local public audit services.

The objectives of the procurement are to maximise value for local public bodies by:

- securing the delivery of independent audit services of the required quality;
- awarding long term contracts to a sufficient number of firms to enable the deployment of an appropriately qualified auditing team to every participating body;
- encouraging existing suppliers to remain active participants in local audit and creating opportunities for new suppliers to enter the market;

- encouraging audit suppliers to submit prices which are realistic in the context of the current market;
- enabling auditor appointments which facilitate the efficient use of audit resources;
- supporting and contributing to the efforts of audited bodies and auditors to improve the timeliness of audit opinion delivery; and
- establishing arrangements that are able to evolve in response to changes to the local audit framework.

Aligned to setting the duration of the compulsory appointing period as five years, our current thinking is to set a **contract duration of five years** with the option to extend for a further one or two years with the supplier's agreement. We have considered other options which, for completeness, are explained in the annex to this prospectus together with our reasons for rejecting them.

Our initial thinking is to follow the **restricted procedure** (rather than the open procedure) in accordance with the current Public Contract Regulations given the current requirement that in order to undertake local audit work **firms must be registered with an RSB**. This could include a non-accredited firm working with an accredited firm we appoint as the auditor.

One of the proposed changes to the Appointing Person Regulations would enable PSAA to exercise greater flexibility in relation to the term of auditor appointments. In this context we are considering whether to establish a dynamic purchasing system (DPS) in parallel to the main procurement. Our thinking is that a DPS could provide the option for some or all subsequent auditor appointments, e.g. to newly established bodies, to be the subject of mini-procurements. It would also mitigate the risk that some audit firms might be "locked out" of the market for the new contract term if they are unsuccessful in the procurement.

Our initial thinking is that there could be **between seven and ten contract lots** with the aim of entering into contracts with a larger number of registered local public auditors than the current five. We feel this could contribute to longer-term market sustainability as well as helping us to manage any auditor independence issues.

Our current thinking is **contract lots should be graduated in size**. The **largest lot** would probably represent **around 20-25%** of the market compared to the 40% and 30% largest lots offered in 2017. As a consequence there are likely to be an **increased number of smaller lots** available. The exact number and size of lots will be influenced by the number of bodies that decide to opt into the scheme.

Our initial thinking is that, with the exception of the very smallest lots, each lot, in its final form, would reflect a **sensible balance of geography and a blend of the different authority types**.

At this stage we envisage that the value of each lot would be expressed in terms of the "audited body notional value" (ABNV), which would comprise the published scale fees for 2021/22. Recognising the potential for scale fees at individual bodies to change between the completion of the procurement process and the contract

commencement date, we envisage the inclusion of mechanisms to adjust scale fees transparently (either up or down) to ensure that both opted-in bodies and our contracted suppliers are neither advantaged nor disadvantaged by such changes. Importantly we hope this will avoid contingency provisions being built into firms' bids to mitigate risk.

We feel it would be beneficial to provide bidders with relevant information on each audit including the recent history of approved fee variations and the nature of any recurring fee variations that have already been incorporated into the scale fee. In this way we aim to establish a consistent and informed basis for the submission of tenders.

We envisage applying an evaluation ratio at tender stage that is significantly weighted towards quality. In 2017 we adopted a 50% quality: 50% price model. However, the market expectation has clearly shifted over recent years in response to the requirement for auditors to deliver higher quality audits. Recent similar public audit procurements indicate that anything less than an 80% weighting for quality would be viewed as being out of touch with the market and risk not attracting a sufficient range of suppliers.

Our current thinking is therefore to adopt **an 80% quality: 20% price weighting** which would align with recent similar public sector audit procurements. However, we recognise that this is an issue on which eligible bodies may also have strong views so are keen to hear bodies' thoughts.

Our current thinking is to test the following areas to assess the quality of tender responses: audit approach, quality assurance arrangements, resourcing, capacity & capability, management of the transition between audit firms and client relationship management and communication. We propose to underpin our more heavily weighted emphasis on quality with a series of KPIs derived from these areas.

One of the most concerning features of the local audit system since 2018 has been the large number of audit opinions which have been delayed beyond the target timetable set out in the Accounts & Audit Regulations, and the disruption and reputational damage that results for all parties as a result of those delays. The [NAO published a report](#) on this matter in March, 2021. The report concludes "The increase in late audit opinions, concerns about audit quality and doubts over audit firms' willingness to continue to audit local authorities all highlight that the situation needs urgent attention. This will require cooperation and collaboration by all bodies involved in the local audit system, together with clear leadership from government." We agree and we are working with partners on what actions PSAA and other market participants can take to avoid delayed opinions becoming a feature of the next appointing period. We know that there are no quick fixes, but we are determined to do all we can to bring about improvements, whilst recognising the importance of striking the right balance in relation to audit quality.

To support the drive for market sustainability, we are considering the following possible options:

- 1) accepting consortia bids including those that involve firms which are seeking to enter the market by gaining experience working in partnership with an existing registered supplier;
- 2) accepting bids from firms that are currently proceeding through the local audit registration process; and
- 3) inclusion of one or two lots specifically aimed at seeking to encourage additional capacity into the market, mostly likely through some form of joint working arrangement between more experienced suppliers and new entrants or less experienced suppliers.

Additional costs may arise as an inevitable consequence of striving to bring new suppliers into the market. If additional costs were to occur, they would be borne by the scheme as a whole rather than by an individual audited body or a sub-set of bodies.

Social value

The Social Value Act 2012 applies to PSAA, therefore we must consider (a) how the audit services might “improve the social, economic and environmental well-being” of England and (b) how in conducting the process of procurement of those services we might act with a view to securing that improvement.

The collective, national nature of our contracts for audit services, which cover a significant number of diverse bodies do not easily provide scope for such improvement arising solely from procuring audit services.

As such we are considering whether to focus our approach to social value solely on audit apprenticeships which demonstrate a commitment to local audit and are awarded to residents of deprived areas. We feel this focus, whilst narrow, would deliver a tangible, measurable outcome for the long-term benefit of the sector. It would also build on the significant number of apprenticeships (137 to date) created as a result of our 2017 procurement.

Our initial thinking is to attach a **4% evaluation weighting to social value** (that equates to 5% of the quality score). However, we recognise that this is an issue on which eligible bodies may have views so are keen to hear bodies’ thoughts.

Scope of the procurement

The scope of the procurement will be the delivery of audit services for eligible bodies that decide to accept the invitation to opt into PSAA’s scheme.

An eligible body that does not accept the opt-in invitation but subsequently wishes to join the scheme may apply to opt in during the appointing period only, that is on or after 1 April 2023. In accordance with the regulations, as the appointing person, PSAA must: consider a request to join its scheme; agree to the request unless it has reasonable grounds for refusing it; and notify the eligible body within four weeks of its decision with an explanation if the request is refused.

Where the request is accepted, PSAA may recover its reasonable costs for making arrangements to appoint a local auditor from the opted-in body.

Evolution of the procurement strategy

Your feedback will inform our work to finalise the development of the procurement strategy, which we expect to issue with the formal opt-in invitation during September 2021. In parallel to this consultation, we are also undertaking an engagement exercise to seek to understand the views of the market.

Following the conclusion of the opt-in invitation period (likely to be during January 2022) there may be one further limited revision of the procurement strategy, depending upon the number of bodies that decide to opt-in and the impact of any potential changes to regulations or other environmental factors. We anticipate initiating the procurement for new audit services contracts in February 2022, culminating in contracts being awarded in June 2022.

Consultation: Tell us your views

We are keen to receive your feedback concerning our plans for the future scheme.

We welcome comments on the proposals contained in this draft prospectus. Please respond to the set of questions shown below via our [online survey](#). The consultation will close on **Thursday 8 July 2021**.

We will also be holding two interactive Q&A webinars to provide an overview of the draft prospectus and answer any questions that you may have on [16 June 10am to 11:15am](#), [22 June 3pm to 4:15pm](#) and [6 July 1pm to 2:15pm](#). You can book a place by clicking on the date and time links.

- 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?
- Is five years an appropriate term for bodies to sign up to scheme membership?
- 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?
- 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?
- 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?

- 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?
- 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?
- 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?
- 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?

Eligible Principal Bodies in England

The following bodies are eligible to join the proposed national scheme for appointment of auditors to local bodies:

- county councils
- metropolitan borough councils
- London borough councils
- unitary councils
- combined authorities
- passenger transport executives
- police and crime commissioners for a police area
- chief constables for an area
- national park authorities for a national park
- conservation boards
- fire and rescue authorities
- waste authorities
- the Greater London Authority and its functional bodies
- any smaller bodies whose expenditure in any year exceeds £6.5m (e.g. Internal Drainage Boards) or who have chosen to be a full audit authority (Regulation 8 of Local Audit (Smaller Authorities) Regulations 2015).

Board Members

Steve Freer (Chairman)

Keith House

Caroline Gardner CBE

Marta Phillips OBE CA

Stephen Sellers

PSAA Board members bring a wealth of executive and non-executive experience to the company. Areas of particularly relevant expertise include public governance, management and leadership; local government and contract law; and public audit and financial management.

Further information about PSAA's Board can be found at <https://www.psa.co.uk/about-us/who-we-are/board-members/>

Senior Executive Team

Tony Crawley, Chief Executive

Sandy Parbhoo, Chief Finance Officer

Andrew Chappell, Senior Quality Manager

Julie Schofield, Senior Manager Business & Procurement

Within the PSAA senior executive team there is extensive and detailed knowledge and experience of public audit, developed through long standing careers either as auditors or in senior finance and business management roles in relevant organisations.

Further information about PSAA's senior team can be found at <https://www.psa.co.uk/about-us/who-we-are/executive-team/>

Annex - Procurement Options

Our Preferred Option

A 5 year contract with the fallback of the right to extend one or more of the current contracts if there are insufficient or unaffordable bids.

Other Options Considered and Rejected

Option 1

Extending the existing contracts for 2 years and deferring the procurement. We want to secure 5 year contracts if we can because we believe this option is more attractive to the market.

Option 2

A 5 year contract with a commitment not to extend the existing contracts. We need the back stop of the right to extend the existing contracts if there are insufficient bids to allow us to make auditor appointments to all opted in bodies or if any of the bids received propose unacceptable prices.

Option 3

A 5 year contract with pre-determined prices for years 1 and 2 thereby avoiding the need for firms to price in the value of the right to extend the existing contracts. We believe such an arrangement will be unattractive to the market. Firms should be able to offer their own prices for years 1 and 2.