

PSAA

Pre-procurement informal market engagement with potential suppliers

23 November 2021

What we're going to cover

- Welcome and introductions
- Background
- Our requirements
- Procurement strategy
 - Main procurement
 - DPS procurement
- Indicative timescales
- Next steps
- Further information

Our aim

to provide information to enable you to gain an understanding of our procurement strategy, so **please ask questions via the Q&A facility** as we go (anonymously if you prefer)

Background

PSAA's appointing person role

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 (the Act) and the Local Audit (Appointing Person) Regulations 2015 (the Regulations)

In this role we are responsible for [appointing an auditor](#) and [setting scales of fees](#) for relevant eligible bodies that have chosen to opt into our national scheme, [overseeing issues of auditor independence](#) and [monitoring supplier compliance with the contracts](#)

For the audits of accounts from 2023/24, eligible bodies must appoint an auditor by 31 December 2022

There are currently **476** eligible bodies invited to opt in plus **75** pension fund audits

Background

Choices facing eligible bodies

1. a local individual auditor procurement and appointment exercise
2. a joint audit procurement and appointing exercise with other bodies
3. join PSAA's sector led national scheme

Local Government Association's view is sector-led scheme is the best option

Eligible bodies have until **11 March 2022** to accept our opt-in invitation, which requires a decision by Full Council or the sole decision maker

We have produced an [FAQ](#) that sets out the benefits of joining our scheme

If an eligible body does not appoint an auditor by 31 December 2022, then they must report this to the Secretary of State

Background

[Link to scheme prospectus](#)

PSAA's scheme prospectus 2023/24 – 2027/28

- Published on 22 September 2021, following consultation on draft
- Provides details of our scheme to assist eligible bodies in deciding whether to accept our opt-in invitation
- Acknowledges the significant changes in local audit since 2016/17
- Outlines our response as part of the local audit framework to the post-2018 pressures
- Identifies the reasons why we are well placed to lead the national scheme
- Make commitments in relation to:
 - contracting with appropriately qualified suppliers
 - supporting market sustainability
 - offering value for money
- Signals our proposal to implement a minimum scale fee of £31k for a code-compliant audit for any opted-in body from 2023/24
- Links to the Procurement Strategy

Our requirements

Work specification is set by others

Code of Audit Practice compliant audits for eligible bodies:

- Local Audit and Accountability Act 2014
- The Accounts and Audit Regulations 2015
- Code of Audit Practice and Auditor Guidance Notes
 - currently set by the NAO
 - DLUHC proposal to transfer responsibility to the system leader, namely ARGA, the new regulator being established to replace the FRC
- FRC and ICAEW as professional regulators
- Unique features of local audits
 - Value for money arrangements commentary
 - Elector objections and other information from the public
 - Statutory reporting arrangements

Does not include smaller bodies (such as parish councils) and NHS bodies, or any grant or claim certification work

Our requirements

Scope of services to be provided

The delivery of Code of Audit Practice compliant audits for opted-in eligible bodies in England:

plus....

- contribution to CIPFA subscription costs to gain access to the key technical documents specific to local government
- participation in contract and performance management
- meeting the costs of inspection reviews required by the Regulators
- complying with our fee variation procedure which is rooted in the Appointing Person Regulations

Procurement strategy

Aim and objectives

Aim: 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.

Objectives 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.

Procurement strategy

Headline messages

We will be running two procurements in parallel

- **Main procurement** of audit services for opted-in bodies for 2023/24 to 2027/28
- To **establish a DPS** (dynamic purchasing system) for audit services for opted-in bodies (aims to be operational by May 2022)

Our **Main procurement** is not a repeat of the 2017 procurement, though inevitably some similarities

We will continue to informally engage with you until the contract notice is published

Procurement strategy is being kept under review so it may be revised

Procurement strategy

Responding to the market's views

1. Tender evaluation quality/price ratio of 80:20, both calculated using inverse proportionality
2. Specify up to four geographical areas which are least attractive – bid rate uplifted by 30% in the event of having to appoint to audits in those areas (standard lots)
3. More lots – greater choice and more flexibility to match own capacity / risk appetite
4. Contract extension by mutual agreement (rather our sole discretion)
5. Three months to produce your tender response
6. Provide detailed information on what is included in the scale fee of every audit
7. Fee variation rates will be calculated by multiplying a tenderer's bid rate by our published rate card
8. Annual application of inflation throughout the contract term, at the CPI 12-month rate most recently published before each April
9. Published a risk allocation matrix, designed to support consideration of the key contract risk areas to inform bidding

Procurement strategy is kept under review so we may make appropriate revisions

Procurement strategy

Seeking to attract new capacity to the market

1. SQ stage evaluation proposed as:
 - ICAEW local auditor registration = pass
 - if application for registration submitted, at least one acceptable example of relevant experience (definition has been expanded) = pass
 - if application for registration not submitted by SQ return date = fail
2. More lots – greater choice and more flexibility to match own capacity / risk appetite
3. Encouraging new entrants:
 - those going through registration can apply (ICAEW application must be submitted by SQ return date 18 March 2022)
 - registration achieved by 13 September 2022 to be awarded a contract
4. Parallel procurement to establish a DPS – reduced risk of supplier “lock out”

Procurement strategy is kept under review so we may make appropriate revisions

Procurement strategy

Main procurement: other key characteristics

- Restricted procedure under public contract regulations 2015
- Contract length: 5 years with option to extend by up to 2 years by mutual agreement
- Bids permitted from consortia or other forms of joint working
- Selection questionnaire stage evaluation = pass or fail
 - Standard CCS SQ form plus an information assurance questionnaire (*covered on next slide*)
 - **Same SQ form and supporting information** used to apply to join the DPS (*more on that later*)
- Basis for bid pricing will be the ABNV associated with that lot
 - ABNV will be 2021/22 scale fees plus actual and estimated recurring fee variations since 2021/22 fees were set (so from 2018/19, 2019/20 and some 2020/21 audits)
- Both price and quality will be scored using the inverse proportionality method
- Variant bids will not be permitted

Procurement strategy is kept under review so we may make appropriate revisions

Procurement strategy

Information Assurance arrangements

- SQ stage for Main and DPS procurements will require completion of an IA questionnaire
- Will be assessed as Pass or Fail (a Pass is required)
- Assessment will be determined by bidder's current level of accreditation **for the scope of the services to be provided**
 - Cyber Essentials Scheme (CES) or CES Plus certification (c. 39 questions)
 - IASME Governance Standard (c. 7 questions)
 - ISO27001 accreditation (c. 4 questions)
- Fail = none of these accreditations held for the scope of the services to be provided

CES been required for government contracts since October 2014, however if our proposed approach would create an issue for you let us know

Procurement strategy

Main procurement: contract lots (1)

Assuming a similar number of eligible bodies opt in...

- 13 lots, graduated in size to match varying appetites and capacity
 - 10x “standard” lots – largest lot = 18%, smallest = 4% (3x lots will not contain PIE audits)
 - 3x “development” lots – 2x lots = 2% and 1x lot = 1%
 - will not be allocated PIE audits;
 - will not contain single tier or county councils or pension funds; and
 - can select up to 4 areas where you can work from a predefined list
- “Standard” lots – you can select from a pre-defined list up to 4 areas where audits are least attractive/convenient
 - if appointed to audits in those selected areas, a 30% bid rate uplift will apply to those audits
- Each bidder can win up to 2x “standard” lots OR 1x “development” lot
 - unless there are no eligible bids remaining for a lot, when bidders will be re-entered so could win additional lots
- Lots will be awarded on the basis of M.E.A.T.

Procurement strategy is kept under review so we may make appropriate revisions

Procurement strategy

Main procurement: contract lots (2)

Assuming a similar number of eligible bodies opt in...

Aggregate 2021/22 value for the current 467 opted-in bodies and 75 pension funds (98% of all eligible bodies) is approx. **£33m per audit year** – used as basis for estimating lot sizes

- comprises 2021/22 scale fees plus actual and estimated recurring fee variations since 2021/22 fees were set (so from 2018/19, 2019/20 and some 2020/21 audits)

Further fee variations will apply for 2021/22 audits in respect of the change in work for the new requirement in the Code of Audit Practice 2020 for a VFM commentary and some changes in auditing standards

- we will provide estimates of these fee variations for information based on minimum fee ranges
- the recurring element of these fee variations will be built into the 2022/23 fee scale if possible, to be published by 30 November 2022

A small reduction in the overall number of councils in England is expected from April 2023, as a result of local government re-organisation, which occurs periodically

Lot values will be confirmed in the ITT documentation once the final number of eligible bodies that have opted into our arrangements is known (deadline is 11 March)

Procurement strategy is kept under review so we may make appropriate revisions

Procurement strategy

Main procurement: contract lots (3)

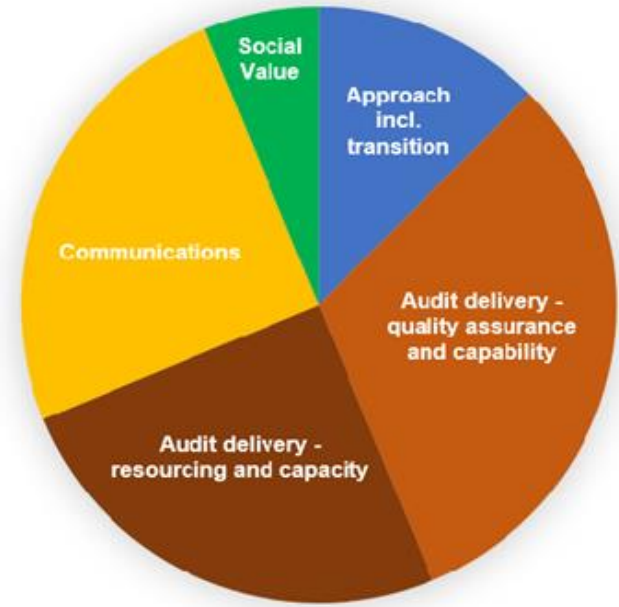
Lot	Approximate percentage of the overall work	INDICATIVE FIVE-YEAR VALUE based on of 2021/22 scale fees plus (assuming same 98% of eligible bodies opt in)
1	18%	£ 29,700,000
2	16%	£ 26,400,000
3	14%	£ 23,100,000
4	12%	£ 19,800,000
5	8%	£ 13,200,000
6	7%	£ 11,550,000
7	6%	£ 9,900,000
8	5%	£ 8,250,000
9	5%	£ 8,250,000
10	4%	£ 6,600,000
11 (development lot)	2%	£ 3,300,000
12 (development lot)	2%	£ 3,300,000
13 (development lot)	1%	£ 1,650,000

Procurement strategy is kept under review so we may make appropriate revisions

Procurement strategy

Main procurement: ITT quality evaluation themes

- Approach incl. transition between audit firms
- Audit delivery – quality assurance and capability
- Audit delivery – resourcing and capacity
- Communication
- Social value



We are working with the FRC on the quality evaluation questions

Page limits will be used for simplicity, rather than word limits

Lot specific answers will apply where appropriate, e.g. resourcing, social value

Each lot will be evaluated separately, working from Lot 1 to Lot 13

Procurement strategy is kept under review so we may make appropriate revisions

Procurement strategy

Basis for bid pricing

- You must state the maximum % capacity of our portfolio that you are willing/able to deliver
 - where a lot award would cause a bidder to exceed their stated capacity, their bid for that lot only will be ruled ineligible
- You are encouraged to bid for all lots, but can indicate the circumstances under which your bids for smaller-sized lots should be withdrawn
- You will have the option to specify two Bid Rates per lot (*but are not obliged to provide more than one*)
 - one bid rate for a first lot win and another for a subsequent lot win
 - could enable fixed overheads costs to be factored into the bid price depending on whether the lot is your first or only successful bid, or it is a subsequent lot win
- You will specify a Bid Rate(s) for each Lot for which you are applying, expressed as a percentage of the aggregate Audited Body Notional Value (ABNV) for the work in the Lot
 - e.g. if Lot 5 (8% of our portfolio) has an ABNV of £2.64m, your bid rate might be
 - **X%** - if it is your first lot win
 - **X% minus Y** - if it is a subsequent lot win

Procurement strategy is kept under review so we may make appropriate revisions

Procurement strategy

Main procurement: TUPE

- Our initial assessment is that the likelihood of TUPE applying is low
- We will be testing this view in the context of our procurement strategy by writing to our incumbent suppliers in the next couple of weeks, with responses to be provided by 11 January 2022
- Any information gathered from currently contracted firms regarding TUPE will be made available to all bidders as part of the procurement process

Procurement strategy

Main procurement: Auditor appointments

The auditor appointment process commences following contract award

Step 1 – development of proposed auditor appointments, we consider

- those areas identified by successful bidders as being least convenient for them to audit, then
- have regard to the following six principles and the status of prior year audits:
 - auditor independence (most important principle)
 - any contractually guaranteed levels of work are met
 - a blend of authority types for each audit firm
 - taking account of a firm's principal locations (as specified in its tender response)
 - continuity of audit firm for the opted-in body, where appropriate
 - any joint/shared working arrangements between local bodies where possible
- we provide each firm with a balanced portfolio of proposed appointments, and seek firms' views

Step 2 – consult opted-in bodies on proposed auditor appointment

- either can accept the proposal or make representations against the proposal
- where proposal is accepted, no further action is required
- where representations are made, these are carefully considered and either formally accepted or rejected
 - where accepted, we consult on a revised appointment proposal
 - where rejected, we explain the reasons why

Step 3 – PSAA Board approves the proposed appointments

Procurement strategy

DPS procurement: key characteristics (1)

- Restricted procedure (as is required by the procurement rules)
- Scope: may be used to procure an auditor appointment to an opted-in body:
 - when a new body requests to join the scheme
 - where an existing auditor appointment from 2018/19 or 2023/24 needs to be replaced
 - where one or more of the 2017 audit contracts is extended so we need to make auditor appointments from 2025/26
- Duration: 8 years
- Estimated value: up to £80m but could be less
- Suppliers can apply to join who are either registered as a local auditor with ICAEW or going through the registration process (but must have become registered before we will award a contract)
- Bids permitted from consortia or other forms of joint working

Procurement strategy is kept under review so we may make appropriate revisions

Procurement strategy

DPS procurement: key characteristics (2)

- SQ stage will be exactly the same as used for Main procurement
 - evaluation including information assurance arrangements = pass/fail
- Same SQ form of response as the Main procurement will be used to apply to join the DPS
 - you need only to upload your SQ response submitted for the Main procurement to the DPS opportunity via Delta
- The finer detail of our arrangements and parameters for running tenders/mini-competitions are currently being considered but will follow good practice
- Aiming for the DPS to be ready for use during May 2022

Procurement strategy is kept under review so we may make appropriate revisions

Indicative timescales for our procurements

Activity	Target date
Contract Notice published, procurement documentation including contract terms made available on Delta e-tendering platform – also Contract Notice published for DPS	7 February 2022
Deadline for submission of clarification questions on the SQ documentation	1 March 2022
Deadline for eligible bodies to submit their opt-in acceptance	11 March 2022
Final date by which responses to clarification questions made available to Potential Supplier	15 March 2022
Deadline for submission of completed SQ through Delta (SQ return date) and for applications to ICAEW to become a local auditor earliest date for SQ submission for DPS (submit same form of response as main procurement)	Noon, 18 March 2022
Evaluation of selection questionnaire responses and PSAA Board to confirm shortlist to be invited to tender and also suppliers to be appointed to the DPS (a 10-day standstill period will follow)	19 March to 4 April 2022
Invitation to tender issued to shortlisted Potential Suppliers, via Delta ITT Part E (information on bodies where an independence issue exists) and ITT Part F (Fee scale information on bodies) made available to shortlisted Potential Suppliers	Noon, 7 April 2022
Deadline to inform PSAA of those attending (maximum of two per firm) the briefing session ap2@psaa.co.uk	Noon, 12 April 2022
Briefing session (via Zoom) for shortlisted Potential Suppliers	10am – 12pm, 13 April 2022
DPS will become operational for use as and when required	May 2022
Deadline for submission of clarification questions on the ITT	14 June 2022
Final date by which PSAA will respond to clarification questions on the ITT	28 June 2022
Deadline for Tenderers to confirm their intention to submit a Tender Response	4 July 2022
Deadline for submission of completed invitations to tender through Delta (tender return date)	Noon, 11 July 2022
Tender evaluation	12 to 22 July 2022
Contract award decision made by PSAA Board	4 August 2022
Standstill period	5 – 16 August 2022
Contract award	late August 2022

Procurement strategy

E-tendering platform

- Use of an e-tendering platform called “Delta”
- Ensure your firm is registered with Delta and the current contact email address in the system is correct
- **MAIN** procurement opportunity:
 - Selection questionnaire – upload to Delta the completed Part B response and supporting documentation (**noon 18 March 2022**)
 - Tender response – upload to Delta completed Parts B (quality), D (price) and E (independence) responses and supporting documentation (**noon 11 July 2022**)
- **DPS** procurement opportunity:
 - Selection questionnaire – upload to Delta **the same** completed Part B response and supporting documentation (we encourage you do this immediately after uploading successfully your response to the main procurement)
 - potential suppliers can apply to join the DPS at any time by completing the SQ response
 - Tender / mini-competition responses (as indicated in specific competition calls)
- SQ response and supporting documentation **must be uploaded to each opportunity**

Contract terms

Current thinking on payment mechanism

- Explored a range of options to address key risks of the current approach
- Preferred option is for firms to:
 - continue to directly invoice opted-in bodies
 - bill in advance, in four equal instalments triggered by specific milestones in the progress of each audit
- It will form part of performance and contract management arrangements through proportionate and appropriate sample testing
- We are currently considering whether to retain the quarterly WIP returns process or to move to a monthly WIP process to avoid a firm needing to wait until the next quarter

Next steps

- Produce and share responses to any outstanding questions
- Continue to develop the procurement documentation and contract terms
- Review of procurement strategy to identify if any updates are required
- Further informal market engagement 26 January 2022
 - walk through of key areas of the contract terms and Terms of appointment
 - highlight any revisions to the procurement strategy
 - provide more detail on the DPS
 - recap on the key dates including auditor appointments process, post-procurement
- PSAA Board 31 January 2022 – approval to launch procurement
- Publish contract notice for Main and DPS procurements – 7 February 2022

Further information

Julie Schofield, Senior Manager

Tony Crawley, Chief Executive

email: ap2@psaa.co.uk

web: www.psaa.co.uk/about-us/appointing-person-information/appointing-period-2023-24-2027-28/