



Public Sector Audit Appointments

Summary Business Plan

to 31 March 2025

December 2022

www.psaa.co.uk

Foreword

We are pleased to introduce PSAA's Summary Business Plan for the period through to March 2024/25. The plan summarises who we are, what we do, and how we will continue to carry out the role of the Appointing Person under the provisions of the Local Audit and Accountability Act 2014 and the Local Audit (Appointing Person) Regulations 2015.

The development of our first published summary business plan reflects our commitment to good governance and transparency recognising that we spend public money and act on behalf of a significant number of local government bodies.

Local Audit as a sector is facing significant challenges and there are many uncertainties about what the future may hold. Our unique position within the local audit system with relationships with both auditors and opted-in bodies means that we are often the first to identify emerging issues. Strong relationships with a diverse range of stakeholders are crucial to our work.

As a small team, we must carefully prioritise our work and ensure that we fulfil our statutory requirements. Recognising the future uncertainties, we will keep our plan of activity under review and where necessary respond to emerging issues and developments within the local audit system.

Steve Freer, Chairman



Tony Crawley, Chief Executive



About PSAA

1. Public Sector Audit Appointments Limited (PSAA) is an independent company limited by guarantee incorporated by the Local Government Association (LGA) in August 2014.
2. In July 2016 PSAA was specified by the Secretary of State 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), which provide the framework for how we operate.
3. This business plan sets out our priorities from January 2023 to March 2025. This period spans the final months of the first appointing period which will end with the 2022/23 audit of accounts and the start of the second appointing period which covers the audits for the five financial years 2023/24 to 2027/28.

Strategic objectives and themes

4. Our responsibilities and aims are expressed through a series of objectives designed in response to our statutory duties, namely to:
 - a. perform and discharge the remaining functions delegated by the Secretary of State on a transitional basis, up to completion of audits of the accounts for 2017/18;
 - b. perform and discharge the functions of an appointing person specified by the Secretary of State, including:
 - inviting to all relevant principal authorities to become an opted-in body and publishing a list of opted-in bodies;
 - appointing auditors to opted-in bodies;
 - specifying scales of fees for the audit of accounts of opted-in authorities;
 - overseeing issues of appointed auditor independence, monitor compliance, assist in the resolution of disputes or complaints; and deal with the removal of an appointed auditor;
 - ensuring effective management of contracts with audit firms for the delivery of audit services to opted-in bodies;
 - c. be financially responsible, efficient and transparently safeguard fees charged to opted-in bodies and ensure that public money is properly protected; and
 - d. lead our people as a good employer.

Opted-in bodies

5. For the first appointing period over 98% of eligible bodies decided to opt into our scheme of national auditor appointment arrangements, and for the second appointing period 471 of the 476 eligible bodies (99%) opted in covering:
 - 331 of 333 councils (reducing to 315 of 317 from April 2023 following local government review);
 - 101 of 104 police and fire bodies; and

- 38 of 38 other bodies including national parks, waste disposal authorities, passenger transport executives, conservation boards, the Greater London Authority and its functional bodies and any smaller bodies whose expenditure in any year exceeds £6.5m.
6. The significant level of eligible bodies opting into our scheme cements our role as an influencer in the wider local audit system and provides a strong platform to continue to call for change to address the problems facing the sector.

Governance and funding

7. We have a [Board of five non-executive directors](#), an Audit Committee and a Procurement Committee all supported by a [Chief Executive and a team of staff](#) who have significant experience and skills in managing contracts for public audit services.
8. All of our funding comes from our opted-in bodies. The audit fees paid by opted-in bodies include a provision (<5%) to cover our costs to operate the national scheme.

How we work

9. Our approach to fulfilling the role of an appointing person is underpinned by the following key principles:
- exercising our statutory functions consistently, proportionately, openly and fairly.
 - observing the highest standards of integrity and professionalism as the appointing person.
 - taking all reasonable action to address market challenges and to support longer-term sustainability within the local audit market.
 - playing our part alongside key stakeholders to maintain the high standards of public audit which are necessary to command public confidence.
 - consulting and collaborating widely; listening to and learning from those with an interest in what we do.
 - communicating with stakeholders before making decisions and explaining our decisions more clearly.
 - taking the time to implement decisions with appropriate stakeholder involvement, developing new initiatives when appropriate.
 - being an agile and flexible organisation, changing course if needed to be responsive, both to stakeholders and to our operating environment.
 - treating people and their information with sensitivity, respect and confidentiality.
 - closely monitoring developments and emerging issues relating to the audit market and actively considering what these might mean for local audit and our role as appointing person.
10. We operate in a diverse and complex stakeholder landscape so effective communication and engagement are crucial. We recognise that our stakeholders' requirements and expectations will vary significantly, which means that we need to use a range of ways to communicate and engage.

11. Our role is primarily to influence others by raising awareness of crucial issues. The breadth of our work – covering almost 100% of eligible bodies – and our unique position with relationships with both auditors and opted-in bodies means that we are often the first to identify emerging issues though not necessarily at the forefront of public commentary. Instead we appropriately share our headline insights with the relevant partners in the local audit systems who have the remit to take action.
12. We have good working relationships with key stakeholders including Department of Levelling Up, Housing and Communities (DLUHC), the Local Government Association (LGA), the National Audit Office (NAO), the Chartered Institute of Public Finance and Accounting (CIPFA), the Financial Reporting Council (FRC), and the Institute of Chartered Accountants in England and Wales (ICAEW), as well as other organisations with an interest in the local audit system, including relevant sector groups and the media.
13. Our Advisory Panel meets three times per year; its members come from Treasurers' societies. Our Local Audit Quality Forum (LAQF) is targeted at Audit Committee Chairs and Directors of Finance. Both are important channels for the exchange of information and views.
14. We have also continued to support the LGA and CIPFA to provide training and development events and forums for Audit Committee Chairs.

Local audit context

15. The local audit context has evolved over the past two years, following the publication in December 2020 of the Government's initial response to the Redmond Review and in the wake of the three other independent audit reviews of different aspects of the audit profession.
16. Several important developments have occurred and throughout this period we have worked energetically with DLUHC to both support their work (and that of other local audit players) to address the many challenges facing local audit.
17. However in overall terms the health of local audit is arguably worse now than it was two years ago. Urgent and early action is needed to address the serious risks and threats facing local audit, particularly:

Delayed audit opinions

18. At the publishing date of 30 November 2022, only 12% of local government bodies' 2021/22 audit opinions have been given. Although this is slightly higher than last year's 9%, this year's publishing date is two months later. The daunting result is that over 630 audit opinions were outstanding at 1 December 2022.
19. The local audit system needs a plan to ensure that an unmanageable backlog does not become a permanent feature. Auditors are obvious key players in tackling this issue. But chief finance officers and audit committees have important roles to play too in ensuring that good quality pre-audit accounts and working papers are available and that the auditor's queries are dealt with as soon as possible.

Audit reform

20. Since 2018 the Government has commissioned and consulted upon the recommendations of several independent reviews of audit. Firms now need certainty about the reforms to be

implemented and the legislative timetable. The new regulator, the Audit, Reporting and Governance Authority (ARGA), will be a critical component as it takes on the role of local audit system leader.

21. The FRC appointed its first Director of Local Audit in September 2022. The FRC will assume the role of shadow system leader from January 2023 prior to intended establishment of ARGA when full system leadership is intended to commence.
22. We understand that a Memorandum of Understanding between DLUHC and the FRC setting out the FRC's role and responsibilities as shadow system leader will be published, subject to Ministerial clearance, in the first quarter of 2023. The FRC's Director of Local Audit will lead a dedicated local audit unit to perform the shadow system leader role and we (PSAA) have and will continue to work collaboratively with the FRC to share emerging issues, risks and contribute our views and ideas on local audit system reform
23. Continued uncertainty will fuel speculation about the Government's commitment to reform and may cause firms to delay key strategic decisions affecting the growth of additional capacity to deliver local audits. Clarity about Government plans is needed as soon as possible.

Growing the Market

24. The local audit market must grow to increase available capacity and to restore vital competition. Additional firms need to be encouraged to develop the capability to undertake local audits, with their sector-specific features.
25. The system should also consider the option of establishing a public sector-owned supplier. This would not be easy but should nevertheless be carefully evaluated to help manage fluctuations in capacity and protect against insufficient supply in future procurements.
26. Audit firms tell us that recruiting and retaining local audit staff is a significant problem. DLUHC has committed to develop a workforce strategy for local audit. The FRC's Director of Local Audit will lead this work which he has signalled will commence work in early 2023. We hope it may lead to a significant coordinated recruitment campaign, emphasising the positive outcomes which effective local audit supports and influences - strong local accountability, good governance, better management and stewardship of public money.

A proportionate audit

27. Local audits have become more complex and demanding in recent years as the regulatory bar has been raised. Every audit now requires more work before a sound professional opinion can be given. This invites discussion of how the interests and needs of taxpayers compare with those of company shareholders and opens up the important bigger question of "What is local audit for?".
28. HM Treasury is reviewing the basis of valuation of non-investment assets. The proposals may lead to a change in requirements and provide the first tangible steps towards the more proportionate audit, but will be subject to consultation.

Our strategy during 2023 and 2024

Statement of Strategy

29. PSAA supports the systems leadership model that is in the process of being introduced and commits to play an active role in addressing the challenges to move towards a local audit system which is more stable, more resilient, and more sustainable. We will:
- Flag issues identified through our work to the system leader to inform policy priorities, share our thoughts on potential solutions and contribute to their development and implementation;
 - Engage with the system leader to inform key areas of our work and to provide updates on progress;
 - Provide information, intelligence and data to support problem solving and the production of targeted and meaningful reports on local audit including the annual report on local audit;
 - Continue to be an active player at the Local Audit Liaison Committee;
 - Contribute, as required, to work led or commissioned by the system leader; and
 - Continue to work to ensure that our objectives for local audit procurement are aligned with those of the wider system.

Delivering our strategy

30. At the time of writing this business plan the role and responsibilities of the shadow system leader are emerging but there are many uncertainties including: how the FRC/ARGA will carry out its role as systems leader, further initiatives from Government, the impact of future NAO reports of interest to the Public Accounts Committee, and more generally the impacts on local government because of the current financial/economic crisis, and the impact on local audit of wider audit reforms.
31. Our core functions as an appointing person remain unchanged and we will continue to fulfil the role of an appointing person in accordance with the key principles of how we work. However, strategically we want to set ourselves the challenge of continuing to turn up the dial in terms of the urgency and the nature of the changes which need to be addressed to place the system on a more stable and sustainable footing.
32. The breadth of our work is summarised within four themes:
- Theme 1. To fulfil our statutory responsibilities as the 'appointing person' to the highest possible standards;
 - Theme 2. To call for more urgent and more radical change to address the challenges facing local audit including:
 - ✓ market development to increase supply and competition
 - ✓ development and expansion of the local audit workforce
 - ✓ development of the Code of Audit Practice
 - ✓ tackling the backlog of delayed audits

- Theme 3. To support systems leadership through being a proactive and committed player within the local audit system; and
- Theme 4. To continue to operate effectively and efficiently.

Work programme for 2023/24 and 2024/25

- 33.** The programme of activities and projects sets out our work over the next two years.
- 34.** In addition, we will regularly review our programme of activities to ensure we remain focussed on the crucial issues as the changes to the local audit environment unfold over time and to ensure we provide the best possible service to our opted-in bodies.
- 35.** Key to our delivery is effective project management with careful, coherent planning to manage the interdependencies, as well as skilful communication, negotiation and outward-focussed relationship management to facilitate significant consultation with opted-in bodies, firms and stakeholders.

Table 1: Our programme of activities and projects

Activities and Projects	Delivery Timescale
Theme 1. To fulfil our statutory responsibilities as the ‘appointing person’ to the highest possible standards	
Renegotiate the Memorandum of Understanding with DLUHC to align with changes to the local audit system framework (a commitment in DLUHC’s spring statement 2021).	January to July 2023
Analysis of the state of the local audit market in 2025 to provide an independent review of analysis of critical challenges within the local audit market to inform our consideration of the options for the 2027/28 procurement.	March 2024 to February 2025
Undertake auditor procurements through the DPS as required to enable the appointment of independent auditors to opted-in bodies.	As required
Undertake annual fees-related research and analysis to inform the development of the Fee Strategy and provide information to opted-in bodies and auditors on the factors and minimum additional fee ranges associated with specific additional audit work requirements.	January to July annually
Set and consult on the annual Fee Strategy to deliver our statutory function to specify a scale of fees that reflects audit risk and complexity, in an open, accountable and transparent way.	July to November annually
Undertake regular reviews of our fee variation process to identify opportunities to enhance our approach for the benefit of all parties and to ensure our approach is efficient and effective.	Throughout the period
Review of fee scales and the fee variation rate card to assess the options to further improve the accuracy of the scale fees against the current approach to annually incorporate agreed recurring fee variations, and options for setting a rate card for additional work in the next contract.	Review during 2024
Monitor the performance of audit firms in delivering their obligations under our 2017 contracts (including completing the backlog of audits) and manage complaints including those under transitional arrangements.	Ongoing
Respond to non-audit service requests, statements of reasons, and notification of audit delays or non-standard opinions and provide data to the NAO, FRC shadow systems leader and DLUHC to enable reporting and identification of trends across the whole of local audit.	Ongoing
Publish the annual Audit Quality Monitoring Report (AQMR) for opted-in bodies and other interested parties.	February to March annually
Develop and implement updated arrangements for contract and financial monitoring to align with 2022 audit services contracts.	Develop by March 2023, implement from April 2023
Induct new and returning suppliers to our contract management regime so they understand the practicalities of the contract management arrangements.	by March 2023

Activities and Projects	Delivery Timescale
Help co-ordinate a programme of support for firms who are new to local audit and/or returning to PSAA's regime working with others in the local audit system particularly the NAO and the FRC.	by April 2023
Theme 2: To call for more urgent and more radical change to address the challenges facing local audit	
<p>Informed by our observations from regular discussions with both opted-in bodies, audit firms and wider stakeholder groups, highlight the urgent need for system change to address the key challenges facing local audit. Our work may include conducting research, writing articles, convening discussions, responding to consultations, one-to-one meetings, and continuing to lobby (either publicly or in working groups) for urgent action to reform the system that remains highly fragile.</p> <p>The FRC's dedicated local audit unit's priorities and plans are at an early stage. Once these details begin to emerge, we will develop a plan of action. In the meantime we will continue to seize every opportunity to highlight the need for urgent action to reform and the consequences of inaction.</p>	Throughout the period
Theme 3: To support systems leadership through being a proactive and committed player within the local audit system	
Actively contribute to relevant research and projects that are commissioned by the systems leader that seek to address challenges faces the local audit system.	Throughout the period
Review our approach to the way that we seek feedback from opted-in bodies on the service they receive to help to ensure it is effective, efficient and appropriate.	Review by February 2023, implement: March 2023 onwards
Deliver a programme of Local Audit Quality Forum events such as themed all-day conferences and shorter webinars to stimulate debate on or explain relevant issues relating to local audit by creating a place where those with a responsibility for audit quality can share experiences and good practice, with a particular focus on the critical role of audit committees.	Throughout the period
<p>Co-ordinated, regular communication and engagement with opted-in bodies and our local audit stakeholders to support delivery of our strategic objectives, demonstrate the value of our work and contribute our views (and hear the views of others) in the development and implementation of changes to the local audit framework including through:</p> <ul style="list-style-type: none"> ▪ participation in the Local Audit Liaison Committee, Local Audit Advisory Groups and other relevant forums. ▪ participation in meetings of Treasurers' Societies and other relevant networks such as Audit Committee Chairs Fora. ▪ issuing e-bulletins to s151 Officers and Audit Committee Chairs or equivalent. ▪ seeking feedback on our communications and engagement activity. 	Throughout the period

Activities and Projects	Delivery Timescale
Theme 4: To continue to operate effectively and efficiently	
<p>Conduct an external Lessons Learned review of our preparations for the second appointing period that:</p> <ul style="list-style-type: none"> ▪ reviews, assesses and comments on the effectiveness of our external communications and engagement activities for the NAP project; and ▪ provides independent insight informed by external stakeholder feedback on whether we could have adopted different or better approaches to any aspects of our preparations. 	January to December 2023
<p>Continue to support our staff to always deliver to their full potential, remain motivated, and feel supported. We will continue to:</p> <ul style="list-style-type: none"> ▪ Have frequent, open, honest and timely communication throughout the company, including regular 121s with managers. ▪ Annually appraise staff and review personal development aligned to company and personal career goals. ▪ Provide a place to work if staff want/need to be in the office. ▪ Get together in-person every quarter to discuss significant issues. ▪ Review our resourcing every quarter to ensure sufficiency and alignment across our work. 	Throughout the period
<p>Ensure that our externally provided services meet our requirements and provide value for money and our core systems, processes and tools are resilient, efficiently run, and provide good value and service to opted-in bodies by:</p> <ul style="list-style-type: none"> ▪ Delivering our procurement pipeline. ▪ Seeking opportunities to improve the efficiency of our operations through exploiting technology including our CRM system and collaboration tools. ▪ Refreshing the PSAA website's style and content. 	Throughout the period
<p>Undertake a review of our current arrangements for the provision of support services covering HR, Finance and Payroll, IT and FM, against our business needs.</p>	Review: April to November 2023
<p>Undertake a review of how and where we work to determine the best way forward for the business in terms of location and working practices, including the services that we buy in. This review will be informed by the support services review and developments within the local audit system.</p>	Review: May 2023 to March 2024
<p>Continue to ensure efficient and effective governance and decision-making aligned to our statutory functions and good practice by:</p> <ul style="list-style-type: none"> ▪ Ensuring the compliance and effectiveness of processes and systems ▪ Undertaking annual surveys of Board and Audit Committee effectiveness and implementing agreed improvement actions ▪ Annually reviewing the Corporate Governance Framework ▪ Publishing an Annual Report and Accounts and undertaking a Company's Act audit ▪ Undertaking an annual programme of internal audit assurance work 	Throughout the period
<p>Implement multi-factor authentication (MFA) across our cloud-based IT systems to increase system security.</p>	During 2023
<p>Implement the new public procurement regulations across the company.</p>	Throughout the period

Measuring contract activity and our performance

Environmental factors

36. Our work is heavily influenced by factors outside of our control relating to the wider context of local audit such as: DLUHC decisions about the local audit system; FRC actions and priorities as shadow system leader; and wider audit reforms including ARGA.
37. We will monitor the factors and assess the impact of any material changes on our work.
- Number of audit opinions delivered by the publishing date
 - Number of responses received to the annual scale fees consultation
 - Number of Fee variation requests
 - Requests received for non-audit services work
 - Number of issues of non-compliance with the Terms of Appointment
 - Number of general enquiries received from members of the public
 - Total pageviews to our website
 - Number of formal complaints received about us and our contracted audit firms
 - Freedom of Information requests received
 - Enquiries under the Data Protection Act received

Key performance indicators

38. We will measure our performance in delivering our statutory role. Our performance against these indicators will be reviewed by the senior management team on a quarterly basis and by the Board every six months.

Appointing auditors and Managing the audit contracts

- Percentage of responses from Directors of Finance and Audit Committee Chairs to our annual audit quality survey
- Number of communications issued to opted-in bodies
- Number of meetings of the Advisory Panel
- Number of Local Audit Quality Forum events held
- Number of media news articles produced or supported

Setting fees

- Setting the scale fees set by the date required by the Regulations
- Processing of fee variations

Managing Public Money

- Percentage of indirect costs to direct costs
- Percentage of Freedom of Information requests responded to within 20 working days (or the timescale specified where the matter is complex)
- Percentage of Data Protection Subject Access Requests responded to within one calendar month (or the timescale specified where the matter is complex)
- Timeliness of response to complaints

Being financially responsible

- Percentage of undisputed trade invoices paid within 10 days of the invoice date
- Percentage of non-staff expenditure authorised with a valid purchase order
- Production of an annual report and accounts following relevant accounting standards and the requirements of the Companies Act 2006

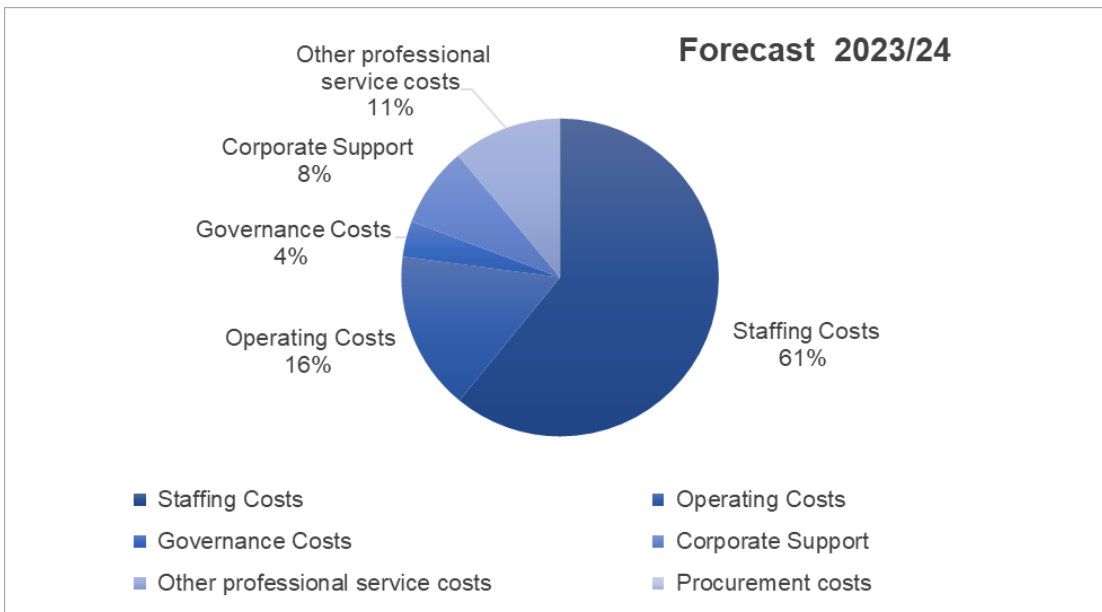
Managing our people

- All employees have an annual appraisal and personal development plan
- Employee satisfaction

Financial information

39. PSAA is committed to securing value for money to ensure we deliver our statutory objectives while minimising costs. We achieve this by constantly reviewing and assessing the necessity of all expenditure and our level of resources.
40. Our latest forecast for the end of 2022/23 shows a surplus of £1.9 million for the financial year. The cumulative surplus at the end of 2022/23 is £7.5 million, made up of £1.7 million generated from transitional arrangements and a projected £5.8 million from Appointing Person arrangements.
41. Our 2023/24 budgeted income and firm remuneration are as follows:
- £56.4 million income from audit fees; and
 - £50.7 million remuneration paid to firms.
42. A significant portion of the 2023/24 forecast running costs is for staff as illustrated in Chart 1.

Chart 1: Forecast for 2023/24 of indirect running costs of £2.0m



43. Our five-year Medium Term Financial Plan (MTFP) and cash flow projection reflects a healthy financial position. We operate on a not-for-profit basis. From time to time the Board approves the distribution of surplus funds to audited bodies after ensuring we have sufficient funds to pay for operating expenses and manage cash flow.
44. The transitional arrangements (2015-2018) and each appointing period are accounted for separately. This enables us to return surplus funds to the opted-in bodies for the relevant appointing period.
45. The Board reviews the company's financial position at every Board meeting. We approve our annual accounts following detailed scrutiny by and a recommendation to do so from the audit committee.
46. Our treasury management policy is risk averse and notes that 'security over funds is of paramount importance'. The policy is reviewed annually by the Audit Committee which makes recommendations to the Board as appropriate. We actively monitor the performance against the policy and the liquidity of its investment.