



TouchstoneRenard
Management Consultants



Public Sector Audit Appointments

Lessons Learned Review

Final Report

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Covering statement

This report and its contents have been prepared for PSAA's use as part of the Lessons Learned Review project. Statements throughout this work are made in good faith based on the information provided by those involved in the review or otherwise made available or disclosed during the period of the project.

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1. EXECUTIVE SUMMARY

We were asked to carry out a ‘lessons learned’ review of PSAA’s work to appoint auditors from 2023/24, capturing what went well and where improvements could be made for the next procurement round.

We have captured the views of a sample of the 475 ‘eligible bodies’ for whom PSAA procures auditors, all but one of the firms that were approved to carry out local audits during the procurement period, 5 of the Treasurers’ Societies and 6 of the national stakeholders involved with the local audit market.

Background

In summary, PSAA is seen as having done a good job in the face of major headwinds, including the statutory limitations of its role and a fragile and under-resourced local audit market. Procurement processes work best when the procuring agency can assess the bids received and determine which ones to accept. In the recent procurement, PSAA initially received bids to cover only about 90% of the required work, and it took several rounds of procurement and considerable effort to obtain a sufficient volume of audit supply.

The emphasis of this report is on ‘lessons learned’, and the comments from participants that we have cited reflect this. To this end we have given disproportionate exposure to the more critical and negative comments because these are the ones that contain suggestions for improvement, as opposed to the more numerous positive and supportive comments.

In some cases, we have allowed comments to stand even though they appear to be incorrect, because these potentially indicate areas where PSAA could address lack of awareness or uncertainty on behalf of some participants in the local audit system.

Effectiveness of PSAA’s external communications and engagement

We asked participants to comment on the effectiveness of PSAA’s communications and engagement during four distinct phases of the project:

- The prospectus, consultation, and market engagement period (May to July 2021).
- The opt-in invitation period and procurement preparations (September 2021 to January 2022).
- The procurement period.
- The auditor appointment period.

Broadly speaking, participants thought that PSAA had communicated and engaged effectively in all four phases of the project. Of the 121 eligible bodies that took part in the survey, between 82% and 92% of participants thought that PSAA had been ‘very effective’ or ‘somewhat effective’ in each of these phases. Feedback from audit firms at interview was also very positive, with most firms praising PSAA’s level of engagement, openness, and willingness to listen.

Methods of communication used by PSAA

Participants were broadly happy with the methods of communication used by PSAA, including the use of emails, webinars, and face to face contacts. There was very little support for using LinkedIn, social media generally, or podcasts for future procurements.

Audit firms’ views of the procurement

Audit firms had widely differing perspectives depending on their positions in the market, which included established major players, ‘Big 4’ firms that did not bid for contracts and new entrants to the market. There was a range of different suggestions for improvement, with no more than two firms making the same point on any issue. Several firms indicated that uncertainty, for example about which audits they would win and how the local audit environment might change over a five-year period, had influenced their bid prices.

For 6 out of the 10 firms interviewed, their interactions with PSAA were the most satisfactory aspects of the consultation process. The firms were generally satisfied with the outcomes of the process, subject to issues with the backlog of audits and geographical locations of some of their allocated portfolios.

The new features of the 2022 procurement, including more lots with a wider size range, the introduction of development lots, the ability to influence to some degree the location of appointments and to set overall capacity limits, were widely appreciated by audit firms, with the proviso that they made the bidding process more complex.

Satisfaction with outcomes

88% of eligible bodies that responded to the survey were satisfied with the auditor allocated to them, while 50% were satisfied with fees. The latter finding was unexpected, given an anticipated 150% increase in fees, and reflects a recognition amongst some eligible bodies that fee levels had previously been too low.

As regards outcomes for the market as a whole, it is important to note that market development is not formally within PSAA's remit, although some interviewees did not seem to recognize this. There was praise for PSAA's success in persuading two new firms to enter the market and one firm to return, offset by a sense that this was not enough to make the market competitive, that all the big 4 firms should be involved, and that a lack of qualified auditors meant that resources would to some degree be shuffled around between firms.

Most of the audit firms and wider stakeholders that we spoke to thought that, overall, PSAA's engagement had made a positive difference, especially for some of the audit firms that would not otherwise have participated in the procurement. However, many of the eligible bodies thought that PSAA had not made a significant difference to the issues that most affected them, which are largely outside PSAA's control.

PSAA's role

Participants thought they had a good understanding of PSAA's role, although some section 151 (s151) officers would like their own stakeholders, including Audit Committee members and councillors, to understand it better. However, some comments revealed a lack of understanding about what PSAA can and cannot do under the current legislation. A contributory factor to this issue is likely to be the regular turnover of s151 officers and Audit Committee Chairs.

There were some misunderstandings about PSAA's contract management role. PSAA responsibility under the appointing person regulations is more contract monitoring than contract management. [AP regs. 7ii) monitor compliance by a local auditor against the contractual obligations in an audit contract.]

The fact that audit contracts are, under legislation, formally made between the audit firms and PSAA leads some eligible bodies to conclude that PSAA should be doing more to hold firms to account for their contractual obligations. However, there is widespread recognition of the limits on PSAA's remit and available resources for undertaking this major task.

Alternative approaches

We were asked to comment on whether alternative approaches would have yielded better outcomes, while noting that PSAA's current options are limited by having no auditor of last resort, a very large number of clients, a limited supply market and a statutory obligation to make an appointment to all opted-in bodies.

A majority of eligible bodies was in favour of making two changes to the current legislation. 73% favoured making it the default for bodies to opt in to the PSAA scheme for each appointing period, with a decision being required to opt out (the current default is that bodies are opted out unless they make a decision to opt in); and 81% favoured allowing the Audit Committee to take the decision to opt in or out, rather than the decision being taken by Full Council or equivalent as at present, subject to local delegation. However, it should be noted that the wider stakeholders had more mixed views on these issues.

There appears to be little that PSAA can do to adopt alternative approaches to the next procurement, given the statutory limitations of its role. Approaches that PSAA could consider include:

- Tendering separately for the most technically difficult audits.
- Considering what, if anything, could be done to spread out the procurement cycle to avoid procuring all audits at once for the whole of an appointing period, for example making use of other procurement options such as the dynamic purchasing system established in 2022.

Recommendations

We made the following recommendations, which PSAA have accepted:

For eligible bodies:

- Develop introductory training for newly appointed s151 officers and Audit Committee Chairs, within PSAA's remit.
- More involvement for eligible bodies and Treasurers' Societies in identifying issues and suggesting solutions and approaches.
- For future market engagement and procurement briefings, send out slides in advance to enable participants to absorb information, consider issues and formulate questions.
- Clarify PSAA's role in contract monitoring / management and spell out the limitations of the role more clearly.

For audit firms:

- In the pre-procurement stage, consider market engagement that is more tailored to each firm's individual needs, especially for the smaller firms.
- Review and, if possible, expand the information provided to firms about the local audit market, to remove as much uncertainty as possible.

For wider stakeholders:

- Engage with national stakeholders to better understand what information PSAA might be able to share, within its remit, to promote the smoother running of the whole local audit system in preparation for the next appointing period.

We have also shared with PSAA several suggestions for improvement made by participants. In most cases, PSAA are already doing what they can within the limits of the current legislation and procurement rules, and it is a tribute to their professionalism that they have agreed to consider many of these suggestions further and to do more if they can.

Considerations for the wider local audit system

Most participants were critical of the wider local audit system. There is widespread agreement that the current local audit system is 'broken' (as described by several interviewees) and in need of radical reform. Several interviewees said that PSAA should work as closely as possible with other stakeholders to deliver such reform.

The issues that most concerned participants were:

- Market capacity and capability, especially the need for Key Audit Partners (KAPs).
- Delays in signing off audits and the impact of the backlog on future audits.
- Standards, regulations, and the role of local government accounts.
- The fragmentation of key roles between different entities, including PSAA.

PSAA are well aware of these issues, as evidenced in their press release dated 10th October 2023:

"Steve Freer, PSAA's Chair said,

'The scale of the backlog of local audit opinions is becoming more and more serious. It is now very clear that an extraordinary intervention of some sort is urgently required to put the system back on track. Hopefully, current work to develop a solution can be concluded quickly, enabling details of the planned solution to be announced and implemented as soon as possible.

An important strand of any solution must be to address the root causes of so many delayed opinions so that following its implementation the delivery of timely opinions is firmly and permanently re-established."

2. PURPOSE AND SCOPE

2.1 Purpose

The project purpose was to carry out a review of PSAA's recent Next Appointing Period (NAP) work to appoint auditors from 2023/24. This was to be an external 'lessons learned' review focused on two main aspects:

- Evaluate and comment on the effectiveness of PSAA's external communications and engagement activities for the recent NAP project.
- Provide an independent, insightful view informed by external stakeholder feedback as to whether PSAA could have adopted different or better approaches to any aspects of its preparations for the NAP project.

This external review needed to capture what worked well, and whether alternative approaches could have yielded improved outcomes.

2.2 Stakeholder groups

The three stakeholder groups covered by the external review were as follows. In each case PSAA provided an Excel workbook with contact names and email addresses for the population within each group.

2.2.1 Eligible bodies

Largest stakeholder group of eligible body audit contacts (mainly s151 officers) within 424 organisations¹. These covered a range of eligible body types, including those that opted into PSAA's scheme as well as the 5 organisations that initially opted out of the scheme.

2.2.2 Audit firms

The group was made up of eleven audit firms including six that had been awarded PSAA contracts for delivering eligible body audits from 2023/24. The remaining five firms comprised two that chose not to bid and three that engaged with PSAA in the nine-month period prior to the formal procurement process but who did not actually participate.

2.2.3 Wider local audit stakeholders

This group included representatives of DLUHC, FRC, LGA, NAO, ICAEW, and CIPFA as well as various eligible body Treasurers' Societies and network groups from the various eligible body types, such as DCN (District Councils' Network).

3. BACKGROUND

In 2016 the Secretary of State appointed PSAA as the appointing person for principal local government bodies, including police and fire bodies, as defined by the Local Audit and Accountability Act 2014. The role of the appointing person is to lead the development, implementation, and management of a collective scheme for appointing auditors for these bodies and also for setting arrangements and scales for auditors' fees.

Eligible bodies choose either to make their own auditor appointments ('opting out') or to join the collective scheme provided by PSAA ('opting in').

Legislation requires the appointing person to discharge its responsibilities for consecutive appointing periods of up to five years. The first appointing period began in April 2018 and covered audits of the financial years 2018/19 to 2022/23. The second appointing period, which is the focus of this review, covers the period 2023/24 to 2027/28. For both periods, PSAA has been highly successful in achieving eligible body opt-ins of more than 98% with only a handful of eligible bodies choosing to opt-out.

¹ There were 475 eligible bodies, but some have shared resources for procurement purposes.

4. WORK DONE AND APPROACH

4.1 Introduction

Our approach to this review was based on arranging and carrying out confidential interviews with a representative sample of contacts in the three stakeholder groups.

For the eligible bodies' stakeholder group, which was the largest by volume, we also deployed a confidential on-line survey that offered participants the option to take part in a follow-up interview. By using this approach, we were able to compare findings from interviews and the survey to provide further insight.

4.2 Desktop Research

At the start, to inform planning of the primary research, we reviewed key documents and other information, including:

- Our previous report on the sustainability of the local government audit market (2019/20).
- Details of the current appointing person scheme.
- Background information on consultation responses and the NAP communications and engagement log.
- Stakeholder groups and their constituents relevant to this review, including the current list of eligible bodies, their different types, and whether they had opted in or out.
- Developments in the local audit market and regulatory environment, since our review in 2020.
- The list of key engagement and communication activities provided by PSAA in Appendix A of the RFQ Specification and discussing with PSAA colleagues as necessary.
- Submissions to the Public Accounts Committee for its June 2023 report.

4.3 Primary Research

4.3.1 Eligible bodies

As part of the tender documentation for this project, PSAA provided a draft list of questions that could be posed to each of the three stakeholder groups. Taking this list of questions as a starting point, we established with PSAA the questions to be asked, for each group of interviewees, at both survey and interview. The interviews were designed to be semi-structured allowing the opportunity to follow areas of relevant interest that interviewees wanted to discuss.

In consultation with PSAA, we focused initially on designing the confidential on-line survey (delivered via the Survey Monkey platform). The purpose was to develop the survey, make it live and then invite all eligible bodies to participate and respond within a suitable period.

Information provided by the early respondents informed our planning for the interview questions and enabled us to target the respondents that were willing to take part in a follow-up interview. This approach proved to be an effective way to set up interviews and the topics to explore during interviews.

We invited the 27 willing eligible body survey respondents for a one-hour confidential interview and subsequently carried out interviews with 23 of the s151 officers / Chief Financial Officers spread across the various types of eligible body. All those interviewed were open, engaged and pleased to be given the opportunity to have their say.

4.3.2. Wider local audit stakeholders

We contacted all seventeen of the organisations listed in **Annex A** to request an interview. There were challenges due to several of the representatives being on holiday, or otherwise unavailable, nonetheless we were able to set up and carry out interviews with eleven stakeholder organisations - the six national stakeholders mentioned in the specification (NAO, ICAEW, CIPFA, DLUHC, LGA and FRC), and the five Treasurers' Societies.

All participants were pleased to take part and encouraged that this review was taking place. Interview questions were influenced and informed by issues emerging from interviews with audit firms and eligible bodies.

4.3.3 Audit firms

We contacted all eleven firms listed in **Annex A** to request an interview. We were able to set up and carry out confidential interviews with partners in ten of these firms with just one (without a contract) being unavailable within the review period.

In the questions posed to audit firms, where necessary, we differentiated between firms that were successful or unsuccessful in the procurement; whether they chose to bid or not to bid, and whether or not they participated in the procurement.

As with other stakeholders, all those interviewed appreciated the opportunity to take part and contribute to this 'lessons learned' review. All interviewees were open to us contacting them again if necessary.

4.4 Interview Delivery

All interviews were carried out remotely via Teams. We tailored our approach to suit each interviewee and enabled them to discuss issues meaningfully with trust in the process. We encouraged interviewees to speak freely by stating at the outset that the interview was confidential, and that we were simply interested in what they had to say and would not attribute anything they say to them personally or to their organisation.

Two interviewers were used throughout the interview programme to add depth and richness to the exercise. Initial interviews typically lasted an hour and we were flexible in scheduling interviews at times and dates that suited the interviewee. We captured detailed confidential notes from each interview within an Excel workbook designed for the purpose.

4.5 Survey Delivery

Our survey was designed to focus only on the eligible bodies stakeholder group. All eligible bodies in the list of 424 provided were individually emailed requesting their participation via a link provided in the email. This list included the five eligible bodies who decided to opt-out.

The survey was designed to be easy for respondents to use, to take around 6-7 minutes to complete, as well as to attract their interest and curiosity.

4.6 Analysis

The eligible bodies survey provided quantifiable data together with comments that participants wanted to make in the text boxes provided after most survey questions.

The main purpose of the interviews was to provide richer, more nuanced information where we were able to explore important issues with interviewees in greater depth.

4.7 Reporting

At the start, we agreed the detailed final project plan and risk register for this review and ensured that all work was properly monitored and completed, all information verified and validated, and all deliverables handed over and knowledge / insight shared.

In addition to this report, we prepared a brief emerging findings paper in early July 2023 and the headline findings were reported to the PSAA Board. We have also prepared fortnightly one-page progress reports and taken part in follow-on meetings with PSAA colleagues.

5. SURVEY RESPONSES (QUANTIFIABLE ONLY)

5.1 Introduction

We carried out a survey for eligible bodies, for which there were sufficient numbers of similar entities to generate a meaningful quantifiable response. We did not survey the audit firms or the wider stakeholders, since those groups were smaller in numbers and had wider disparities within the group.

We received 121 survey responses (28.5%) from the 424 eligible bodies that were invited to participate. A summary of these responses is given below.

5.2 Summary of quantifiable survey responses ²

The table below summarises quantifiable responses relating to PSAA’s effectiveness and participants’ satisfaction. Highlights include:

- **Most bodies thought that PSAA’s communications (Q2, 6, 7, 9 and 11) had been either ‘very effective’ or ‘somewhat effective’, with all the combined scores for the two categories being over 80%.**
- Satisfaction with responses provided by PSAA (Q13) was slightly lower, at 78%³.
- There was high satisfaction with the auditors appointed (88%), but less satisfaction with fees (50%).

| Question # | Survey question | % saying effective / satisfied | % saying very effective / very satisfied | Combined % |
|------------|---|--------------------------------|--|------------|
| Q2 | How effective was PSAA at communicating and consulting on the details of the proposed national scheme from 2023/24? | 47.5% | 45% | 92.5% |
| Q6 | How effective was PSAA at communicating its role within the local audit system? | 43% | 44% | 87% |
| Q7 | How effective was PSAA at communicating the invitation to opt into the scheme from 2023/24? | 28% | 68% | 96% |
| Q9 | How effective was PSAA in communicating its approach to the procurement, the outcome, and its calls for urgent action to address the challenges facing local audit? | 45% | 37% | 82% |
| Q11 | How effective was PSAA in communicating its approach and principles in relation to auditor appointments? | 48% | 39% | 87% |
| Q12a | How satisfied are you with the outcomes of the auditor appointment process? Auditor allocated. | 45% | 43% | 88% |
| Q12b | How satisfied are you with the outcomes of the auditor appointment process? Fees. | 41% | 9% | 50% |
| Q13 | If you made a representation or submitted a comment on your proposed auditor appointment, were you satisfied with the response PSAA provided? (% saying Yes) | N/A | N/A | 78% |

5.3 Changes to legislation

The table below summarises responses to the two survey questions relating to possible changes in legislation, with majorities in favour of changing the legislation in two respects:

- To enable eligible bodies to decide to opt out of the PSAA scheme, rather than to opt in as at present.

² The table does not include questions that only required qualitative responses.

³ Just under half of respondents (60) answered this question.

- To enable Audit Committees to take the decision whether to participate in the PSAA scheme, rather than Full Council or equivalent, as at present.

| Question # | Survey question | % |
|------------|---|--|
| Q3 | The Appointing Person Regulations require eligible bodies to opt into the scheme for each appointing period. Given the very high percentage of bodies that decided to opt in, what would be your view on changing the legal requirement so that it became a decision to opt out rather than opt in? | 73% in favour of changing to opt out. |
| Q4 | The Appointing Person Regulations require eligible bodies except those that are Police bodies to make the opt-in decision by the authority operating as a whole, typically Full Council. What would be your view on changing the legal requirement so that, subject to local delegation, it would be possible for the Audit Committee (AC) to take the decision on whether to opt in? | 81% in favour of the AC taking the decision. |

We asked the same questions of national stakeholders at interview, with mixed responses. These are summarised in **sections 6.9 and 6.10**.

6. FINDINGS BY TOPIC

6.1 PSAA communications and engagement: prospectus, consultation and market engagement (May to July 2021)

6.1.1 Summary

There was widespread satisfaction with PSAA's actions at this stage, although several interviewees said that they did not remember this period well. Some wider stakeholders felt that engagement should have started earlier, which was not possible for this procurement due to PSAA's role not being confirmed until May 2021, which delayed the start of the process.

6.1.2 Eligible bodies

In the survey, we asked: "How effective was PSAA at communicating and consulting on the details of the proposed national scheme from 2023/24". 107 bodies answered this question, **with the vast majority (92% saying) that PSAA had been 'very' (45%) or 'somewhat' (47%) effective.**

Survey and interview participants were also asked: "What other actions, if any, could PSAA have taken to improve its engagement with you in June-July 2021 during its consultation on the draft scheme prospectus?" Again, the responses were mainly positive, subject to:

- Three interviewees would have liked more engagement at this stage.⁴
- Two interviewees and a few survey participants would have liked more debate around the major issues that they perceived.
- Two interviewees would have liked eligible bodies and Treasurers' Societies to be more involved at an early stage in identifying contractual issues and suggesting solutions and approaches.

6.1.3 Audit firms

We asked interviewees: "How effective was PSAA at sharing its early thinking with the market to help shape important features of its procurement strategy for the 2022 procurement?" and: "What other actions, if any, could PSAA have taken to improve its early market engagement?"

Responses were overwhelmingly positive, with most firms praising PSAA's level of engagement, openness, and willingness to listen.

Suggestions for improvement included:

- Sending out slides before presentations to enable participants to "move into thinking mode" more quickly.
- Provide more information on the bodies being audited.
- Some eligible bodies (as well as some audit firms) suggested that PSAA could carry out more analysis to understand and anticipate contractual issues in advance.

"Government needed to put pressure on the Big 4 to be in the market. Maybe not an issue for PSAA."

6.1.4 Wider stakeholders

We asked stakeholders: "How effective was PSAA at communicating and consulting on the proposed national scheme from 2023/24?" and "What other actions, if any, could PSAA have taken to engage on the proposed national scheme from 2023/24?"

Responses were mainly positive. Suggestions for improvement included:

- Engaging more closely with stakeholders about the contract specifications.
- Making more use of eligible bodies' contacts with audit firms.
- Some audit firms (as well as some eligible bodies) suggested that PSAA could carry out more analysis to understand and anticipate contractual issues in advance.
- Earlier engagement with Treasurers' Societies.

⁴ These interviewees did not recall that in fact PSAA carried out 3 webinars and a consultation during this period.

6.2 PSAA communications and engagement: opt-in invitation period and procurement preparations (September 2021 to January 2022)

6.2.1 Summary

There was widespread satisfaction with PSAA’s conduct of this phase of the procurement. Engagement was mainly with eligible bodies and audit firms and less so with other stakeholders.

6.2.2 Eligible bodies

In the survey, we asked: “How effective was PSAA at communicating the invitation to opt into the scheme from 2023/24”. 105 eligible bodies answered this question, **with the vast majority (96% saying) that PSAA had been ‘very’ (68%) or ‘somewhat’ (28%) effective.**

Survey and interview participants were also asked: “What other actions, if any, could PSAA have taken to improve its engagement with you during the opt-in period?”

Suggestions for improvement included:

- Doing more to provide introductory information to newly appointed s151 officers and Audit Committee Chairs.
- Avoiding the summer months for consultations. However, we note that the statutory appointment requirements would make this very difficult or impossible to achieve.

6.2.3 Audit firms

We asked firms “How effective was PSAA at engaging with the market in the development of its approach to the 2022 procurement following the publication of its Procurement Strategy, including explaining the new features of the 2022 procurement?”

Most firms made positive comments about PSAA’s proactive engagement, including that they were “listening”, “accommodative”, “approachable”, “supportive”, “flexible” and responded well to questions.

Suggestions for improvement included offering more than one date for key meetings and making more effort to involve multiple attendees from each firm.

There were specific issues facing the firms that were new to the market. One firm felt that, to paraphrase, they perhaps needed more handholding and background information about the issues facing the market than PSAA had imagined. On the other hand, the firm said they had a lot of questions that were well answered.

6.2.4 Wider stakeholders

We asked the wider stakeholders: “How effective was PSAA at keeping you informed of its progress and the issues it faced during the period of the opt-in invitation and preparation for the procurement?”

This phase of the procurement had a low profile with stakeholders. There were a couple of positive comments - “PSAA were engaged and listening”, “It was clear what was required and what the options and timescales were” – and no specific suggestions for improvement.

6.3 PSAA communications and engagement: procurement phase

6.3.1 Summary

Most of the eligible bodies and wider stakeholders were satisfied with PSAA’s engagement during the procurement period. That said, some of the bodies would have appreciated more engagement and information about how the procurement was progressing.

6.3.2 Eligible bodies

In the survey, we asked: “How effective was PSAA at communicating its approach to the procurement, the outcome, and its calls for urgent action to address the challenges facing local audit?” 106 eligible bodies answered this question, **with the majority (82% saying) that PSAA had been ‘very’ (38%) or ‘somewhat’ (44%) effective.**

We also asked: “What other actions, if any, could PSAA have taken to improve its engagement with you during February - August 2022 whilst it was undertaking the audit services procurement?”

We asked similar questions at the interview. More than half of the interviewees either said that PSAA had communicated well during the procurement stage or had no issues with how PSAA had communicated.

Combining responses from both surveys and interviews, the main feedback regarding communication during the procurement period (from about 10 eligible bodies) was that **eligible bodies would have liked more engagement, feedback and updates about what was happening, and if possible some commentary on the issues that PSAA were experiencing, during the procurement period.**

These questions drew participants into wider issues such as the outcomes of the procurement and PSAA’s actions as regards the challenges facing local audit, which are considered in **section 8** below.

6.3.3 Audit firms

The engagement with audit firms during the procurement process is considered separately in **section 6.4** below.

6.3.4 Wider stakeholders

Stakeholders, other than Treasurers’ Societies whose responses on behalf of their entities are covered under ‘Eligible bodies’, did not remember receiving much communication during this period, but this did not concern them. A typical comment was:

“We were less directly involved at this stage; it was more about PSAA contacting firms and councils.”

6.4 Audit firms’ views on the procurement process

6.4.1 Summary

Audit firms had widely differing perspectives depending on their positions in the market, which included established major players, ‘Big 4’ firms that did not bid for contracts and new entrants to the market. There was a range of different suggestions for improvement, with no more than two firms making the same point on any issue.

The new features of the 2022 procurement were widely appreciated by firms, with the proviso that they made the bidding process more complex. Firms did not know exactly what audits they were bidding for, which resulted in elevated fee levels and, in the case of one major firm, not bidding at all.

Firms made several suggestions for improving aspects of the process that were within PSAA’s remit. They were also highly critical of the local audit system as a whole (see section 8)

Firms were evenly split as to whether lots or individual audits should be tendered. Suggestions were made for retaining the bulk lots, as in the current system, while increasing transparency about the components of each lot.

6.4.2 New features of the 2022 procurement

We asked: “PSAA introduced several new features in its 2022 procurement strategy – what influence did these features have on your decision as to whether to respond to the procurement, and where appropriate on the nature of your response?”

1) Development lots

Firms were in favour of development lots, which they perceived as being essential in getting new entrants involved.

However, they changed the balance of risk for the established firms. One firm pointed out that, because the development lots were the more straight forward audits and outside the FRC regime, their chances of getting FRC scrutiny [which they perceived as undesirable] were increased.

2) Geographic premium

Firms liked the innovation of a premium if they were appointed as auditors in any of four areas that they had specified as being particularly difficult to resource, but two firms would have liked to have been able to specify more areas and/or to be able to exclude themselves from areas altogether.

3) Different bid rates for each lot

Opinion was divided, with slightly more firms in favour. Two firms mentioned that it made the bidding process more complex.

4) Maximum stated capacity

Firms were close to unanimous in finding this helpful / essential. However, some firms felt that PSAA should have explained more clearly how the principle would be applied in practice.

5) Range of different lot sizes

There was considerable support for this, with most firms regarding the lot numbers and sizes as an improvement compared to the previous procurement.

One firm felt that there was a risk of over-competition for several smaller lots and suggested there should be more of those next time.

6) Revised contract terms

Firms were broadly supportive of the revised contract terms; with some citing detailed discussions they had had with PSAA about specific issues.

There was criticism of the payment process, but this may not have taken recent changes made by PSAA into account.

Several firms mentioned an increase in risk levels compared to the previous PSAA contract, but this was not necessarily linked to the contract terms. However, one firm reported difficulty in getting its risk team to sign up to the liability terms, especially the third party IP and TUPE provisions.

7) Bidding rules seeking to increase the number of suppliers

Of the six firms that commented on this, four said that market capacity had not increased and two said that the rules had worked well for them.

6.4.3 Management of the procurement process

We asked: “What changes could PSAA have adopted in its management of the procurement process to improve your experience of the process and/or make the process more effective?”

Overall, there was praise for the management of the process, which firms generally thought was well run by PSAA. There was a range of different suggestions for improvement, with no more than two firms making the same point on any issue. Points included:

- Timing that conflicted with the summer holidays.
- Some firms would have liked more detailed information to be provided about the entities to be audited: “a thumb nail sketch of the individual authorities, so we knew what we were letting ourselves in for”. However, we note that there would still have been considerable uncertainty, unless the contents of each lot were known as well.
- Some firms would have liked more opportunity to interact, especially for the smaller firms, in the period between submitting the bid and being informed about the outcome.
- Sequential numbering of questions to have been introduced earlier, for firms’ ease of reference.

6.4.4 Bidding and pricing for individual audits

We asked: “Would bidding and pricing for individual audits be a more attractive procurement option, and if it would, how in the absence of an auditor of last resort could PSAA be assured that the procurement would deliver an auditor for every opted-in body?”

Firms’ opinions were evenly split as regards bidding for individual audits. There was widespread recognition that the current procurement system reduces the workloads that individual audit procurements would entail, as well as recognition of the deficiencies with the current local audit system.

1) Favouring the status quo

Points included:

- The current procurement system enables economies of scale, promotes consistency across audits and reduces workloads.
- Individual audits would be “a nightmare to control.”
- Individual pricing would make it harder to appoint an auditor for all entities.

2) Suggestions for change

Some firms felt that the current scale fees bear little resemblance to the actual cost of carrying out the audits and thought that some of the more difficult / higher cost audits could be separately tendered outside of the lot structure.

Some firms would like to see smaller lots, allocated more frequently, with say a tranche of audits being procured every 2 years rather than “all or nothing” every 5 years. One firm in particular thought it would be easier for them to develop incrementally if they could increase their share of the market by a small amount over more frequent intervals.

Uncertainty about the contents of each lot was an issue for the firms, some of whom stated that it caused them to increase their fee rates to cover the additional risk. This was predicted in an earlier review, which reported that⁵:

“Several firms would like to know in advance the detailed composition of the lots they are bidding for, rather than having to adjust their local resources after the contracts have been awarded. **If they had to bid ‘blind’ again in the next procurement round, they would increase their prices to cover unforeseen risks.** Two firms said that they could not budget for expenses if they did not know the locations in advance and felt that expenses should be separately remunerated outside the main contract.”

6.5 Auditor appointments

6.5.1 Summary

Both the firms and the eligible bodies were broadly happy with the way that PSAA had communicated and dealt with them during the consultation on auditor appointments. Eligible bodies felt that the least satisfactory aspects of the consultation process were around the lack of detailed information and their inability to influence the results. Wider stakeholders generally commented on the overall impacts for the market, rather than on PSAA’s engagement.

For most of the firms, their interactions with PSAA were the most satisfactory aspects of the process.

6.5.2 Eligible bodies

1) PSAA’s communication and engagement

In the survey, we asked: “How effective was PSAA in communicating its approach and principles in relation to auditor appointments?” 39% of respondents answered, ‘Very effective’ and 48% said ‘Somewhat effective.’

We also asked “What other actions, if any, could PSAA have taken to improve its engagement with you during the auditor appointment period?”. Very few improvements were suggested, though one eligible body would have liked to better understand the rationale for a change in its external auditor and another thought that PSAA should do more to check whether bodies were happy with their appointed auditors [TR: this was a minority point of view, with several eligible bodies being satisfied that they had been able to express a view on their appointed auditors].

2) Consultation process – most satisfactory aspects

In interviews and the survey, we asked: “Which aspects of the consultation process for auditor appointments were most / least satisfactory?”

From the interviews, the three most satisfactory aspects of the consultation process for auditor appointments, with five mentions each, were:

⁵ Touchstone Renard ‘Future Procurement and Market Supply Options Review’, 2020, section 5.4

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- Aspects of communication with PSAA, including “the dialogue, PSAA answering questions”, “openness about who has got which auditor”, and “enabling entities to express a view on their auditors”
- Getting an auditor that they agreed was appropriate, including continuity of audit firm and manager.
- Getting any auditor at all.

There were also two mentions for the process being easy / straightforward, and one for new entrants coming into the market.

3) Consultation process – least satisfactory aspects

From the interviews, **the least satisfactory aspects of the consultation process, with eight mentions, were around a lack of detailed information, particularly about the ability of the auditor to perform and how PSAA assessed quality and experience, and the inability of the eligible bodies to influence the appointments of their auditors.**

The second most unsatisfactory aspect, with five mentions, was the fee level and/or uncertainty about what the final fee would be.

4) Outcomes

Only two of the eligible bodies that we interviewed were unhappy with the auditor they had been allocated, consistent with the survey results reported in **section 5.2**.

Otherwise, the eligible bodies were evenly split about how satisfied they were with the outcomes of the process, with six bodies making positive comments, six negative comments, and eight citing both positive and negative aspects.

Many of the comments were about wider aspects of the ongoing situation, for example regarding backlogs and fees.

6.5.3 Audit firms

1) Consultation process – most satisfactory aspects

For 6 out of 10 firms interviewed, their interactions with PSAA were the most satisfactory aspects of the process.

Firms had confidence that PSAA were acting in good faith, with the best interests of the market at heart; there was praise for the role played by PSAA’s Project Manager. Firms felt that PSAA had listened and responded and, in the case of one new entrant, had gone out of their way for them.

Other positive aspects were the consultations about the composition of the lots (“Give and take on both sides, it worked very well”), the pre-engagement meeting, and the flexibility in the lots.

2) Consultation process – least satisfactory aspects

Firms cited a wide range of different factors as being the least satisfactory, which perhaps reflects the different positioning and approaches of the different firms. Two firms could not think of anything they wanted to describe as being ‘least satisfactory’. The most common points were:

- Uncertainty about the outcomes / lack of information about the entities they would get – “It’s nervous, bidding for work when you don’t know what you’ll get. We ended up with some out-of-date audits as well.”
- Increased risk profiles in the larger lots, due to development lots taking out some of the less risky audits.

Other points, made by one or two firms, included:

- Allocations not matching expectations
- The complexity of the process
- The impact of ethics / COI rules on the audits they were able to do
- The consultation process being daunting for one of the smaller firms, sharing the consultation process with the larger firms that understood the market much better than they did

3) Outcomes

The firms were generally satisfied with the outcomes, subject to some issues with the backlog of audits and geographical locations.

6.5.4 Wider stakeholders

We asked: “Do you have comments to make on the auditors that have been appointed / not appointed?”

Five of the stakeholder interviewees were from Treasurers’ Societies and, as such, made comments that were specific to their own entities’ situations. We have omitted these from this section and have focused on more general comments and issues.

There were two main themes: outcomes for the market generally, and outcomes regarding the allocation of auditors.

1) The market generally

Stakeholders appreciated that two new entrants had entered the market but felt that this had not improved the wider picture. It was not good to have potential major players sitting on the sidelines. [TR: it is important to note that market development is formally not within PSAA’s remit].

Some stakeholders thought that:

- The presence of new firms in the market was negated by the overall lack of resource - “everyone is pinching staff from each other, FRC and regulators need to look at barriers to entry.”
- The market needed all four of the ‘Big 4’ firms to be participating. “Auditors sitting on the sidelines, waiting, cannot be good.”
- The risk environment from the firms’ perspective needed to be addressed to encourage participation.

However: “PSAA did a superb job, given all the headwinds against them.”

2) Allocation of auditors

There was a sense from some interviewees that allocations had been dictated by the needs and wishes of the firms, rather than the entities.

6.6 Preferred communication channels

6.6.1 Summary

Participants were broadly happy with the communication channels and methods that PSAA had used. Many of them appreciated the way that PSAA had used a mixture of emails, webinars, face to face communication and other channels to complement and reinforce messages.

There was very little support for using LinkedIn, social media generally, or podcasts.

6.6.2 Eligible bodies

We asked:

- “Which elements of PSAA communication and engagement worked best for you?”
- “How should PSAA target communication channels to be more effective in future? Perhaps try some less traditional routes such as podcasts? Was the duration, content, and frequency of webinars right for you? Would you prefer information via PSAA’s LinkedIn presence?”

Bodies were broadly happy with the channels that PSAA had used, with the main positive mentions being for emails (10), webinars (8), and face-to-face contacts (4). There was very little support for using LinkedIn, social media generally, or podcasts.

Points included:

- PSAA had used a good mix of channels of communication.
- The need for PSAA to keep their contacts up to date.
- PSAA’s contact list should be widened further, for example to include CEOs wherever possible.
- Social media would be an unreliable channel because not everyone is signed up to all the platforms and there are security limits on the use of social media and podcasts.

- Webinars were valuable, but some eligible bodies would appreciate more opportunities to raise the questions that they wanted to raise – “tell us what we need to know rather than what they want to tell us.”
- Several eligible bodies would like PSAA to make more face-to-face visits to their regions.

6.6.3 Audit firms

We asked: “Which elements of PSAA communication and engagement both before, during and after the procurement worked best for you? What lessons should PSAA learn to be more effective in future?”

Firms were broadly happy with the channels that PSAA had used, with the main positive mentions being for webinars (5), emails (2), and face-to-face contacts (2).

6.6.4 Wider stakeholders

We asked:

- “Which elements of PSAA communication and engagement worked best for you? How should they target it to be more effective in future?”
- “How would you like PSAA to engage with you in future? Which method/methods would be the most useful to you?”

Stakeholders were broadly happy with the channels that PSAA had used, with the main positive mentions being for face-to-face contacts (5), bulletins / newsletters.

Points included:

- Satisfaction with PSAA’s general approach and ‘balanced perspective, working for the good of the whole local audit system.’
- A desire from some stakeholders to receive more granular data on a timely basis, for example to explain and analyse the delays in signing off audits and provide an overall systems context. “There should be better, free flowing info around the local audit system.”
- The need for early warning of issues on the ground (that PSAA have visibility of) to flag problems earlier for other stakeholders, such as the duplication of expert opinions re valuations.
- The need for ongoing communication in between procurement rounds.

6.7 Eligible bodies: drivers for opting in / opting out / scheme attractiveness

6.7.1 Summary

Bodies found the scheme attractive, as evidenced by the 98% opt-in. Their stated reasons for opting in were to be guaranteed an auditor; to reduce administrative work; and to use PSAA’s buying power.

As regards making the scheme more attractive, the most common answer was to provide more clarity about contract management and how firms would be held to account.

6.7.2 Reasons for opting in

At interview we asked: “Which features of the national scheme were most and least influential in relation to your decision to opt-in/out?” The answers focused on bodies’ reasons for opting in, as below:

- To be guaranteed an auditor (5).
- Reduce hassle / administrative work (5).
- Use PSAA’s leverage / buying power (5).
- Use PSAA’s know how / capability (3).
- Have PSAA’s support dealing with the auditor (1).

6.7.3 Reasons for opting out

We interviewed two of the five bodies that had opted out. Both had specific reasons that are known to PSAA (and are not stated here due to confidentiality obligations), concerning their specialised audit requirements and the views of their senior management respectively.

6.7.4 How to make the scheme more attractive?

At the interview we asked: “What could PSAA have done to make the scheme more attractive? “

The most common answer was that the scheme was attractive enough: “*Engagements in the high 90% speaks for itself*”. Other points included:

- Many eligible bodies would like more power to hold the audit firms to account for their contractual obligations, which in their view should include timely completion of audits. In the absence of the power to do this, they would like more clarity about how firms will be managed and held to account under the contract.
- Many of them would like more clarity on how past year audit backlogs would be resolved and integrated with current year audits.
- Several eligible bodies would like to have sight of the tender document, including conditions for payment e.g., payment by results.
- Several eligible bodies would like more information about fee expectations, to enable them to manage their budgets and keep their stakeholders informed.

6.8 Audit firms: drivers for not bidding / not winning tenders

We interviewed four firms that had either not bid or had not won tenders. These were a mixture of large and small firms, each with their own particular circumstances, so it is difficult to generalise, but points included:

- Fear of negative publicity.
- Negative views expressed by existing providers.
- High levels of risk: “*no acceptable price was high enough for us to participate.*”
- Poor quality of local authorities’ financial controls, processes and accounts.
- Delays in signing off audits causing disruption to their business.
- Large number of qualifications and prior year adjustments.
- Inability to resign from audits.
- Inadequate recovery rates.
- Challenges re cash collection. “*It’s a lengthy process for PSAA to assess variations, discuss with client, reiterate etc., so cash flow is an issue as well.*”
- Internal reorganization reducing available resources.

6.9 Legislative changes: Decision to opt out rather than opt in

6.9.1 Summary

Most eligible bodies (73%) said they would make opting in the default position, with a formal decision required to opt out. Of the five national stakeholders that expressed an opinion, three (60%) would also make opting in the default position.

6.9.2 Eligible bodies

In the survey, we asked: “The Appointing Person Regulations require eligible bodies to opt into the scheme for each appointing period. Given the very high percentage of bodies that decided to opt in, what would be your view on changing the legal requirement so that it became a decision to opt out rather than opt in?”

108 eligible bodies answered this question, with 73% agreeing that it should be a decision to opt out rather than to opt in.

To reduce the length of the survey, comments were not enabled for this question. Due to time constraints, we did not repeat the question in the eligible body interviews.

6.9.3 Wider stakeholders

We asked the same question of stakeholders at interview. Excluding the Treasurers' Societies, the six national stakeholders split: three for opting out (60%), two for continuing to opt in (40%) and one that expressed no opinion.

Stakeholders that wanted to continue with eligible bodies opting in wanted to ensure councils consider the issue properly and to give PSAA greater authority to act on councils' behalf.

Those that wanted to move to opting out generally felt that an easier process would be preferable.

6.10 Legislative changes: Audit Committee to decide, instead of Full Council

6.10.1 Summary

Majorities of both eligible bodies and wider stakeholders (the latter with some caveats) were in favour of letting Audit Committees take the decision to opt in or out, rather than requiring the full council to do this.

6.10.2 Eligible bodies

In the survey, we asked: "The Appointing Person Regulations require eligible bodies except those that are Police bodies to make the opt-in decision by the authority operating as a whole, typically Full Council. What would be your view on changing the legal requirement so that subject to local delegation, it would be possible for the Audit Committee to take the decision on whether to opt in?"

107 bodies answered this question, with 81% agreeing that it should be possible for the Audit Committee to take the decision.

To reduce the length of the survey, comments were not enabled for this question. Due to time constraints, we did not repeat the question in the eligible body interviews.

6.10.3 Wider stakeholders

We asked the same question of stakeholders at the interview. Excluding the Treasurers' Societies, the views of the six national stakeholders were mixed, with three of them having reservations about the capacity of some Audit Committees (ACs) to make the decision.

The key issue was that not all local government bodies are the same: *"Some ACs would be well placed to do it, but others would struggle. If it worked for individual councils, that would be fine"*.

6.11 PSAA's role

6.11.1 Summary

We asked only the eligible bodies a specific question about PSAA's role. They think they understand the role and very few of them wanted more information about it, except for new / recent appointees as s151 officers.

There are different interpretations and misunderstandings of PSAA's role in contract management, and it appeared that some eligible bodies did not fully understand the statutory limitations on PSAA's role.

In discussing wider issues, some national stakeholders flagged a need to clarify and increase PSAA's contract management responsibilities and, in some cases, to increase PSAA's resources to do this effectively.

Several stakeholders would also like PSAA to work more closely with others to resolve the wider issues in the sector.

6.11.2 Eligible bodies

In the survey, we asked: "How effective was PSAA at communicating its role within the local audit system"? 105 eligible bodies answered this question, **with the vast majority (89%) saying that PSAA had been 'very' (44%) or 'somewhat' (45%) effective.** Issues and comments were similar to those made by interviewees, as below.

At interview we asked: “To what extent do you understand PSAA’s role, and/or feel that you need to understand PSAA’s role further?” None of the interviewees had a problem with understanding PSAA’s role, but some raised issues about how the role works or could work better, including:

- Several eligible bodies perceive a need for stronger contract management, which some do not see PSAA delivering. Some bodies would like greater clarity and transparency about what PSAA can and cannot do, especially as regards agreeing fee variations and negotiating additional charges. [PSAA have told us that their role is more contract monitoring than contract management as required under the appointing person regulations 7ii), although the website uses the latter term, and that some eligible bodies do not understand this distinction].
- Some eligible bodies would like PSAA to do more to represent their interests vis-à-vis the firms. However, we note that, under the current market conditions, PSAA have had to work hard to accommodate the firms’ interests, simply to secure an adequate supply of auditors.
- Some eligible bodies commented on PSAA’s lack of resources: *“PSAA needs to be a bigger organisation to deal properly with the contract management on the bodies’ behalf.”*

6.11.3 Points made by audit firms

Like the eligible bodies, audit firms commented on PSAA’s lack of resource *“to cover the ground that they need to cover”*, which in the opinion of one audit firm included better communications, better data analysis (especially regarding fees), and better understanding of current audit practice.

6.11.4 Points made by stakeholders

National stakeholders were more concerned with PSAA’s role in the wider local audit system, for example:

- Utilising contract management more strategically, using contract management mechanisms to affect behavior in the wider local audit system. [TR: though PSAA have pointed out that they do not have a formal remit to affect behaviour over the wider local audit system].
- Sharing information, data and insights wherever possible to help to improve policy decisions, perhaps under the protection of non-disclosure agreements or Memoranda of Understanding.

6.12 Overall view of PSAA’s procurement

6.12.1 Summary

There was widespread recognition and sympathy for PSAA’s position, their limited remit to resolve the wider problems facing the market, and that they had done a good job within the limitations of their brief.

Suggestions were made to improve PSAA’s engagement with stakeholders and to address some procurement and contractual issues.

6.12.2 Eligible bodies

We asked: “Given the state of the local audit market and the outcome, what is your view on PSAA’s procurement?”

Overall there was considerable recognition and sympathy for PSAA’s position. Most eligible bodies recognised that PSAA have done a good job within the statutory limitations of their role, and several commented on the efforts that the PSAA team made to ensure that the procurement worked. *“We are not sure what more they could have done, given their particular role in the wider public audit system and the fact that the system is broken.”*

There was a wide range of points and suggestions for improvement, including:

- Involving eligible bodies / Treasurers’ Societies more closely in the procurement process.
- Eligible bodies having more control over the audit contracts, with the bodies being clearly seen as the clients rather than PSAA. However PSAA have pointed out that if a body wishes to have greater control it has the option to establish its own local audit arrangements for the duration of an appointing period, rather than joining PSAA’s national scheme.
- Separately tendering the more difficult audits.

- PSAA doing more to verify that the firms have the resources that they say they have.

6.12.3 Wider stakeholders

We asked: “Do you have any comments to make regarding the procurement aspects? If so what are they?”

Only a few points were made in response to this question, many of the issues having been addressed elsewhere. Again, there was widespread recognition that “PSAA did well in the circumstances, we don't envy them.”

Some national stakeholders were concerned that the overall approach to procurement focused too much on procurement risks (mainly on the risk of not being able to appoint an auditor to every eligible body) at the expense of other risks in other parts of the local audit system, such as to audit quality and timeliness.

6.13 Did PSAA make a difference?

6.13.1 Summary

We asked all interviewees: “PSAA invested much time communicating and engaging, but did it make a difference and why?”

Audit firms and wider stakeholders thought, overall, that PSAA's engagement had made a positive difference in various ways. In contrast, most eligible bodies thought that PSAA had not made a significant difference, especially as regards the wider problems affecting the local authority audit market. However we note there are many factors that are largely outside PSAA's control.

6.13.2 Eligible bodies

Eight of the eligible bodies said that PSAA had essentially made no difference to the real problems in the sector. Five eligible bodies said that PSAA had made a difference, mainly by keeping them and their Audit Committees better informed or by listening to their concerns, and four eligible bodies were equivocal. The remaining eligible bodies did not express an opinion⁶.

6.13.3 Audit firms

PSAA's engagement made a clear difference for the audit firms, some of whom would not have participated in the market otherwise. This was especially the case for the new entrants to the market.

6.13.4 Wider stakeholders

Most of the wider stakeholders thought that PSAA's engagement had made a difference. Overall, the five Treasurers' Societies were more positive about this than the individual bodies.

Most of the national stakeholders also thought that PSAA had made a difference, with some saying that the new contract would be an improvement on what went before and that “If it weren't for PSAA we would be in a much worse position.

⁶ Some interview responses did not clearly address this question, hence only 17 responses are referenced here.

7. RECOMMENDATIONS FOR PSAA

7.1 Introduction

This section is based on suggestions made by the three groups of stakeholders (eligible bodies, audit firms and wider stakeholders) that took part in our survey and interviews. Following discussions and responses from PSAA, we have classified these suggestions as follows:

- Those that are not practicable / permissible in the context of the current legislative framework or based on misconceptions.
- Those that have already been taken by PSAA, or that are in hand.
- Suggestions for PSAA to consider further, perhaps in the light of available resources.
- Actionable recommendations.

Positive / constructive responses from PSAA to our draft suggestions led to several of them being re-classified as 'Actionable', even in areas where actions were already being taken or planned.

7.2 Suggestions that are not fully implementable under the current framework

PSAA have told us that some suggestions from eligible bodies cannot be actioned due to procurement rules, including the need to treat all potential suppliers equally and maintain confidentiality. **Although some of the suggestions from participants may not be fully implementable under the existing framework, they highlight deep concerns within the market over the future of local audit.** These suggestions are shown in the table below.

Eligible bodies made a number of suggestions about more active contract management that were not implementable, due to the constraints on audit contracts generally and additional constraints imposed by the Local Audit and Accountability Act (2014).

| Reference | Suggestion by stakeholder(s) | Barrier to implementation |
|-----------|---|--|
| 3 | Share more intelligence and 'granular information' with stakeholders, more regularly and more openly. | There are boundaries to what can be shared for commercial and statutory reasons (though some national stakeholders still felt that more could be done in this regard). |
| 10 | Closer engagement with stakeholders re draft specifications. | PSAA commission a CoAP compliant audit and do not specify the audit requirements. |
| 11 | Involve eligible bodies and use their contacts in persuading audit firms to take part. | PSAA is subject to public procurement rules which require equal, fair and transparent treatment of all potential suppliers. |
| 11 | Involve eligible bodies and use their contacts in persuading audit firms to take part. | The FRC has responsibility for market development, and PSAA will support its efforts to attract new suppliers. |
| 14 | Offer multiple dates for key meetings, to maximise attendance. | Having multiple sessions risks potential suppliers not hearing the same discussion (contrary to procurement regulations). |
| 16 | Maintain communications with feedback and updates for eligible bodies during the procurement process. | There are limitations on what can be shared during a competitive procurement process governed by the procurement regulations. |
| 17 | Consider being more flexible in enabling firms to rule out more geographical locations. | PSAA's statutory duty to appoint an auditor to every opted-in body has to be their primary consideration. If there was a robust audit market there would be more procurement options available in practice, and the lack of an auditor of last resort also constrains the options. |
| 20 | Provide more information / a thumbnail sketch of each authority, its key issues and audit backlog status to reduce uncertainty for potential bidders. | PSAA hold some information that cannot be shared to commercial and/or statutory disclosure restrictions. |

| Reference | Suggestion by stakeholder(s) | Barrier to implementation |
|-----------|--|---|
| 22 | Consider engaging separately with smaller / new audit firms who have less knowledge and different information needs compared to established firms. | From the formal procurement stage, public procurement rules require equal, fair and transparent treatment of all potential suppliers, so individual sessions would then be inappropriate. |
| 24 | More actively checking whether bodies were happy with their allocated auditors. | PSAA's options for reallocating auditors are constrained by their statutory duty to appoint auditors to all opted in bodies and the absence of an auditor of last resort. |
| 30 | Improve clarity about how backlogs will be managed and integrated with the new audits. | Managing the backlog requires a system-wide solution. |

7.3 Actions taken by PSAA, or in hand

Several of the actions suggested by participants have already been taken by PSAA, or are in hand, including:

- Steps to maintain ongoing dialogue with audit firms and wider stakeholders in between procurements (2).
- Revised contract monitoring arrangements including mechanisms to capture issues for the next procurement round (4).
- Plan to share information with eligible bodies about how PSAA engages with other agencies in the market (5).
- Making advance preparations for the next Appointing Period (6).
- Changes to payment processes (19).

7.4 Suggestions for PSAA to consider further

Several suggestions are to be considered further by PSAA. In many of these cases PSAA have taken or are already taking actions and will now revisit such actions in response to the feedback provided.

7.5 Actionable recommendations for PSAA to take forward

Actionable recommendations (with numerical references to the table below) are:

For eligible bodies:

- Consider the potential to provide introductory training for newly appointed s151 officers and Audit Committee Chairs (1).
- More involvement for eligible bodies and Treasurers' Societies in identifying contractual issues and suggesting solutions and approaches (7, 31).
- For future market engagement and procurement briefings, send out slides in advance to enable participants to absorb information, consider issues and formulate questions (8).
- Clarify PSAA's role in contract monitoring / management and spell out the limitations of the role more clearly (33-36).

For audit firms:

- In the pre-procurement stage, consider market engagement that is more tailored to each firm's individual needs, especially for the smaller firms (22).
- Review and, if possible expand the information provided to firms about the local audit market, to remove as much uncertainty as possible (20).

For wider stakeholders:

- Engage with national stakeholders to better understand what information PSAA might be able to share, within its remit, to promote the smoother running of the whole local audit system, in preparation for the next appointing period. (3).

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| # | Report ref. | Suggestion by stakeholder(s) | Source | PSAA comments | TR classification |
|---|-------------|--|---------------------------|--|---------------------------|
| <i>PSAA communications and engagement generally</i> | | | | | |
| 1 | 6.2 | Consider the potential to provide introductory information to newly appointed s151 Officers and AC Chairs. | Eligible body | PSAA will look at ways to offer an introductory information session to new s151 Officers and Audit Committee Chairs with the aim of explaining our role in the wider context of local audit. We would not seek to offer training to carry out those roles. | Actionable recommendation |
| 2 | 6.6 | Maintain an ongoing dialogue with firms and stakeholders after contracts have been awarded and in between procurement rounds. | Audit firms, stakeholders | Our new contracts include enhanced contract monitoring arrangements such as formal quarterly meetings, which will be supplemented by ad hoc discussions as appropriate. We will seek to maintain a dialogue with any non-contracted registered firms, and will also work with the FRC/ICAEW in relation to any firms that are considering registration. The FRC has responsibility for market development and we meet with them quarterly. We meet with other stakeholders to varying degrees as appropriate, and we are active participants in the Local Audit Liaison Committee that brings the stakeholders together. | In hand |
| 3 | 6.6 | Share more intelligence and 'granular information' with stakeholders, more regularly and more openly. | Stakeholders | PSAA have held discussions with the FRC about how data sharing could work better across the system with the idea of developing a single source for storage. Our view is that such an initiative would be most effective if all stakeholders actively contribute. We recognise that there are boundaries to what can be shared for commercial and statutory reasons, and that this applies to some of the data/information that we hold. | Actionable recommendation |
| 4 | 6.6 | Use on-the-ground contract monitoring in between procurements to flag issues and feed into the next procurement round. | Stakeholders | Our revised contract monitoring arrangements include mechanisms for capturing issues that need to feed into the next procurement round. | In hand |
| 5 | 6.12 / 6.13 | Work more closely with all the agencies involved in the market, to proactively seek resolutions to issues, rather than accepting the status quo. | Eligible bodies | We are and will continue to be a proactive partner in the local audit system. Our submission to Redmond in 2020 and subsequent articles and statements demonstrate that we have been lobbying for change for a long time – before that we commissioned research into the market in order to highlight the issues. We therefore do not agree that we have ever accepted the status quo. As part of sharing the outcome of this review with eligible bodies we will highlight how we currently engage with agencies in the market and be open to suggestions on how to build on this, albeit recognising that we must respect and work within our statutory remit. | In hand |

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| # | Report ref. | Suggestion by stakeholder(s) | Source | PSAA comments | TR classification | |
|----|-------------|---|-----------------|--|---|--|
| | 6.1 | <i>PSAA communications and engagement: prospectus, consultation and market engagement</i> | | | | |
| 6 | | Consider starting earlier (this was not possible for the last procurement round, as explained by PSAA). | Eligible body | The start of our communications particularly with bodies was impacted by us not being confirmed as the procurement body until May 2021 following the Redmond report recommendation to set up a new body. We want to start as early as is practicable, and we have already prepared an indicative timetable for the third appointing period (based on the current local audit framework) and shared it with DLUHC and the FRC. It highlights assumptions and dependencies which have the potential to change timings, and we will need to keep those under review as the backlog solution develops. | In hand | |
| 7 | | Consider involving eligible bodies and Treasurers' Societies in identifying contractual issues and suggesting solutions and approaches. | Eligible bodies | Our Advisory Panel includes representatives from all of the Treasurers' Societies and we will explore with it ways to involve clients. We recognise that this may involve passing on ideas to appropriate stakeholders if they are beyond PSAA's remit. | Actionable recommendation | |
| 8 | | Send out slides before presentations to enable participants to absorb information, consider issues and formulate questions in advance. | Audit firm | We commit to share slides/information in advance wherever possible for future market engagement and procurement briefings. | Actionable recommendation | |
| 9 | | Provide more information on the bodies being audited. | Audit firms | For the 2022 procurement we provided significant fee related information for the first time. Our aim was to provide as much insight as possible given the wide-ranging status of audits, and to enable firms to bid on a more informed basis acknowledging that they were bidding for a volume of work rather than specific named audits. We will review what we can provide for the next procurement with a view to enhancing the current level – we will seek specific feedback from firms about the information that would be useful to them. | To be considered further | |
| 10 | | Closer engagement with stakeholders re draft contract specifications. | Stakeholders | It is important to note that we commission a Code of Audit Practice compliant audit and we do not specify the audit requirements. We consulted stakeholders on our draft scheme prospectus and key elements of the Procurement Strategy and then subsequently sought feedback on the actual Procurement Strategy. We will review any options for further engagement for the next procurement. | To be considered further, link to 7 above | |
| 11 | | Involve eligible bodies and use their contacts in persuading audit firms to take part. | Stakeholders | PSAA is subject to public procurement rules which require equal, fair and transparent treatment of all potential suppliers. We fully and equally engaged with all registered suppliers. The FRC has responsibility for market development, and we will support its efforts to attract new suppliers. | Not practicable under current framework | |

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| # | Report ref. | Suggestion by stakeholder(s) | Source | PSAA comments | TR classification |
|----|-------------|---|------------------------------|---|--------------------------|
| 12 | 6.4 | Carry out more analysis to understand and anticipate contractual issues in advance. | Audit firms, eligible bodies | The contract is heavily influenced by the current statutory framework and the market conditions, and we recognise that as a result it is more complicated when compared to a contract between a single audited body and its auditor. Through our general interactions with firms and market engagement ahead of the next procurement we will review ways to make it more understandable and/or to promote a deeper understanding of its content and its drivers. | To be considered further |
| | 6.2 | <i>PSAA communications and engagement: opt-in invitation period and procurement preparations</i> | | | |
| 13 | | Try to avoid the summer months for consultations. | Eligible body | Our consultation on the scheme prospectus ran from 1 June to 7 July 2022. We note the point and do try to avoid holiday periods, however the duration of the period to prepare for the opt in and the procurement along with the current statutory framework (e.g. appointments must be made by 31 December of the year preceding the contract start date) means that it is impossible to avoid all holiday periods. | Not practicable |
| 14 | | Offer multiple dates for key meetings, to maximise participation. | Audit firm | Whilst we understand the point, having multiple sessions risks potential suppliers not hearing the same discussion. For the next procurement we will consider if we can identify market engagement dates with more advanced notice. | To be considered further |
| 15 | | Involve multiple attendees from firms at key meetings. | Audit firm | We did not restrict the number of audit firm representatives that attended our webinars, an advantage of being on-line events. We will review the arrangements for the next procurement, and if we move to physical meetings we will ensure that there is sufficient capacity to allow multiple attendees. | To be considered further |
| | 6.3 | <i>PSAA communications and engagement: procurement (EBs and wider stakeholders)</i> | | | |
| 16 | | Maintain communications with feedback and updates for eligible bodies during the procurement process, to make them aware of emerging issues and enable them to update their councillors and Audit Committees. | Eligible bodies | Whilst we are happy to review options for doing this, there are limitations on what we can share when we are going through a competitive procurement process governed by the procurement regulations. We will look at issuing progress reports in this context and how best to distribute them. | To be considered further |
| | 6.4 | <i>PSAA communications and engagement: procurement (audit firms)</i> | | | |
| 17 | | Consider being more flexible in enabling firms to rule out more geographical locations. | Audit firm | PSAA's statutory duty to appoint an auditor to every opted-in body has to be our primary consideration. If we were working with a robust market there would be more procurement options available in practice, and the lack of an auditor of last resort also constrains our options. We introduced the geographic premium to provide the option for bidders to identify up to four least convenient areas to audit and we will explore if we can build on this, but we are | To be considered further |

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| # | Report ref. | Suggestion by stakeholder(s) | Source | PSAA comments | TR classification |
|----|-------------|---|-----------------|--|---------------------------|
| | | | | conscious of the risk that the availability of auditor in certain geographical areas would become even more restricted. | |
| 18 | | State more clearly how the firms' maximum stated capacity would be applied. | Audit firm | We will revisit the wording if maximum stated capacity is a feature of the next procurement. | To be considered further |
| 19 | | Review the payment process. | Audit firms | The procurement took place against a backdrop of a significant number of delayed audits; therefore it was appropriate to review the payment process. We will review all options for the next procurement, taking into account the views of all relevant parties, and it is important to note that feedback from the bodies about the new payment process is very positive, a counter-balance to comments that PSAA is too sympathetic to firms. | In hand |
| 20 | | Review and, if possible expand the information provided to firms about the local audit market, to remove as much uncertainty as possible for potential bidders. | Audit firms | We will review the level of data/information we provide alongside other decisions, such as whether we are able to move more towards pre-populating lots whilst noting that there are significant challenges to overcome. The aim will be to balance volume and practical use. We will need to recognise that we hold some information that is subject to commercial and/or statutory disclosure restrictions. | Actionable recommendation |
| 21 | | Better control of questions, sequential numbering. | Audit firm | We introduced sequential question numbering following a request from a bidder. We retrospectively issued a numbered question list. We have now built this into our standard approach. | Already actioned |
| 22 | | Consider engaging separately with smaller / new audit firms who have less knowledge and different information needs compared to established firms. | Audit firm | We will review options for taking this forward. In the pre-procurement market engagement stage we could consider individual market engagement that is tailored to each firm's needs. Once we enter the formal procurement stage we are subject to public procurement rules which require equal, fair and transparent treatment of all potential suppliers. Individual sessions would be inappropriate. | Actionable recommendation |
| 23 | 6.12 | More actively verify firms' resources, knowledge of the LA market and staff capabilities. | Eligible bodies | Our quality evaluation of the tender responses allocated 45 marks out of 80 to resourcing capacity and capability – covering both quality and quantity, and we have introduced several new mechanisms within the contract that will help us to tackle service delivery quality issues. Firms' tender responses and our subsequent discussions with them demonstrate clearly that they have carefully considered the volume of audits that they can deliver with their available capacity following the changes in audit requirements since they bid in 2017. However, it would be anti-competitive and inappropriate to restrict award to existing capacity of local auditors, as it would be virtually impossible for any new entrant to come into the market. It is also important to note that whatever evaluation approach PSAA adopts, the critical issue is that there needs to be a | Actioned / in hand |

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| # | Report ref. | Suggestion by stakeholder(s) | Source | PSAA comments | TR classification |
|----|-------------|--|-----------------|--|--------------------------|
| | | | | far more robust market that offers a choice to the Appointing Person or a body making its own appointment. | |
| | 6.5 | <i>Auditor appointments</i> | | | |
| 24 | | More actively checking whether bodies were happy with their allocated auditors. | Eligible bodies | PSAA has a statutory duty to appoint auditors to all opted in bodies. Currently there are only ten firms in England registered to undertake local audit (including one that has joined after our procurement), and three of these firms did not bid. Unlike other parts of the UK, in England there is no auditor of last resort (or in-house provision), so we are wholly reliant on the market. This presents a significant constraint on the available options for proposed appointments, and the reality is that after taking into account independence issues and matters such as joint working, at many bodies there is limited or no choice of eligible auditor. We will consider options for enhancing the level of consultation with bodies, taking into account that it is imperative that we do not undermine or give grounds to undermine the independence of the appointment process. | To be considered further |
| | 6.6 | <i>Communication channels</i> | | | |
| 25 | | Make sure local authority contacts are up to date. | Eligible body | We work harder than ever before to ensure we hold details of the current contacts at eligible bodies, but it is a moving feast. Inevitably with 450 + bodies there will be occasion when the timing of our communication does not coincide with us being aware of these changes, and we will continue to seek ways to minimise those instances. | To be considered further |
| 26 | | Send communications to multiple contacts e.g. CEOs as well as to s151 officers. | Eligible body | We do send CEOs the opt in invitation and the appointment notice, but we do not routinely send them other communications. Some CEOs have specifically requested not to be included in communications directed at DoFs. We will consider whether to invite eligible bodies to confirm the contact points for communications for the next appointing period. | To be considered further |
| 27 | | More interactions / visits to regions. | Eligible bodies | We will review options in conjunction with our Advisory Panel of s151 Officers. | To be considered further |
| 28 | | Provide more opportunities and time for questions at webinars. Consider a Q&A only format. | Eligible bodies | All webinars include a Q&A session and any questions we are unable to cover in the sessions we typically share responses to attendees following the webinar. We will continue to keep the format of the webinars under review including the time scheduled for Q&As. | To be considered further |
| | 6.7 | <i>Attractiveness of the PSAA scheme</i> | | | |
| 29 | | Improve clarity about how firms will be managed and held to account | Eligible bodies | The audit contracts from 2023/24 contain a range of new provisions designed to improve service delivery which are summarised below, as covered in our webinar in March 2022 to explain the new features of the contract. | Already actioned |

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| # | Report ref. | Suggestion by stakeholder(s) | Source | PSAA comments | TR classification |
|----|-------------|--|-----------------|--|-------------------|
| | | | | <p>The measures in the new contract include the following, noting that aspects such as the KPIs may need to be updated if a backlog solution changes the audit requirements:</p> <ul style="list-style-type: none"> ▪ Firms will be paid when they deliver four predefined audit milestones (each attracting 25% of the scale fee), rather than on a routine quarterly basis unlinked to on the ground delivery: <ul style="list-style-type: none"> ○ for Audit Year 2023/24 where the Supplier has not been the Appointed Auditor for the previous Audit Year not earlier than 1 October 2023, otherwise on the production of the auditor’s annual report for the previous Audit Year. ○ production of the draft audit planning report to Audited Body ○ 50% of the Supplier’s planned hours in respect of the Audited Body have been completed ○ 75% of the Supplier’s planned hours in respect of the Audited Body have been completed ▪ We have introduced KPIs linked to the audit delivery lifecycle and a quarterly contract monitoring review process ▪ There is a Review Procedure through which we can require a supplier at its own cost to amend its method statement, if the current one does not satisfy their obligations under the contract ▪ There is a Rectification Plan process which we may invoke if: <ul style="list-style-type: none"> ○ the supplier fails to comply with its method statement obligations and materially impacts delivery ○ there is a supplier delay or is reasonably likely to be a delay; and/or ○ the supplier fails to achieve any KPI measure; and/or ○ commits a default that has or may have an adverse effect on the provision of the Services. <p>Once agreed by us, the Rectification Plan creates a supplier obligation to implement it, including rectification of past failures.</p> <p>We have highlighted to the local audit stakeholders that the new measures will be most effective if there is a robust supply market.</p> | |
| 30 | | Improve clarity about how backlogs will be managed and integrated with the new audits. | Eligible bodies | Managing the backlog requires a system wide solution. Once a solution to the backlog is announced, PSAA will review the implications for audits from 2023/24. | In hand |

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| # | Report ref. | Suggestion by stakeholder(s) | Source | PSAA comments | TR classification |
|----|-------------|--|-----------------|--|---------------------------|
| 31 | | Give bodies sight of tender documents and specifications. | Eligible bodies | We will consult with our Advisory Panel on practical ways for providing sight of proposed documents and specifications. The Code of Audit Practice sets the specification for the audit and that is consulted upon by the appropriate body – currently the NAO, but potentially ARGA by the time of the next procurement. | To be considered further |
| 32 | | Provide more information about fee expectations, to enable bodies to better manage budgets and keep their own stakeholders informed. | Eligible bodies | PSAA's scheme prospectus outlined the challenges facing the local market signalling the expectation of a difficult procurement process. As soon as the procurement process had concluded we issued a press release which indicated the extent of the fee increase anticipated from 2023/24 audits to support bodies' budgeting. It would not be appropriate for PSAA to publish an estimated fee change as that could drive up the bids of suppliers that were considering bidding at a lower level and deter bids from suppliers that were considering bidding at a higher level. The nature of the market is that the market decided on the price, and we have repeatedly highlighted that the lack of competition is a significant concern. | Not practicable |
| | 6.11 | <i>PSAA's role</i> | | | |
| 33 | | Clarify PSAA's role re-commissioning / contract monitoring / management generally. | All | We held a webinar on 16 February 2022 on the Procurement Strategy and on 16 March 2022 on contract management. In the auditor appointment consultation email of October 2022 we provided an outline of our new contract management arrangements. We will consider what further communications we could do to improve clarification of our role, including what is not within our remit. | To be considered further |
| 34 | | Clarify PSAA's role in agreeing variations and negotiating additional charges. | All | We held a webinar in January 2022 that covered our fee variations process, and we provide a detailed description on our website. We will consider what further communications we could do to improve clarification of our role. | To be considered further |
| 35 | | Be more transparent about the limitations of what PSAA can deliver, and where solutions to problems depend on other players in the system. | All | We have often emphasised our unusual and tightly drawn role in many presentations to officers and Audit Chairs and will continue to do so in recognition that newcomers to local audit often assume that we have powers such as specifying the scope of the audit. We will consider what further communications we could do to improve clarification of our role, in collaboration with other system partners. | To be considered further |
| 36 | | Amend the website reference to 'contract management' to 'contract monitoring' | TR | We will review and update references on our website | Actionable recommendation |

8. ALTERNATIVE APPROACHES TO PSAA PROCUREMENT

We were asked to "provide an independent, insightful view informed by external stakeholder feedback as to whether PSAA could have adopted different or better approaches to any aspects of its preparations for the NAP". In **section 8.2** below we have summarised findings from earlier sections of this report that might suggest 'different or better approaches'.

Participants were critical of several aspects of the wider local audit system that are outside PSAA's remit and outside the scope of our review. However the challenges facing local audit exerted significant influence on PSAA's preparations for the second appointing period and its outcomes, so we have set out comments made by participants in **section 8.3**.

8.1 Summary

There appears to be little that PSAA can do to adopt alternative approaches to the next procurement, given the statutory limitations of its role. Approaches that PSAA could consider include:

- **Tendering separately for the most technically difficult audits.**
- **Considering what, if anything, could be done to spread out the procurement cycle to avoid procuring all audits at once, every five years.**

Most interviewees were critical of the wider system for procuring and controlling local audits. There is widespread agreement that the current system is 'broken' (a word frequently used) and in need of radical reform. Several interviewees wanted PSAA to work more closely with other stakeholders to deliver reform of the overall system.

The issues that most concerned all stakeholder groups are well known to PSAA and others. They included:

- **Market capacity and capability, especially the need for more Key Audit Partners (KAPs).**
- **Delays in signing off audits and the impact of the backlog on future audits.**
- **Standards, regulations, and the role of local government accounts.**
- **The fragmentation of key roles between different organisations involved in the local audit system, including PSAA.**

More specific concerns that were mainly held by the audit firms but were echoed in some degree by other stakeholders, included the quality of local authorities' accounts and issues related to fees, including the effects of uncertainty and fee variations.

8.2 Alternative approaches to the next procurement

8.2.1 Lot composition and lot sizes

PSAA acted on audit firms' views about the previous procurement⁷ by increasing the number of lots and limiting the size of the largest lots for the current procurement. In interviews, firms told us they were happy with these changes and saw little or no need for further change, apart from one firm that saw a need for more lots in the middle range (around 6-10% of the total).

No clear picture emerged regarding possible changes to the composition of lots. Several firms disliked the uncertainty of not knowing which of the more difficult audits might be included in any given lot, mentioning specific entities for which, in their view, the scale fee would bear no resemblance to the actual costs of carrying out the audit and a full recovery for their additional costs might prove both slow and difficult to achieve. It was suggested that PSAA could consider tendering such audits separately in future.

In the absence of an auditor of last resort, one option for PSAA would be to undertake this part of the exercise earlier than the bulk of the audits, then any eligible bodies without successful appointments would be included in the bulk exercise.

No firm suggested tendering separately for any of the geographically difficult locations – it was widely accepted that including these within the wider lots was a good way to guarantee an auditor in the absence of an auditor of last resort.

⁷ Future Procurement and Market Supply Options Review, Touchstone Renard 2020

8.2.2 Development lots

These were appreciated by the new entrants as an essential requirement that enabled them to enter the market for the first time. Some of the established firms noted that, by taking the easier audits out of the wider lots, the composition of those lots became more skewed towards the more complex and larger audits, with an increased likelihood of exposure to FRC regulation for the MLAs. We found no evidence supporting an alternative approach in future, beyond the need for flexibility in designing development lots to suit future circumstances.

8.2.3 Pre-populating lots

There was some support for defining which entities would be included in each lot, to reduce uncertainty about which entities audit firms would be allocated. We note that conflicts of interest would make this difficult to achieve in practice, especially since new conflicts can emerge at any time. Hence there could still be no guarantee that firms would end up auditing the exact entities that they bid for, even if lots were pre-populated in advance.

8.2.4 Procurement period

In our Review of Market Supply Options, carried out in 2020, there was widespread support from audit firms for a five-year procurement period. This support remains, but one firm argued strongly for a more phased approach, with say one third of audits being procured every two years, similarly to how local elections are staggered. The advantages of this approach, in their view, would include:

- Enabling firms like theirs to grow their capacity incrementally, say by 2% every two years, rather than attempting to grow by 5% or 6% every 5 years.
- Potentially, reducing the negative impact of large firms, and their scarce resources, being excluded from the market for a full five years.
- Enabling PSAA to respond more quickly to a rapidly changing environment, including mergers between firms, and reducing the potential for dramatic changes in approach every five years.

However, moving to such an approach would require very careful consideration, as the implementation could be very complex. Issues would include:

- The legislative requirement for all bodies of the same type to have the same fee basis, which could conflict with the risk of fee fluctuations under a staggered procurement cycle.
- The likelihood that legislative change would be necessary to facilitate an approach whereby one third of audits are procured every 2 years.
- Whether the market in its current state could support a more frequent procurement.
- The additional resources that would be needed to design a new system, evaluate and manage risks and administer more frequent procurement exercises and, for audit firms, to respond to more frequent procurements.

PSAA have pointed out that other procurement options, such as the dynamic purchasing system established in 2022, can be used to offset the 'all or nothing' nature of a 5-year cycle.

PSAA should consider what, if anything, could be done to smooth out the cycle to reduce the impact of 'all or nothing every five years'.

8.2.5 Joint audits

Broadly speaking, at the time of our 2020 report, joint auditing was favoured by some firms that were not in the local audit market as a possible route into the market, but not by the incumbent firms. No further evidence supporting this option has emerged from this research.

8.2.6 Other new features of the current procurement

Audit firms were asked specifically for their views about some new features that were adopted for the current procurement. Points included:

- There was strong support for the geographic premium, with two firms in favour of extending this beyond 30% price premium and the maximum selection of four geographical areas.

- Firms were broadly in favour of having different bid rates for each lot, though two firms mentioned that it made tendering more complex.
- Firms were in favour of having a maximum stated capacity.

8.3 Wider issues

PSAA's statutory remit does not include development of market capacity, addressing the audit backlog, auditing standards and regulation and other wider system issues, but during the interviews we carried out there were frequent references to these areas. We have therefore agreed with PSAA to capture participants' thoughts and suggestions for the wider system, to facilitate PSAA raising these with the relevant bodies.

8.3.1 Market capacity and resources

There is wide ranging recognition of the significant supply constraints in the local audit market from all parties involved in this exercise.

Market capacity and lack of resources are a major concern for all groups; there is a clear shortage of supply across the market. Responsibility for market development was not allocated in the post Audit Commission regime, so PSAA has done what it could to encourage potential new suppliers to enter the market.

We understand that the FRC will take over responsibility for market development in its new role as shadow system leader and is preparing a workforce strategy to address this issue. There appears to be an urgent need to address workforce challenges ahead of the next procurement, if the issues presented in 2022 are not to be repeated.

There was particular concern around the same, limited resources moving within the sector, the quality and experience of staff used on audits, comments on why the KAP regime is needed and the unattractiveness of the sector to new entrants, both in auditing and local authority finance.

8.3.2 Audit backlogs

The audit backlog is seen as a major issue in the sector and one that needs a major system change to resolve now and to ensure it does not continue into the future. Without this issue being resolved it was unclear to a number of interviewees, both auditors and eligible bodies, how future audits could progress, and there was widespread scepticism about the value of out-of-date audit reports.

Efforts are in hand to address the backlog and the situation is fluid at the time of drafting this report.

Standards, regulations and the role of local government accounts are another major concern for all groups, as is the impact of the fragmentation of roles between different partners across the system, including PSAA. The difficulties of bringing a fragmented system together are clearly evidenced by the considerable efforts being expended to find a solution to the backlog issue.

8.3.3 Standards and regulations

Standards, regulations and the role of local government accounts are another major concern for all groups, as is the impact of the fragmentation of roles between different partners across the system, including PSAA. The difficulties of bringing a fragmented system together are clearly evidenced by the considerable efforts being expended to find a solution to the backlog issue.

8.3.4 Quality of Local Government accounts

There was some criticism from audit firms around the quality of accounts produced by local authorities although eligible bodies also saw this as a reason given by audit firms for delays in signing off accounts.

8.3.5 Fees, pricing and risk for firms

The biggest concern from audit firms is that wider issues (including the impact of bidding for lots that are defined by volume rather than the bodies covered) that mean that the contract rates that they are locked into for five years may prove to be commercially unattractive during the contract period. However we note that inflation is applied to contract rates from years two to five.

8.3.6 Procurement issues

Interviewees questioned whether the five-year contract length is the best approach.

There was also concern that the arrangements for managing performance are unclear. There is confusion about how poor performance is supposed to be managed.

This extends to PSAA's role, which is widely acknowledged to be unusual but is still often misunderstood, especially as regards contract management issues and who is charged with the performance management tasks that are outside of PSAA's remit.

8.3.7 Need for a joined-up system

One of the biggest concerns expressed by a range of interviewees was the lack of integration across the local government audit market place with different organisations having responsibility for different elements but no one party having overall responsibility. Some participants, but by no means all, were aware of the FRC's role as incoming shadow system leader.

Several interviewees would like PSAA to push harder to change the status quo in a system they regard as failing. Many of them perceive a need for all actors to work more closely together, and for PSAA to work as hard as possible to make this happen.

GLOSSARY

| Initials | Definition |
|--------------|---|
| AC | Audit Committee |
| APCC | The Association of Police and Crime Commissioners |
| ARGA | Audit, Reporting and Governance Authority |
| AS | Audit Scotland |
| CoAP | Code of Audit Practice |
| CCN | County Councils Network |
| CFO | Chief Finance Officer |
| CIPFA | Chartered Institute of Public Finance Accountants |
| COI | Conflict of interest |
| DCN | District Councils Network |
| DLUHC | Department for Levelling Up, Housing & Communities |
| FD | Finance Director |
| FFN | Fire Finance Network |
| FRC | Financial Reporting Council |
| HMT | HM Treasury |
| ICAEW | Institute of Chartered Accountants in England and Wales |
| KAP | Key Audit Partner |
| LA | Local authority |
| LG | Local government |
| LGA | Local Government Association |
| MLA | Major local audit |
| NAO | National Audit Office |
| PAC | Public Accounts Committee |
| PIE | Public Interest Entity |
| PCCTS | Police and Crime Commissioners Treasurers Society |
| PSAA | Public Sector Audit Appointments Ltd. |
| S151 Officer | Section 151 Officer |
| SCT | Society of County Treasurers |
| SDCT | Society of District Council Treasurers |
| SLT | Society of London Treasurers |
| SMT | Society of Municipal Treasurers |
| SUT | Society of Unitary Treasurers |

ANNEX A: INTERVIEW SAMPLES AND QUESTIONS

A1: Eligible bodies

A1.1 Interview sample for eligible bodies

Of the 27 survey respondents who were willing to be interviewed, we arranged and carried out 23 confidential interviews.

Interviewees were spread across the various types of eligible body in similar proportions to the survey spread of responses. The following table shows the spread:

| # | Eligible Body Type | Interviews |
|---|-------------------------------|------------|
| 1 | County Council | 2 |
| 2 | District Council | 8 |
| 3 | London Borough Council | 3 |
| 4 | Metropolitan District Council | 1 |
| 5 | Other types of Body | 1 |
| 6 | Police or Fire Body | 7 |
| 7 | Unitary Authority | 1 |
| | TOTAL | 23 |

The questions we put to local authority s151 / CFO officers and a selection of their responses are given below for each of the four stages PSAA followed and the questions for each stage.

A1.2 Interview questions for eligible bodies

Prospectus Consultation and Market engagement

1. *What other actions, if any, could PSAA have taken to engage with you in June-July 2021 during its consultation on the draft scheme Prospectus?*

Opt-in invitation period and procurement preparations

2. *To what extent do you understand PSAA's role, and/or feel that you need to understand PSAA's role further?*
3. *What other actions, if any, could PSAA have taken to improve its engagement with you during the opt-in period?*
4. *Which features of the national scheme were most and least influential in relation to your decision to opt-in/out?*
5. *What could PSAA have done to make the scheme more attractive?*

Procurement

6. *How effective has PSAA been in communicating its approach to the procurement of audit services and the resultant outcome?*
7. *What other actions, if any, might PSAA have taken to improve its engagement with you during February-August 2022 whilst it was undertaking the audit services procurement?*
8. *What in your view based on PSAA's role within the local audit system might have resulted in a different procurement outcome?*
9. *Given the state of the local audit market and the outcome, what is your view on PSAA's procurement?*

Auditor Appointments

10. *Which aspects of the consultation process for auditor appointments were most satisfactory?*
11. *Which aspects of the consultation process for auditor appointments were least satisfactory?*
12. *How satisfied are you with the outcomes of the process?*

General questions

13. *Would you like to know more about PSAA's role, have a brief meeting with PSAA, attend a webinar to learn more about this?*
14. *What could PSAA have done better? How could PSAA have made the process easier?*
15. *PSAA invested much time communicating and engaging, but did it make a difference and why?*
16. *Which elements of PSAA communication and engagement worked best for you?*
17. *How should they target it to be more effective in future? Should PSAA try some less traditional routes such as podcasts? Was the duration, content and frequency of webinars right for you? Would you prefer information via PSAA's LinkedIn presence?*

A2 Wider Stakeholders

A2.1 Interview sample for wider stakeholders

We interviewed PSAA's contacts in a range of wider stakeholders and were provided the contact details for 17 stakeholders as listed in the following table:

| # | Organisation | Initials |
|----|---|----------|
| 1 | Chartered Institute of Public Finance and Accountancy | CIPFA |
| 2 | County Councils Network | CCN |
| 3 | Department for Levelling Up, Housing and Communities | DLUHC |
| 4 | District Councils Network | DCN |
| 5 | Financial Reporting Council | FRC |
| 6 | Fire Finance Network | FFN |
| 7 | HM Treasury | HMT |
| 8 | Institute of Chartered Accountants in England and Wales | ICAEW |
| 9 | Local Government Association | LGA |
| 10 | National Audit Office | NAO |
| 11 | Police and Crime Commissioners Treasurers Society | PCCTS |
| 12 | Society of County Treasurers | SCT |
| 13 | Society of District Council Treasurers | SDCT |
| 14 | Society of London Treasurers | SLT |
| 15 | Society of Municipal Treasurers | SMT |
| 16 | Society of Unitary Treasurers | SUT |
| 17 | The Association of Police and Crime Commissioners | APCC |

We were able to carry out interviews with eleven of these stakeholders within the time span of this review. Of these, six were national organisations (NAO, FRC, CIPFA, ICAEW, LGA and DLUHC) and five were Treasurers' Societies.

The questions we put to these stakeholders, for each of the four project stages, are given below.

A2.2 Interview questions for wider stakeholders

Prospectus Consultation and Market Engagement

1. *How effective was PSAA at communicating and consulting on the proposed national scheme from 2023/24?*
2. *What other actions, if any, could PSAA have taken to engage on the proposed national scheme from 2023/24?*

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3. *The Appointing Person Regulations require eligible bodies to opt into the scheme for each appointing period. Given the very high percentage of bodies that decided to opt in, what would be your view on changing the legal requirement so that it became a decision to opt out rather than opt in?*
4. *The Appointing Person Regulations require eligible bodies except those that are Police bodies to make the opt-in decision by the authority operating as a whole, typically Full Council. What would be your view on changing the legal requirement so that subject to local delegation, it would be possible for the Audit Committee to take the decision on whether to opt in?*

Opt-in invitation period and procurement preparations

5. *How effective was PSAA at keeping you informed of its progress and the issues it faced during the period of the opt-in invitation and preparation for the procurement?*
6. *Which aspects of the scheme in your view are the most critical for the future?*

Procurement

7. *Do you have any comments to make regarding the procurement aspects? If so what are they?*

Auditor Appointments

8. *Do you have any comments to make on the auditors that have been appointed / not appointed? If so what are they?*

General questions

9. *How would you like PSAA to engage with you in future? Which method / methods would be the most useful to you?*
10. *What could PSAA have done better? How could PSAA have made the process easier?*
11. *PSAA invested time communicating and engaging, but did it make a difference and why?*
12. *Which elements of PSAA communication and engagement worked best for you? How should they target it to be more effective in future?*

A3 Audit firms

A3.1 Interview sample for audit firms

There were eleven audit firms that PSAA asked us to consider for interview. These were a mix of those that had secured a PSAA contract and those that had not or had declined to bid. The following table presents these audit firms in alphabetical order as well as whether they had a contract or not.

| # | Organisation | PSAA Contract |
|----|------------------------------|---------------|
| 1 | Azets Audit Services Limited | YES |
| 2 | BDO LLP | NO |
| 3 | Bishop Fleming LLP | YES |
| 4 | Deloitte LLP | NO |
| 5 | Ernst & Young LLP | YES |
| 6 | Galloways | NO |
| 7 | Grant Thornton UK LLP | YES |
| 8 | KPMG LLP | YES |
| 9 | Mazars LLP | YES |
| 10 | PKF Littlejohn | NO |
| 11 | PwC LLP | NO |

We carried out confidential interviews with ten of these firms, all six with contracts and four without contracts. Within the timescales for the review, it was not possible to interview the remaining firm due to the relevant partner being unavailable.

A3.2 Questions for audit firms

Prospectus Consultation and Market Engagement

1. *How effective was PSAA at sharing its early thinking with the market to help shape important features of its procurement strategy for the 2022 procurement?*
2. *What other actions, if any, could PSAA have taken to improve its early market engagement?*

Opt-in invitation period and procurement preparations

3. *How effective was PSAA at engaging with the market in the development of its approach to the 2022 procurement following the publication of its Procurement Strategy, including explaining the new features of the 2022 procurement?*

Procurement

4. *PSAA introduced several new features in its 2022 procurement strategy – what influence did these features have on your decision as to whether to respond to the procurement, and where appropriate on the nature of your response?*
 - a) *Development lots – small share of PSAA’s audit portfolio that would not contain MLA or PIE audits, and ability to select the geographical location of auditing.*
 - b) *Geographic premium (standard lots) – selection of up to four geographies that would be least convenient to audit and that would attract a 30% uplift to a supplier’s bid rate if appointed as an auditor in those geographies.*
 - c) *Opportunity to specify a different bid rate for each Lot and to specify a subsequent bid rate where a subsequent Lot was won.*
 - d) *Requirement to specify your maximum stated capacity which meant you were able to determine the maximum volume of work you could win, without requiring selective lot bidding.*
 - e) *13 Lots ranging in size from 0.5% to 18% of PSAA’s portfolio in the initial procurement.*
 - f) *Bidding rules to seek to increase the number of suppliers, but with the flexibility to absorb all available capacity offered by a supplier.*
 - g) *Revised contract terms.*
5. *What changes could PSAA have adopted in its management of the procurement process to improve your experience of the process and/or make the process more effective?*
6. *What other changes – either within the remit of PSAA or other parts of the local audit system – might have enabled the procurement to further contribute to the sustainability of the local audit market?*
7. *Would bidding and pricing for individual audits be a more attractive procurement option, and if it would, how in the absence of an auditor of last resort could PSAA be assured that the procurement would deliver an auditor for every opted-in body?*

Auditor Appointments

8. *How effective was PSAA in communicating its approach and principles in relation to auditor appointments?*
9. *Which aspects of the consultation process were most satisfactory?*
10. *Which aspects of the consultation process were least satisfactory?*
11. *How satisfied are you with the outcomes of the process?*