



TouchstoneRenard
Management Consultants



Public Sector Audit Appointments

Lessons Learned Review

Final Report

EXECUTIVE SUMMARY

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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."