

# CIPFA South East Region Spring 2023 Conference

## PSAA update

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# Topics

- Procurement outcome
- Contract Management 2023/24 – 2027/28
- New auditor for 2023/24
- 2023/24 Scale fees
- Auditor opinion data
- What is being done across the system?

# Procurement outcome - headlines

- PSAA managed to secure enough supply, but...
- It was extremely challenging
- It took several procurement rounds to get there
- There is no spare capacity
- There was minimal competition

# Procurement outcome - headlines

- Six of the 10 registered firms were successful
- Three did not bid, including two current firms
- Two new firms (Azets and Bishop Fleming)
- One previous firm has returned (KPMG)
- Two of the 'Big 4' were successful (34% share)
- Largest two firms - 58.5% share, down from 70%

Firm	Existing share	Share from 2023/24
Grant Thornton	40%	36.0%
Mazars	18%	22.5%
Ernst & Young	30%	20.0%
KPMG	-	14.0%
Bishop Fleming	-	3.75%
Azets	-	3.25%
Deloitte	6%	-
BDO	6%	-

- Allocating auditors to bodies was challenging due to a range of factors

# Procurement outcome: Key messages

- It does not fix the underlying market issues
- The market remains highly fragile
- The backlog is a huge issue that is worsening
- The system is highly vulnerable to another work spike
- The workforce strategy is key
- All options must be considered, including an auditor of last resort
- The new KAP route must be available asap
- The procurement buys time, but...
- It is imperative that there is no complacency

What do we want from local audit?

# Contract management

## 2023/24 – 2027/28 audits

- Once appointed, auditors are independent by design of the framework
- Contractual levers limited
- To be fully effective needs a functioning market

# Contract management

## 2023/24 – 2027/28 audits

- Milestone-based payment mechanism linked to audit delivery:
  - production of the previous year's Auditor's Annual Report *unless 1st year as new auditor*
  - production of the draft Audit Plan to Audited Body, will set out the auditor's plan & timetable
  - planned hours (50% complete)
  - planned hours (75% complete)
- Statement of responsibilities of auditors and audited bodies included in the Terms of Appointment
  - Updated and more detailed content
  - we will communicate expectations as part of 2023/24 auditor appointment and fee setting consultations
- KPIs related to communications on delays (Audit and objections)

# Contract management

## 2023/24 – 2027/28 audits

- Tenderers' responses will be translated into contractual obligations and method statements *which describe the “how”, not the “what”*
- If during the contract period it becomes apparent to either PSAA or the supplier that any Method Statement does not satisfy the obligations under the Contract or needs updating, the supplier must make amendments to the Method Statement to satisfy the contractual obligations at its own cost and expense through the Review Procedure – provides flexibility for both parties for example to align with changes in industry good practice or audit requirements
- Acceptance of a revised Method Statement is a decision solely for PSAA acting in compliance with the Review Procedure
- Autumn and Winter webinars – PSAA



# New auditor for 2023/24?

- 193 bodies have a change of auditor
  - 62 KPMG
  - 27 Azets
  - 29 Bishop Fleming
  - 38 Grant Thornton
  - 14 Ernst & Young
  - 23 Mazars
- 26 pension funds

# New auditor for 2023/24?

- PSAA providing progress information to firms
- Well rehearsed take-on procedures
- Compliance with ISA(UK)510 'Initial Audit Engagements'
- Expectation of Co-operation on handover
  - NAO Code of Audit Practice (Statutory)
  - ICAEW protocol
  - PSAA Terms of Appointment
  - Sharing of working papers

# New auditor for 2023/24?

- There is always a period of dual-running
  - Extensive delays will make this longer\*
  - Current auditor in place until opinion is signed and certificate issued
  - Co-operation expected
  - If an issue arises:
    - Nature and timing will determine who should respond
    - NAO requirement to report issues promptly
- \*Options to curtail backlog being looked at

# 2023/24 Scale Fees

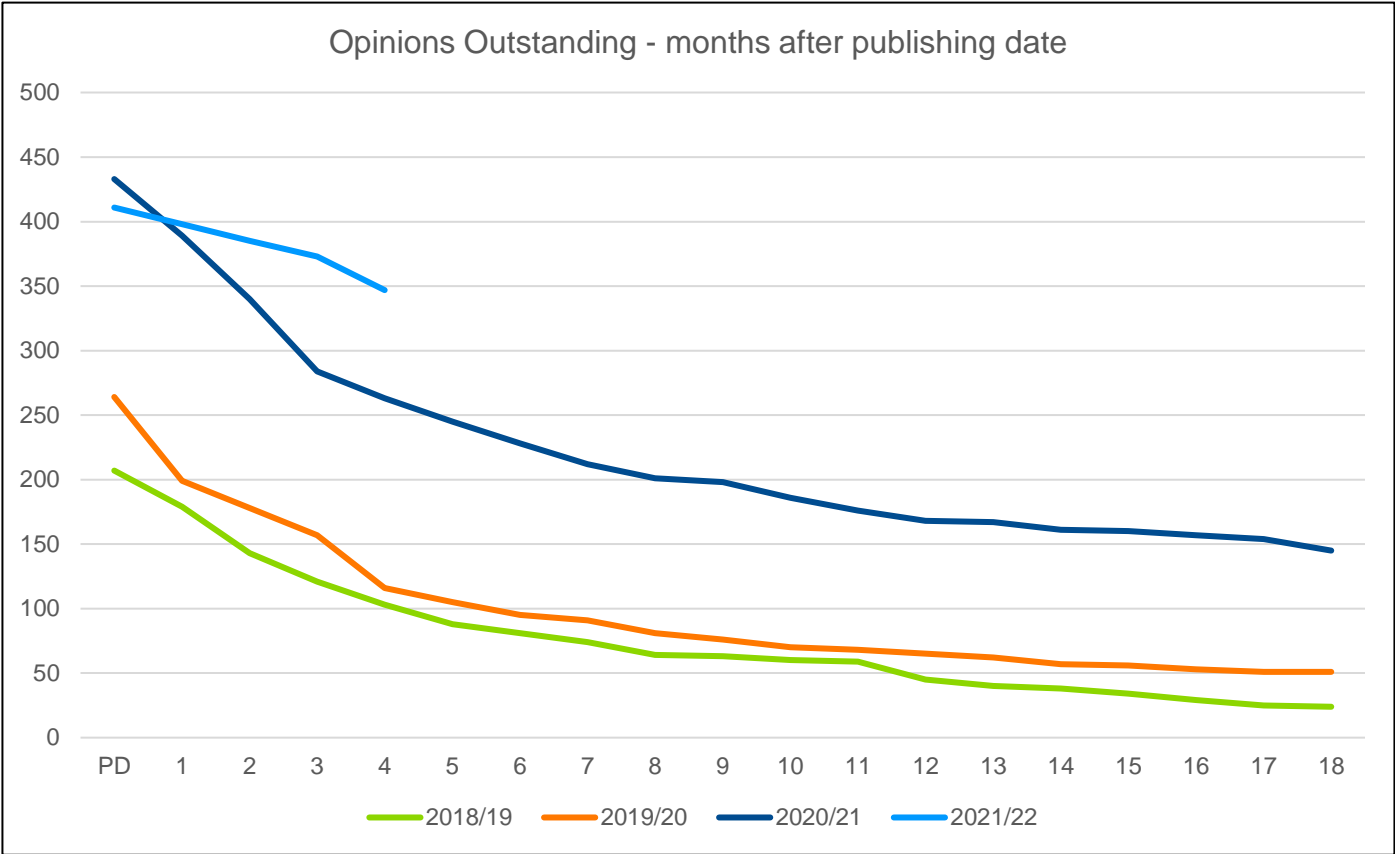
- On average firms' bid rates have increased by 150% for the next contract period
- Fee Calculated as follows
  - 2022/23 Scale Fee plus 150%
  - ie £100k becomes £250k
  - as adjusted for
    - Additional recurrent fee variations
    - Other increases or reductions in the audit work required
- Audit completion position is neutral

# Audit Opinions data 2015/16 to 2021/22

<b>Audit year <i>Publishing date</i></b>	<b>Number of opted in bodies</b>	<b>Percentage of audits complete by publishing date</b>	<b>Number of audits outstanding per financial year As at 31 March 2023</b>	<b>Number of audits by oldest year outstanding</b>
2021/22 <i>30 Nov</i>	<b>467</b>	12%	347 (74%)	202
2020/21 <i>30 Sep</i>	<b>474</b>	9%	145 (31%)	106
2019/20 <i>30 Nov</i>	<b>478</b>	45%	39 (8%)	29
2018/19 <i>31 Jul</i>	<b>486</b>	57%	10 (2%)	8
2017/18 <i>31 Jul</i>	<b>494</b>	87%	2	1
2016/17 <i>30 Sep</i>	<b>497</b>	95%	1	0
2015/16 <i>30 Sep</i>	<b>497</b>	97%	1	1

As at 31 March 2023

# Audit completions – profile after due date



As at 31 December 2022

# What is being done across the system?

- NAO report on local audit timeliness & PAC hearing
- DLUHC calls for accounts and audit proportionate to risk
- DLUHC's measures to tackle timeliness includes...
  - £15m pa for audit costs for a further 3 years
  - Workforce strategy to be developed?
  - New routes to KAP?
- Local Audit Liaison Committee public minutes
- DLUHC published its outcome on its response to local audit framework: technical consultation

# What is being done across the system?

- PSAA Article: [Bringing local audit back on track - Room 151](#)
- FRC Director of Local Audit appointed – Neil Harris
  - Leading on latest pensions issue
- Temporary solution in place for infrastructure assets
- System leadership: [MoU DLUHC-ARGA](#)
- Draft Audit Reform Bill includes ARGA's creation (but not expected until at least 2024)



# What is being done across the system?

- NAO Progress update on Timeliness of local auditor reporting
- HMT Consultation on Non-investment Asset Valuation
- March 2023 Further PAC evidence session
- Levelling Up Committee inquiry on local audit to come
  - Users and uses of local authority accounts and audit
  - Understandability and accessibility of local authority accounts and audit
  - Making local authority accounts meet the needs of users better
  - Addressing findings in audits and sharing best practice

# The reality.....

- In November 2021 the DLUHC Permanent Secretary informed the Public Accounts Committee that  
*“Unfortunately, this is not an area with a simple magic bullet to bring capacity back into the sector..... it is going to take a number of years to resolve this”*.

# Next Steps?

- Resolving the Backlog?
  - Radical solution?
    - But unless systemic issues are resolved the backlog will build again.
  - Accounts and audit proportionate to risk
    - More auditors
    - Less audit work
      - And preferably both