



Future Procurement and Market Supply Options Review

Webinar



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Presentation overview

- Purpose & scope
- Work done
- Background to our review
- Findings
- Factors that PSAA can influence
- Factors outside PSAA's control
- Q & A

Purpose & Scope

- Capture views of approved and potential audit providers on a procurement approach..... to maximise a sustainable audit supply from 2023.
- Review options for future procurement approach in next period from 2023/24.
- Enable PSAA to develop capacity in the audit market for next period.

Work done

- Interviewed all PSAA contract holders (GT, EY, Mazars, BDO and Deloitte).
- Interviewed all approved firms not holding PSAA contracts (KPMG, PwC, SM and Cardens).
- Interviewed 6 firms not approved to operate in this market
- Interviewed NAO and CIPFA.
- Input from PSAA (Board members and staff).

Background – approved firms and contracts

Firms' current work for eligible bodies and Key Audit Partner (KAP) numbers.

Firm	Current work for PSAA eligible bodies	Number of KAPs
<i>Incumbents</i>		
GT	40% by value of opted in bodies (183 audits) *	26
EY	30% by value of opted in bodies (162 audits) *	15
Mazars	18% by value of opted in bodies (85 audits)	9
Deloitte	6% by value of opted in bodies (31 audits)	8
BDO	6% by value of opted in bodies (26 audits)	6
<i>Others</i>		
Scott Moncrieff	Scotland only	3
KPMG	East Hants only	21
PwC	None	8
Cardens	None	1
Total KAPs		97

- The four approved firms without current contracts have 34% of the registered KAPs.
- Not all KAPs are active in local authorities' market – some are only NHS auditors or are moving to internal audit only roles.
- If all approved firms bid for and were awarded contracts in the next procurement round, the market would become more sustainable.

* Also deliver for opted out bodies

Background – non-approved firms

- Two of top 10 audit firms (**RSM, Smith & Williamson**) are not doing local audits and have no KAPs.
- **Baldwins, a top 10 firm, acquired Scott Moncrieff (SM)** recently. SM are approved to carry out local audits, do so in Scotland but not in England, have three KAPs.
- **PKF** have a large share of smaller audit market, but is not an approved firm for local audits.
- Many other ‘top 20’ audit firms carry out consultancy and public sector audit work but are not approved firms for local audits and do not have any KAPs.

Background – local audit demand



Table shows PSAA's 'eligible bodies' at the time of our review

Councils	Opted in bodies	Opted out bodies	Total eligible bodies
Combined Authorities	9		
County Councils	27	2	
District Councils	200	1	
City of London Corporation		1	
GLA and London Borough Councils	33		
Metropolitan DCs	34	2	
Unitary Councils	53	1	
Sub-total	355	7	362
Police and Fire			
Chief Constables	37	1	
Police and Crime Commissioners	36	1	
Fire and Rescue Services	29		
Sub-total	102	2	104
Others			
Parks / Environment	11		
Waste / Transport	12		
Development Corps. / Pensions Authorities	5		
Sub-total	28	0	28
Total	485	9	494

- Audits not homogenous - require different knowledge, experience & learning curves for the auditors.
- PSAA has achieved a very high uptake for procurement and so there is only a very small market remaining for firms that did not win a PSAA contract.

Background – performance and fees

Performance in 2019 round of audits

- “The number of delayed audit opinions in local government has risen sharply this year..... **More than 40% (210 out of 486) of audit opinions on 2018/19 statements of accounts were not available by the target date of 31 July 2019.** The comparable position in relation to 2017/18 accounts was that approximately 13% of opinions were not available by the target date.”

Source: PSAA’s Annual Quality Report for 2019.

Fees

- Reduced by 23% from 2018/19, based on prices tendered by the firms in 2017 (after similar reduction previously).
- Reduced profitability reported by firms.
- Increased requests for fee variations from firms.

Findings – views of approved firms

Almost all approved firms have reservations on remaining in the market because:

They perceive that risks have increased since 2017 when bids were submitted for the current contracts:

- Increased scrutiny of the external auditing profession has made auditing less attractive and riskier for audit partners.
- Greater challenge of management's judgements and estimates is now expected.
- Regulation has become more onerous, especially for PIEs.
- Audit risk has increased due to austerity, with authorities cutting back on finance staff and undertaking more risky commercial ventures.

Fees have not risen to compensate for the increased risks:

- Although the fees were effectively set by the bids submitted in 2017, this does not give any comfort to the firms.
- The fee variations process does not adequately compensate in the view of many firms.

Findings – views of approved firms (continued)

Perceived imbalance between risks and rewards makes it harder for local audit partners to justify participation in this market to their colleagues.

Timing of local audits is especially problematic because:

- Target date for signing off audits is 31st July, two months after working papers should be ready for audit
- This causes a short, sharp peak period in June and July, disrupting summer vacations for staff
- Pressures on engagement partners are particularly intense during short sign-off period
- Short duration of peak period, combined with a lack of experienced staff:
 - puts intense pressure on staff including overtime and weekend working
 - causes firms to use less experienced staff, reducing audit quality.
- Time pressures are increased by:
 - working papers not being ready for audit on 31st May
 - shortages of knowledgeable LA finance staff to answer auditors' questions in a timely way.
- These factors can (and do) cause staff to leave local auditing and the profession.

Findings – non-approved firms

It will be difficult to bring new firms into this market because:

- Firms see little incentive for them to get involved with the market in its current state, especially due to low fee levels and negative perceptions of the sector
- Barriers to entry including accreditation for both firms and KAPs
- Belief that they could not win tenders against the established firms (and the cost of submitting tenders)
- Perceived difficulty for public sector partners in selling the business case to colleagues.

Even if new firms enter the market, their initial impact will be small, say 5-10 audits per firm for a couple of firms.

Findings – key threats to sustainability

A lack of experienced local authority auditors:

- Lack of Key Audit Partners
- Shortage of experienced audit managers and seniors
- Retirements will reduce numbers further
- The future supply chain of auditors is unlikely to compensate for losses

External auditing is seen as an increasingly unattractive career option.

Within external auditing, local auditing is seen as unattractive compared to corporate auditing.

Factors that PSAA can influence

- **Tender evaluation** – price / quality balance
- Firms' expectations regarding **fee levels**
- **Scale fee** framework
- **Size of lots**
- **Composition of lots** (types of audit and locations)
- **Duration** of contracts
- **Options for attracting new entrants to the market** (though note limited impact of this), such as starter lots, joint auditing and mentoring of new entrants.

Factors outside PSAA's control

- **Fragmentation of the market** for procurement of public sector audits
- **Different arrangements** - local government, health and central government audits
- Accreditation **regime / barriers to entry**
- **Timing** of local authority audits
- Regulatory **regimes for quality** checking
- **Codes of practice**
- **External perceptions** of audit
- **Pressures on LA clients** – finance staffing, business risks
- **Demographics** for experienced **audit staff**.

Thank you.....



Q & A with discussion.