

Review of lessons learned by Public Sector Audit Appointments Limited in its role as an Appointing Person 2016 – 18.

1. Introduction

1. Cardiff Business School undertook an evaluation of the lessons learned by Public Sector Audit Appointments Limited ('PSAA') from its Appointing Person programme conducted to appoint audit firms to local public bodies in England during 2016 – 18. This programme was undertaken under the provisions of the Local Government Audit and Accountability Act 2014 (LAAA 2014) and The Local Audit (Appointing Person) Regulations 2015 (the 2015 Regulations), which enabled local public bodies in England to opt in to a collective auditor appointments scheme.
2. This report whilst providing brief details of the research process concentrates on findings, lessons learned and recommendations, organised according to the six main stages in the company's development of its role:
 1. Drafting and consulting on a scheme which is attractive to eligible bodies
 2. Inviting eligible bodies to join the scheme
 3. Procuring audit services from registered audit firms
 4. Consulting on and making auditor appointments to individual bodies
 5. Consulting on and determining scale fees
 6. Monitoring and reporting on audit results, auditor performance and audit quality.
3. We also include a section on overall Governance and Management.
4. PSAA voluntarily chose to commission this 'lessons learned' review and has welcomed constructive criticism. This mature approach has not only been beneficial to PSAA in the future conduct of its role but serves as an example to other such bodies and programmes.
5. The evaluation team welcomes comments or questions on this report and can be contacted via the project director at: Thorogoodt@cardiff.ac.uk or research director at DeWidtd@cardiff.ac.uk.

2. Executive Summary

6. In summary we believe the Appointing Person programme is an outstanding example of 'sector led improvement'. It was a well thought through, organised, and governed programme which delivered substantively on its objectives to the benefit of local bodies. There are inevitably 'lessons learned' for PSAA to consider in its future planning. Whilst most of these are concerned with specialist aspects of the programme, some, particularly in terms of governance and programme management, have wider applicability.
7. We would further observe that there were a number of critical 'underpinning ingredients' leading to the success of PSAA's programme, including:
 - effective sector leadership and engagement provided by the Local Government Association (LGA) (without which the Appointing Person scheme would not have got off the ground);
 - strong engagement and active leadership from the PSAA Board, drawing on detailed and thoughtful analysis by PSAA staff and supported by external legal advice;
 - good project management, drawing on the skills of a dedicated and experienced project manager, recruited for this purpose;
 - wide and positive engagement across sector bodies and a willingness to tap into sector expertise (such as in the PSAA Advisory Panel established for this purpose); and
 - a well prepared staff team who, having transferred in most cases from the Audit Commission, brought a wealth of relevant knowledge and expertise to PSAA.
8. The following sections of this report detail the Key Findings and related Lessons Learned, and specific Recommendations to PSAA in full (together with a summary of the research data underpinning them). This executive summary distills the 'headlines' of the evaluation by presenting the Key Findings.

Stage 1 - Drafting and consulting on a scheme which is attractive to eligible bodies

9. PSAA generally communicated well both when drafting and consulting on the scheme and through later phases of the Appointing Person process. Audit Committee chairs were less satisfied, and less engaged, with PSAA than Chief Financial Officers (CFOs) and there is also some evidence that 'consultation' was limited and some bodies felt they had a simple 'in or out' choice with limited time to decide, despite the four month timescale allowed by PSAA for authorities to decide whether to opt into the scheme (see paragraph 31).

Stage 2 - Inviting eligible bodies to join the scheme

10. PSAA was highly successful in attracting eligible bodies to join the scheme; 484 out of 494 bodies (98%) opted-in to the scheme. At this early stage the vast majority of bodies would intend to remain in the scheme after 2023.

11. There is some evidence that a number of CFOs in urban areas are mindful of the possibility of undertaking their own procurements, believing that such an approach may enable them to receive an audit which better meets their needs and obtain lower audit fees.

Stage 3 - Procuring audit services from registered audit firms

12. The procurement of audit firms was conducted very effectively (despite challenging timescales); three out of four of PSAA's own objectives (listed at paragraph 41) were clearly achieved. The fourth (supporting a long term competitive, sustainable market for local public audit services which has value for all relevant authorities) was achieved in the short term but significant risks and challenges, which are inherent in the market, remain for the longer term.
13. The second objective - incentivising audit suppliers to submit highly competitive prices - was clearly achieved. This was welcomed by a majority of CFOs. But a minority of CFOs have expressed concerns that fees may now be too low to enable a good quality service in the future.

Stage 4 - Consulting on and making auditor appointments to individual bodies

14. Making auditor appointments to individual bodies was undertaken effectively. Only seven out of the 484 bodies raised issues regarding their appointed auditor. No significant concerns or complaints were revealed by this evaluation.

Stage 5 - Consulting on and determining scale fees

15. The process of consulting on and setting scale fees has been very effective: no bodies questioned their fees at the time and subsequent information gathered for this evaluation has not suggested common concerns about the process or the fees themselves; indeed a very high level of satisfaction both in relation to the fee process and fee levels was shown by the surveys. There are however concerns about the effect of lower fees on audit quality (referred to in paragraph 13 above) and about the fee variation process.

Stage 6 - Monitoring and reporting on audit results, auditor performance and audit quality

16. PSAA has undertaken significant development of quality and contract monitoring arrangements, although it is too early to be able to evaluate them. The concerns about quality raised more generally highlight the importance of clearly defining what is meant by quality in the context of local government audit and how this will be monitored going forward.

Governance and Management

17. PSAA was successful in delivering the Appointing Person role in accordance with the outcome measures established in its Project Initiation Document (PID). PSAA convincingly achieved four out of its five key outcome measures (listed at paragraph 81). However, regarding the fifth, PSAA's impact in assuring a "long term competitive,

sustainable market for audit services” is unclear at this stage (this measure is closely linked to the fourth objective referred to in paragraph 12 above).

18. PSAA has been very efficient in its use of resources. It has reduced its own costs and made good use of flexible resourcing together with highly effective project management.
19. Both PSAA’s staff team and its Board have been highly skilled, well-motivated and diligent. Management has been effective and Board-Management decision-making sound.
20. There is some interest in PSAA providing optional additional services such as appointing ‘auditors’ and setting fees to undertake grant certification work (eg for Housing Benefits), and support for PSAA taking an influential role in sector debates.

3. Detailed findings, lessons learned and recommendations

3.1 Drafting and consulting on a scheme which is attractive to eligible bodies

Key finding

21. PSAA generally communicated well both when drafting and consulting on the scheme and through later phases of the Appointing Person process. Audit Committee chairs were less satisfied, and less engaged, with PSAA than CFOs and there was also some evidence that 'consultation' was limited and some bodies felt they had a simple 'in or out' choice with limited time to decide, despite the four month timescale allowed by PSAA for authorities to decide whether to opt into the scheme (see paragraph 31).

Detailed findings

22. During early 2016 PSAA finalised its communications strategy (PSAA 2016b) and in line with this undertook a variety of informational and consultation sessions through the remainder of 2016 and in to 2017. These included the establishment of an Advisory Panel, production of a prospectus outlining and inviting views on the key features of a proposed scheme, and several presentations at the LGA conference and to treasurers' societies – and of course information on the PSAA website. The LGA, working collaboratively alongside PSAA, reinforced PSAA's communications with its own briefings and visits to member authorities, encouraging engagement with the Appointing Person scheme.
23. Early interviews did highlight some reservations about the process with one interviewee saying it was "good enough without being very good" and another saying they had not been consulted on the scheme and that an opportunity had been missed to consult on more innovative procurement options, for example those that might have allowed smaller firms to enter the market.
24. The evaluation surveys found that 78% of CFOs and 58% of Audit Committee Chairs said PSAA 'generally communicates well' with their organisation. The survey of Audit Committee Chairs though did also suggest a degree of disengagement by chairs in that around one-third to a half selected 'Neither Agree Nor Disagree' or 'Can't say/Don't Know' to questions regarding their actual experience of PSAA.
25. In subsequent interviews with Audit Committee Chairs, two chairs (out of four interviewed) referred to a lack of engagement with PSAA, and their frustration at the lack of direct communication from PSAA which had tended to be via officers.
26. PSAA has, however, been making efforts to engage Audit Committee Chairs including via the evaluation surveys undertaken as part of this review. Furthermore, the Local Audit Quality Forum (LAQF) has been launched with a special emphasis on engaging with Audit Committee Chairs and supporting them in their vitally important roles.

27. The surveys and interviews indicated many Audit Committee Chairs don't wish for more engagement (for example, only 11% of chairs responded to the survey, only 35% of Chairs who responded to the survey stated that they intended to be active participants in future LAQF events, and comments made by Audit Committee Chairs during interviews). Given the vital role that Audit Committees and their chairs play in local body governance arrangements this must be a matter of some concern.

Lessons Learned and recommendations

Lessons	Recommendations
<p>CFOs were generally very positive about PSAA communications. Audit Committee Chairs, on the other hand, presented a more mixed picture - some were relatively satisfied while others were less so; some felt that PSAA should communicate more directly with them while others preferred not to receive direct communications. A majority of authorities appear to have engaged with PSAA (and the LGA) and clearly felt well placed to make timely informed decisions; others were less engaged and felt that they had limited time to make important decisions.</p>	<p>Direct communication and consultation with Audit Committee Chairs (and Committees) should be further developed by PSAA, and they may benefit from further sector wide programmes, ideally involving the LGA, to clarify and underpin their roles.</p> <p>Consultation on the next scheme should be undertaken in good time before the end of the current scheme in 2023.</p>

3.2 Inviting eligible bodies to join the scheme

Key findings

- 28. PSAA was highly successful in attracting eligible bodies to join the scheme; 484 out of 494 bodies (98%) opted-in to the scheme.
- 29. As at Summer 2018 the vast majority of bodies intend to remain in the scheme after 2023.
- 30. But there is some evidence that some CFOs in urban areas are mindful of the possibility of undertaking their own procurements, believing that such an approach may enable them to receive an audit which better meets their needs and obtain lower audit fees.

Detailed findings

- 31. The invite to opt-in to the PSAA scheme was issued on 27 October 2016 with a deadline for responding of 9 March 2017. This was much longer than the eight week statutory period, to give ample time for local body consultation and decision making processes to be worked through fully.

32. By far the most common reason for opting in identified by the evaluation survey was to save time and effort on auditor appointments.
33. Interview responses indicated that the short timescale allowed by the legislation for local authorities for letting audit contracts, and also the scale of the change they were facing, made the decision of opting into the PSAA hard to resist for many bodies; this meant that PSAA's offer to local authorities did not necessarily need to be optimal. In addition, due to the many resemblances with the auditor appointment regime previously run by the Audit Commission, PSAA's offer felt like a very natural transition for local authorities.
34. Some organisations, including CIPFA and the LGA, actively encouraged bodies to join PSAA as they expected a collective procurement would encourage the maintenance of high-quality audits at competitive prices.
35. The most common reason for not opting in was retaining the ability to have a local input to the appointment of auditors, followed by the belief that better value for money could be obtained by local procurement.
36. The vast majority of CFOs (85%) indicated (in our survey) that they would prefer to remain in the scheme after 2023. Interviews with CFOs indicated that many would base the final decision on remaining within the PSAA scheme on their experience with the new arrangements.
37. There is also evidence from interviews that some CFOs in urban areas are interested in the option of undertaking their own procurements, with the suggestion that this might enable them to receive an audit which better meets their needs and obtain lower fees.
38. Looking to the future PSAA should not be complacent about relationships with eligible bodies and their representatives. Improving engagement to better inform stakeholders and to better understand their needs is likely to be a key factor in PSAA's continuing success.

Lessons learned and recommendations

Lessons	Recommendations
<p>PSAA was very successful in attracting eligible bodies to joining the scheme for its first round of audit appointments. Our research indicates that future rounds are likely to contain further challenges, and to maintain its market share it will be increasingly important for PSAA to ensure that it meets the aspirations and requirements of eligible bodies.</p>	<p>PSAA should engage on a continuous basis with eligible bodies to ensure that:</p> <ul style="list-style-type: none"> • audited bodies understand what they can expect from their auditors; and • it is alerted at an early stage to any audited body concerns about their auditors.

3.3 Procuring audit services from registered audit firms

Key findings

39. The procurement of audit firms was conducted very effectively (despite challenging timescales); three out of four of PSAA's own objectives were clearly achieved. The fourth (supporting a long term competitive, sustainable market for local public audit services which has value for all relevant authorities) was achieved in the short term but significant risks and challenges, which are inherent in the market, remain for the longer term.
40. The second objective - incentivising audit suppliers to submit highly competitive prices - was clearly achieved. This was welcomed by a majority of CFOs. But a minority of CFOs have expressed concerns that fees may now be too low to enable a good quality service in the future.

Detailed findings

41. PSAA's Audit Services Procurement Strategy was issued in December 2016 (PSAA 2016c). The aim of the procurement was to "secure high-quality audit services at the most competitive prices" for opted-in bodies by delivering four objectives, namely:
 - securing the provision of high quality, independent audit services;
 - incentivising audit suppliers to submit highly competitive prices;
 - awarding contracts to a sufficient number of firms to enable the appointment of an appropriately qualified auditor to every participating body; and
 - supporting a long term competitive, sustainable market for local public audit services which has value for all relevant authorities.
42. The number of contract lots, their size and composition were critical to PSAA's achievement of these objectives and various alternative options were considered by staff and the Board. The critical importance of these decisions was fully appreciated by PSAA. Significant time and energy was invested in endeavouring to identify the best approach. In the event the Board agreed the option which it judged would best meet the aim outlined within the constraints set by the timescales allowed by legislation and the practical considerations of the tender letting process, for example the need to ensure that Invitation To Tender notice concluded before the audited bodies' opt-in deadline.
43. Tender selection was on the basis of the 'most economically advantageous tender' and the weighting of quality vs price in the selection process was also seen as important and subjected to debate amongst the Board and staff. Conscious of feedback from stakeholders emphasising the importance of audit quality, the Board agreed an approach in which price and quality had equal weighting, in contrast to the former Audit Commission approach which was based on a 60 (price):40 (quality) weighting.
44. Five national lots of reducing size between 40% and 6% of the total were tendered plus a sixth with no guaranteed value to enable a 'last resort' option if auditors from the five main lots presented independence issues. This resulted in annual contract values of £14.6 - £2.2 million. Highly competitive bids were received enabling PSAA to

subsequently consult on a reduction of 23% in existing audit fees which is intended to apply for at least three years.

45. Similar reductions in audit fees were achieved by non-opted in bodies. However, they would also have incurred additional costs in letting and managing their own audit contracts. The 80 NHS Trusts, which were required to appoint new auditors for 2017/8 following the end of PSAA’s role with respect to NHS bodies, managed on average to obtain a reduction in audit fees between 2016/7 and 2017/8 of some 19% (although again, they would have incurred additional costs in letting and managing their audit contracts). This analysis indicates that the reduction in costs arising out of the PSAA exercise are, overall, better than those that would have been achieved by opted-in bodies had they sought to make appointments locally.
46. To be appointed, tendering firms were required not only to be registered for public audit work (requiring meeting specific acceptability requirements to undertake audits of public bodies) but to submit method and quality statements which met PSAA’s own quality criteria and expectations.

The procurement process developed as follows:

Number of firms/consortia submitting a selection questionnaire	10
Number of firms/consortia invited to tender	9
Number of firms/consortia submitting a tender	8
Number of firms/consortia awarded a contract	6

47. Based on the above it could be argued that the first three of PSAA’s procurement objectives were achieved.
48. However initial interviews with key stakeholders, including some CFOs of opted-in bodies, had identified a perception that quality might suffer in the context of on-going fee reductions, and that from 2018/19 onwards fewer local body audits will now be undertaken by larger firms. There were related concerns about market sustainability in the longer term.
49. The survey of opted-in CFOs therefore included a focus on quality and fees. Some 79% of respondents said that they were pleased to see the reduction in audit costs, 76% said they did not presently have concerns about audit quality, while 77% of respondents were confident that PSAA will work hard to ensure that audit quality does not deteriorate in future.
50. However the survey also confirmed that there were significant concerns regarding future quality and sustainability. Out of the 116 responses:
 - 46% identified concerns that audit fees may now be too low to enable firms to provide a good quality service;
 - 39% expressed some concern about the effect of fee reductions on the long term sustainability of the market; and
 - 25% supported further reductions in audit fees in the future.

51. Subsequently these concerns were explored in our interviews and in workshops with samples of CFOs and representatives of other key organisations including audit firms.
52. These workshops and interviews identified that CFOs' quality concerns were largely to do with auditors being required by the Code of Audit Practice and auditing standards to address certain 'technicalities' in the accounts (such as aspects of capital accounting that have no impact on the Council Tax levels), in order to be able to give opinions on the accounts, whilst limited attention is given to work which would provide strategic value to bodies, particularly regarding financial resilience. Whilst understanding the requirements on auditors to comply with the Code of Audit Practice some CFOs felt that this now resulted in too narrow a focus and there was support for attempting to enable a wider role for external audit, particularly in connection with financial resilience, even if that entailed some increase in fees.
53. Concerns about sustainability were also covered. These established that some CFOs had a strong preference for larger firms which were seen as enabling high quality and efficiently conducted audits. Sustainability concerns were thus defined as concerns that large audit firms had either left, or might leave, the market.
54. Representatives of the larger audit firms interviewed as part of this evaluation indicated that the lower fees, increased regulatory requirements and higher audit risks arising from local government financial challenges makes the market less attractive and may discourage such firms from remaining in the market in the longer term.
55. However, a review of international research on audit markets was conducted which suggested the relationship between number and size of audit firms in a market and quality and price is not clear.
56. The potential for nurturing smaller firms in to the local public body audit market was examined, as a potential option should fears about larger firms be borne out. This presented as a challenging option; PSAA would need to undertake a different procurement approach (particularly regarding lot size and composition) and even then entering the market would provide a risky option for smaller firms needing to invest in credible capabilities before tendering. PSAA have begun to develop ideas as to how these challenges might possibly be overcome but recognise that solutions are likely to require sustained commitment over a long period of time.

Lessons Learned and recommendations

Lessons	Recommendations
A number of aspects of the procurement including the price: quality evaluation rating and lot sizes and composition remain live issues.	PSAA should remain open-minded about its procurement approach and use the time between now and the next procurement to conduct further research.

<p>There are significant challenges to ensuring a long term sustainable competitive and quality audit supply market including:</p> <ul style="list-style-type: none"> • the lower fees, increased regulatory requirements and higher audit risks arising from local government financial challenges may discourage firms from remaining in the market (although firms stated that they are currently intending to stay in the market); • there is evidence that gaining new entrants will be challenging; • the relationship between number and size of audit firms in a market and quality and price is not clear. But there is a clear preference from CFOs for larger firms for their assumed higher quality. <p>Given the above factors, positive 'market making' action may be advisable.</p>	<p>A Market Strategy should be developed in the near future setting out the best route to ensure a strong competitive supply market from 2023 (which may include more or less emphasis on different types of firms).</p> <p>Following this, feasibility work can be undertaken in good time to facilitate required actions before 2023 to nurture smaller/larger non/registered firms in the market.</p> <p>Dialogue with all registered firms should be maintained on a regular basis including gaining their views on how the new contracts are in practice, and what approach can be developed for the procurement of new contracts in 2023.</p>
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3.4 Consulting on and making auditor appointments to individual bodies

Key finding

57. Making auditor appointments to individual bodies was undertaken effectively. Only seven bodies raised issues regarding their appointed auditor. No significant concerns or complaints were revealed by the evaluation.

Detailed findings

58. The PSAA's strategy for appointing auditors (PSAA 2017b) to opted-in authorities outlined a five-stage appointment process:

- developing proposals;
- consulting with audited bodies;
- considering representations;
- consulting on revising proposals; and
- finalising and confirming appointments.

59. The strategy further stated that in allocating auditors to individual audited bodies, PSAA would have regard to the following six principles, in approximate order of importance:
- ensuring auditor independence;
 - meeting PSAA’s contractual commitments;
 - accommodating joint/shared working arrangements;
 - ensuring a blend of authority types in each lot;
 - taking account of a firm’s principal locations; and
 - providing continuity of audit firm if possible, while recognising best practice on maximum length of tenure.
60. Only seven authorities (1.4%) made representations challenging their appointed auditor, of which five were accepted by PSAA.
61. In the survey CFOs overwhelmingly (98%) said that PSAA had managed audit appointments well, while 82% stated they were happy with their appointed auditors and 79% of CFOs who expressed a view, agreed that PSAA had responded appropriately to representations made during the consultation process.
62. All appointments were confirmed by the statutory deadline of 31 December 2017.

Lessons learned and recommendations

Lessons	Recommendations
The evaluation found that PSAA managed well the appointment of auditors to individual bodies – there are therefore no lessons that need to be applied to future appointments.	None.

3.5 Consulting on and determining scale fees

Key finding

63. The process of consulting on and setting scale fees has been very effective: no bodies questioned their fees at the time and subsequent information gathered for this evaluation has not suggested common concerns about the process or the fees themselves; indeed a very high level of satisfaction both in relation to the fee process and fee levels was shown by the surveys. There are however concerns about the effect of lower fees on audit quality (dealt with in section 3.3 above) and about the fee variation process.

Detailed findings

64. PSAA had inherited the Audit Commission’s fee structure which was historically based. Fees have been subjected to successive reductions since 2012 (in part reflecting the avoidance of costs linked to reductions in the range of activities undertaken by the Commission) and a further 23% reduction for all opted-in bodies was announced by PSAA in March 2018 (for the audits of 2018/19 onwards). Audit firms and individual bodies are able to request reviews of fees if the situation has changed significantly, and

in-year variations can be agreed if audit work is much more or less than anticipated for that year.

- 65. In December 2017, PSAA issued a consultation document on the proposed 2018/19 fees and 32 responses were received (PSAA 2018b). The issues raised related to the impact of a further reduction in fees on quality/addressing risks, the disproportionate impact of lower fees on bodies with pre-existing low fees and the process of in-year fee variations. Encouragingly no bodies challenged their proposed scale fees or the overall scale of fees.
- 66. The surveys did indicate high satisfaction with each aspect of the scale fee process and 81% of CFOs said they felt the overall approach taken by PSAA to scale fees nationally was reasonable and 81% felt the scale fees for their own organisation were reasonable.
- 67. In later, detailed, interviews one CFO did raise that their body’s fees were now out of step with the changed risk profile and, in their view, with the fees of comparable bodies. However, no other CFOs raised this issue.
- 68. A number of audit firms said the fee variation process was unnecessarily lengthy and one audited body also said that agreeing additional non-audit work was too protracted.

Lessons Learned and recommendations

Lessons	Recommendations
There is evidence that the process of gaining agreement to fee variations or additional work may be unnecessarily protracted.	A review should be completed to ascertain if the fee variation/additional work processes can be speeded-up.

3.6 Monitoring and reporting on audit results, auditor performance and audit quality

Key finding

- 69. PSAA has undertaken significant development of quality and contract monitoring arrangements, although it is too early to be able to evaluate them. The concerns about quality raised more generally highlight the importance of clearly defining what is meant by quality in the context of local government audit and how this will be monitored.

Detailed findings

- 70. Up to 2017/18, PSAA continued to operate arrangements for monitoring and reporting on auditor performance and audit quality which were originally developed by the Audit Commission. With effect from 2018/19, statutory provisions for audit quality monitoring contained in the Local Audit and Accountability Act 2014 (the 2014 Act) will require the recognised supervisory bodies (ICAEW and ICAS) to establish arrangements to monitor

the performance of audit firms, with the exception of “major audits” undertaken by the firms that are subject to monitoring by the Financial Reporting Council.

71. The 2014 Act also requires PSAA to monitor auditor compliance against the obligations contained in the audit contracts.
72. In response to the new landscape PSAA has developed a new approach to quality and performance monitoring and reporting drawing heavily on the Framework for Audit Quality published by the International Auditing and Assurance Standards Board. The approach will collect evidence from a variety of different sources, including regulatory reports, firms' transparency reports, CFO and Audit Committee Chairs' opinion surveys, etc., with a view to informing judgements and enabling reporting on quality and performance in three key areas at both whole system and individual firm levels:
 - adherence to professional standards and guidance;
 - compliance with contractual requirements; and
 - relationship management.
73. PSAA's approach has been developed in consultation with its Advisory Panel.
74. In 2018 PSAA has also established its Local Audit Quality Forum (LAQF). The aim of the Forum is to “create a meeting place in which all of the parties which share a responsibility for audit quality can share experiences and good practice. In particularto give a special focus to the work of local bodies and their audit committees to help them play their critical and demanding roles effectively” (PSAA 2018a).
75. PSAA hopes “that audit committee chairs and chief finance officers will be regular attendees and active participants in LAQF events” (PSAA 2018a).
76. Finally, PSAA produces an annual report on the results of auditors' work at local government bodies. PSAA takes the view that there is “value in continuing to publish an annual report on the results of auditors' work for 2018/19 and subsequent years” (PSAA 2017a), but will keep the need for such a report under review. The survey of CFOs found that over 97% of respondents also agreed that it will be important for PSAA to monitor and report on quality as the new arrangements get fully underway.

Lessons learned and recommendations

Lessons	Recommendations
<p>In light of the concerns raised by CFOs regarding future quality standards and their views on what constitutes audit quality there is a need to engender and communicate a common understanding of audit quality.</p>	<p>Further informational work with opted-in bodies is needed to ensure the requirements of auditors to apply the Code of Audit Practice, the NAO's responsibility and sovereignty in relation to the content of the Code and PSAA's inability to alter the Code is fully understood.</p> <p>A new Code of Audit Practice will need to be approved and issued by no later than April 2020. In formulating its input into the consultation on the updated code, PSAA should explore more fully some CFOs' concerns regarding future audit quality, and the latter's preference for a wider scope audit, identified in this report.</p> <p>The LAQF should also be used as a vehicle to test further local authorities' views on the scope of the audit, again with the aim of informing PSAA's input into the consultation on the updated code.</p>
<p>Although it is too early in the process of results, performance and quality monitoring and reporting to evaluate, the concerns about quality raised more generally highlight the importance of the monitoring process.</p>	<p>PSAA should continue to prioritise seeking feedback from local bodies on audit quality issues and further refine its approach to quality monitoring and reporting once the new system is up and running.</p>

3.7 Governance and management

Key findings

77. PSAA was successful in delivering the Appointing Person role in accordance with the outcome measures established in its Project Initiation Document (PID). PSAA convincingly achieved four out of its five key outcome measures. However, regarding the fifth, PSAA's impact in assuring a "long term competitive, sustainable market for audit services" (PSAA 2016) is unclear at this stage.
78. PSAA has been very efficient in its use of resources. It has reduced its own costs and made good use of flexible resourcing together with highly effective project management.

79. Both PSAA's staff team and its Board have been highly skilled, well-motivated and diligent. Management has been effective and Board-Management decision-making sound.
80. There is some interest in PSAA providing optional additional services such as appointing 'auditors' and setting fees to undertake grant certification work (eg for Housing Benefits), and support for PSAA taking an influential role in sector debates.

Detailed findings

81. In December 2016 the PSAA Board approved a project initiation document for developing the appointing person arrangements (the PID) (PSAA 2016a). The PID identified five key outcome measures:
- sufficient number and range of principal bodies opt into the appointing person arrangements to ensure financial viability;
 - at least five audit firms are awarded contracts by June 2017, subject to the volume of principal authorities that opt-in, to allow PSAA to manage auditor independence and to support a long term competitive, sustainable market for audit services;
 - auditors to be appointed to all opted-in bodies by 31 December 2017;
 - scale fees are agreed by 31 March 2018; and
 - PSAA is ready to successfully fulfil the statutory responsibilities associated with its specification as an "appointing person" under the LAA 2014.
82. In fact 98% of principal bodies opted-into the appointing person arrangements, with auditors being appointed to all opted-in bodies by 31 December 2017 and scale fees agreed by 31 March 2018. PSAA also successfully fulfilled the statutory responsibilities associated with its specification as an "appointing person" under the LAA 2014. The fifth outcome indicator required PSAA to award contracts to at least five audit firms by June 2017, to allow PSAA to manage auditor independence and to support a long term competitive, sustainable market for audit services. While contracts were awarded to six firms by June 2017, evidence collected as part of this review suggests that there is significant further work required in order to assure a "long term competitive, sustainable market for audit services".
83. With the organisation's staff deriving from the Audit Commission, PSAA staff had to go through a significant transition process, encompassing a mind shift from being a statutory audit and inspection agency to a more commercially focused, sector-led company wholly owned by the LGA. PSAA staff put strong effort into becoming a 'listening organisation' that local authorities are able to influence and perceive as acting on their behalf (while still complying with statutory requirements). The Appointing Person role was successfully implemented during a short time scale under the management of a temporary but highly effective project manager, whose project management skills were highly regarded by PSAA staff.
84. The CFO survey showed some interest in PSAA providing additional services (such as relevant aspects of benefits certification) which was also supported in interviews, whilst CFOs also raised that PSAA could play a more influential role in sector debates.

85. A substantial down-sizing of PSAA has been completed. Although this does reflect reduced functions, the very small team now in place faces a significant agenda and careful resource planning will be needed to ensure PSAA continues successfully. Current provisions made to enable flexible resourcing in future provide a promising basis to ensure PSAA is capable of meeting future client demands.
86. The track record shows sound decisions were made. Interactions between Board and staff team were generally regarded as constructive and well-informed. Some frictions were identified as shown by some staff members articulating dissatisfaction with what they occasionally perceived an adversarial style and lack of confidence by some Board members in the opinions and advice of staff. However, in the context of a small organisation and a resulting 'hands on' approach by the board there may have been differing expectations about respective roles in the process.

Lessons learned and recommendations

Lessons	Recommendations
<p>PSAA was successful in delivering the Appointing Person role during a short time scale with very efficient use of resources. Whilst the organisation had a very successful start, our findings suggest space for strengthening Board-staff interactions and investing in ongoing dialogues with external stakeholders, including but not limited to audit suppliers.</p>	<p>PSAA needs to put increased effort in building relationships with current and potential suppliers, as part of a wider package of risk mitigation strategies needed to assure a “long term competitive, sustainable market for audit services”.</p> <p>The Board and new management of PSAA should ensure the effective approach to project management (including clear objectives, milestones and methods to achieve them) for the Appointing Person scheme continues to be used in the future.</p> <p>The opportunity of the arrival of new management should be used to review how the Board works with the staff team to underpin the future challenging agenda.</p>

4. Our overall conclusion

87. Given the terms of reference for the evaluation the focus has been on identifying specific 'lessons learned' from the Appointing Person process which will be of practical benefit to PSAA going forward, which are recorded using the six stages of the process in the proceeding sections plus Governance and Management.
88. It is important though to identify an overall, positive, 'lesson learned'. PSAA tackled a challenging, high profile national project with limited resources and tight timescales and delivered it (both in terms of its own objectives and in the opinion of stakeholders) very effectively. The ingredients of a suitably skilled and knowledgeable team, strong leadership, rigorous project management (including clear objectives, clear visible deadlines and diligent efforts to achieve them) and effective decision making by staff and board together provided the basis for these achievements and we commend this approach as an overall 'lesson learned' for similar challenging projects.

Appendix 1 Methodology

Our research took place during April – October 2018 and followed a phased approach. We made use of documentary analysis, qualitative methods and survey methodology as follows:

- a review of internal (PSAA supplied) and external documents including an academic literature review and an international comparative study, and face to face scoping interviews with a sample of 16 key stakeholders;
 - on-line surveys of CFOs and audit committee chairs in opted-in bodies. Requests were issued to 484 CFOs and chairs; responses were received from 116 CFOs and 55 chairs. The information generated by the surveys further informed the key lines of enquiry for subsequent, detailed, research;
 - 25 semi-structured interviews of samples from: (1) CFOs of opted-in bodies, (2) CFOs of non-opted in bodies, (3) appointed audit firms, (4) non-appointed and non-tendering audit firms including non-registered audit firms, and (5) other key stakeholders including the PSAA Board;
 - ran three workshops with (1) a sample of CFOs of opted-in bodies, (2) a range of other key stakeholders, and (3) the PSAA staff team. The workshops were used to further explore and test preliminary conclusions; and
 - finally, analysis of data, refinement of findings, and writing up of a draft report which was provided to the Steering Group (set up by PSAA with support from the LGA to support the evaluation), followed by submission of the final report to the PSAA Board.
- **The research team**
 - **Dr Dennis De Widt** – was Research Director for the review with overall responsibility for the research methodology, conduct of the data gathering and quality assurance from a research standards point of view. Dr De Widt is Lecturer in Accounting & Finance (Research Stream) at Cardiff Business School.
 - **Iolo Llewelyn** – was the team’s service subject matter expert. Mr Llewelyn is a former senior public auditor and Head of Technical at the Wales Audit Office now working as an independent consultant.
 - **Dr Tim Thorogood** was the Project Director managing the project. Dr Thorogood is a former local authority chief executive and head of the Local Government Information Unit now working as an independent consultant. He is a Visiting Fellow at Cardiff Business School.

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