

Audit services outline procurement strategy

November 2016

High quality independent audit is one of the cornerstones of public accountability. It gives assurance that taxpayers' money has been well managed and properly expended. It helps to inspire trust and confidence in the organisations and people responsible for managing public money.

Contents

Introduction	1
Purpose of the document.....	1
Objectives of this procurement	1
Scope of this procurement.....	2
Evolution of the strategy	2
The procurement strategy	3
The procurement route	3
Choice of procurement procedure	3
Contract lots	3
Bidding rules relating to lots.....	4
Audit Fees	4
Procurement process	5
Comments on this outline strategy.....	7

Introduction

1. Public Sector Audit Appointments Limited (PSAA) is an independent company limited by guarantee and incorporated by the Local Government Association (LGA) in August 2014. It has a Board of non-executive directors supported by a Chief Officer and a team of staff who have significant experience and skills in managing contracts for public audit services. More information about the PSAA Board and Executive team can be found at <http://www.psaa.co.uk/about-us/who-we-are/>.
2. The Secretary of State for Communities and Local Government delegated statutory functions (from the Audit Commission Act 1998) to PSAA on a transitional basis under powers contained in the Local Audit and Accountability Act 2014. In accordance with these arrangements, PSAA is currently responsible for appointing auditors to local government, police, smaller authorities and local NHS bodies, and for setting audit fees.
3. From 2017/18, the transitional arrangements will end for local NHS bodies and smaller authorities, and PSAA will no longer be responsible for appointing their auditors. The transitional arrangements have been extended by one year for local government and police bodies, and PSAA will therefore continue to be responsible for appointing their auditors for the audit of the accounts for 2017/18.
4. In July 2016, the Secretary of State for Communities and Local Government specified PSAA as an appointing person under regulation 3 of the Local Audit (Appointing Person) Regulations 2015. This new role means that PSAA is able to make auditor appointments for audits of the accounts from 2018/19 of principal authorities in England (other than NHS bodies) that choose to opt into its arrangements. PSAA's specification as an appointing person fulfils the LGA's objective of establishing a national sector-led body which is able to deliver high quality, economic and efficient external audit arrangements for all authorities that choose to opt into its scheme.
5. Appointments for 2018/19 must be made by 31 December 2017. By early 2017, all principal authorities will need to decide how their auditors will be appointed in the future. They may make an appointment themselves, or in conjunction with other bodies. Or they can take advantage of the national collective scheme developed by PSAA which is designed to meet sector needs. We believe that, by opting into the PSAA appointing person scheme, audited bodies will secure real benefits in terms of quality, cost, responsiveness and convenience.

Purpose of the document

6. PSAA needs to enter into new contracts with audit firms in order to make auditor appointments to opted-in authorities by 31 December 2017. This procurement strategy sets out the basis on which the procurement of audit services will be carried out.

Objectives of this procurement

7. The primary driver for this procurement is securing high quality audit services at the most competitive prices.

8. To secure the right balance, quality will be assessed against a broad range of relevant criteria through a combination of the regulatory regime (which tests quality and competence as part of registration and monitoring processes), the pre-qualification process and the invitation to tender responses.
9. The objectives of the procurement are to maximise value for local public bodies by:
 - 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.
10. It is necessary to enter into contracts with a number of audit suppliers to enable PSAA to manage auditor independence, and meet the needs of the increasing numbers of bodies participating in joint or shared working arrangements.

Scope of this procurement

11. The procurement will cover the audits of the accounts of all principal local government bodies that opt in to the appointing person scheme. Eligible entities include local authorities, combined authorities, police and crime commissioners, chief constables, fire and rescue authorities, waste authorities, passenger transport executives and national park authorities.
12. There are currently 493 eligible principal local government bodies that have been invited to opt in to the appointing person arrangements. Invitations were issued on 27 October 2016. The closing date for acceptance of the opt-in invitation is 9 March 2017. We expect to receive acceptances throughout the opt-in period and will maintain an up to date record of bodies joining the scheme on the PSAA website. (www.psa.co.uk).
13. PSAA has allowed a considerably longer period during which an authority can opt in compared to the statutory minimum period of eight weeks. It is hoped this will enable authorities to meet the requirement under the regulations to make the decision to opt in at a full council meeting. (As corporations sole, the full council requirement does not apply to police and crime commissioners.)
14. In order to maximise the potential economies of scale from entering into large contracts with firms, and to manage any auditor independence issues, PSAA will seek to provide as much clarity and certainty as possible concerning the volume and location of work it is able to offer to firms.

Evolution of the strategy

15. This strategy has been developed in the light of the practical knowledge and experience of previous procurements for audit and related services. It has been particularly informed

by lessons learned from the procurements carried out by the Audit Commission that resulted in the current audit contracts.

16. This outline strategy was formally adopted by the PSAA Board on 9 November, 2016.

The procurement strategy

The procurement route

17. The Public Contract Regulations 2015 (the Contract Regulations) will apply to the procurement and it will be carried out in accordance with those Regulations.

Choice of procurement procedure

18. PSAA is keen to enter into contracts with a number of firms registered as local public auditors. This will give PSAA the ability to manage auditor independence issues, for example, where an audit supplier has a pre-existing relationship with an audited body which prevents it from accepting an audit appointment. It will also provide the flexibility to enable PSAA to respond to the increasing popularity of joint or shared working arrangements as a result of which partner audited bodies often express a preference for the appointment of a common audit supplier. By entering into contracts with multiple suppliers PSAA will also help to support a long term competitive, sustainable market for local public audit services.
19. Because the nature of the services being procured is highly specialised, PSAA will follow the restricted procedure (rather than the open procedure) in accordance with the Contract Regulations. This will enable PSAA to identify a short-list of suppliers with the necessary financial standing, technical capacity, skills and experience to provide services and then invite all those shortlisted to tender.
20. Suppliers invited to tender will be asked to quote prices for a contract length of five years, which matches the opt-in period for principal bodies.

Contract lots

21. PSAA is minded to structure its procurement and invite bids as set out in the paragraphs below, subject to confirmation once the number of principal authorities opting in to the appointing person scheme is known,
22. There will be at least two or three contract areas, with up to three or four contract lots per area. The contract areas are likely to be contiguous geographic areas.
23. The size of the lots in each area will be graduated to reward the better tenders with larger volumes of work. For each individual lot PSAA will give a commitment to a minimum level of work which the lot will contain. The smallest lots are likely to have a

value of approximately £3m per audit year. Each lot, in its final form, will reflect a sensible balance of geography and a blend of the different authority types.

24. PSAA will apply a framework of rules and evaluation criteria which will ensure multiple providers in each geographical area and thus avoid undue dominance across the areas and lots as a whole.
25. The minimum commitment from PSAA for each lot will be clearly set out in the invitation to tender. Authorities will not be allocated to a lot until the procurement is complete and the subsequent consultation processes with authorities and audit firms have taken place.
26. Bidders will not be required to bid for all contract areas, although this is encouraged.
27. The value of the PSAA commitment for each lot will be expressed in terms of the 'audited body notional value' (ABNV), which comprises the published scale fees for 2016/17 for all opted-in bodies within the contract area. This will establish a consistent baseline against which suppliers will submit their competitive bids.

Bidding rules relating to lots

28. PSAA will endeavour to ensure that it has a sufficient number of suppliers with contracts in each area to enable it to:
 - manage any independence issues that may arise when making auditor appointments to opted-in audited bodies;
 - respond to shared or joint working arrangements between audited bodies; and
 - make an appropriate auditor appointment to each opted-in audited body after fulfilling its statutory duty to consult such bodies on proposed appointments.
29. Subject to the outcome of the evaluation of responses to the invitation to tender, PSAA expects to award no more than one lot per area to any successful supplier. Contract lots will be awarded to the suppliers submitting the most economically advantageous tenders. This means that the maximum number of lots in total that any one supplier may win is likely to be either two or three, depending on the number of contract areas.
30. PSAA will seek to maximise the number of firms awarded contracts, aligned to the number of principal authorities that opt in.
31. Suppliers will be invited to express their bids as a fixed proportion of the relevant ABNV.

Audit Fees

32. PSAA believe that audit fees achieved through large contracts will be lower than those that individual authorities will be able to negotiate. In addition, by opting into the PSAA offer, authorities will avoid the costs of their own procurement and management of contracts and also the requirement to set up an auditor panel with independent members.

33. PSAA's costs of managing the scheme will need to be covered by audit fees. We expect future annual operating costs to be lower than current costs because we plan to employ a smaller team to manage the scheme. The costs of developing and setting up the scheme will be funded from the share of our current deferred income which is relevant to eligible principal authorities.
34. PSAA will develop and consult on a system for setting fees for audit work. PSAA will pool scheme costs and charge fees to audited bodies in accordance with a scale of fees which has regard to the size of the audited body, audit risk and the complexity of the work required. In all probability this will reflect past fees adjusted for any fee variations that have a recurring impact. Pooling means that all scheme participants will benefit from the most competitive prices. The number of scheme participants will be critically important – the greater the level of participation, the more advantageous the scale fees.
35. As a not-for-profit organisation, PSAA will be able to return any surplus funds generated by the scheme, after all costs have been met, to opted-in authorities. This obligation is set out clearly in our articles of association and our memorandum of understanding with the Department for Communities and Local Government and the LGA.
36. Scale fees from 2018/19 cannot be set until the audit services procurement has been concluded. PSAA will consult on the proposed scale of fees in autumn 2017 and will publish the fees applicable in March 2018. A fee variation process will apply if substantially more or less work is required than is envisaged in the scale fee or the auditor is entitled to recover costs or expenses from the audited body under specific provisions in the regulations, for example in relation to public interest reports or objection work. The process will require that fees for additional work are discussed with and explained to the audited body and approved by PSAA before they can be invoiced.

Procurement process

37. The key stages in the procurement process are set out below. In accordance with the Contract Regulations, PSAA will ensure that at each stage the process complies with the requirements of equal treatment, non-discrimination, transparency and proportionality.

Timetable and key milestones

38. The timetable and key milestones for the procurement are summarised in Table 1. The target dates are provisional and may be subject to change.

Table 1:

Key milestone	Target Date
Issue OJEU Contract Notice and Selection Questionnaire (SQ) available on request	20 February 2017
Deadline for eligible bodies to notify PSAA of their decision to opt in to the scheme for audits of 2018/19 accounts	9 March 2017

Key milestone	Target Date
Deadline for submission of SQs	21 March 2017
Issue ITT to short-listed suppliers	6 April 2017
Deadline for submission of tenders	10 May 2017
PSAA Board approves contract award	30 June 2017

39. Following a statutory consultation process auditor appointments for opted-in principal authorities will be made by 31 December 2017 for audit years from 2018/19.
40. This timetable is consistent with the requirement set out in the Local Audit and Accountability Act 2014, for an authority to appoint an auditor to audit its accounts for a financial year by no later than 31 December in the preceding financial year.

OJEU Contract Notice

41. The purpose and scope of the procurement will be set out in the Contract Notice to be published in the Official Journal of the European Union (OJEU).

Pre-qualification (selection) stage

42. The pre-qualification (selection) stage will be designed to enable PSAA to assess potential audit suppliers' eligibility, technical knowledge and experience, capability and capacity, and organisational and financial standing to meet PSAA's requirements.
43. The selection questionnaire evaluation criteria are:
- compliance with grounds that would otherwise lead to mandatory or discretionary rejection under the Contract Regulations;
 - satisfactory financial and economic standing and insurance arrangements;
 - technical and professional ability;
 - equality and diversity;
 - eligibility for appointment under the Act;
 - quality assurance arrangements; and
 - resourcing.

Tender stage

44. All potential suppliers who pre-qualify, by meeting the minimum threshold determined by PSAA, will be invited to tender for the contract areas for which they have pre-qualified.
45. The tenders for each contract area will be evaluated in accordance with the published evaluation criteria to identify the most economically advantageous tenders having regard to the bidding rules set out above.

46. Suppliers will only be requested to provide one response on audit quality irrespective of the number of contract lots they bid for.
47. The formal ITT evaluation criteria and methodology will be approved by the PSAA Board and published on the PSAA website.

Comments on this outline strategy

48. PSAA welcomes comments on this outline procurement strategy, especially those from relevant audited bodies and prospective audit suppliers. This document and the further development of PSAA's procurement strategy will also be discussed with the Advisory Panel representing interested sector bodies which has been established to help PSAA tailor its appointing person scheme to meet sector needs. The current membership of the Advisory Panel can be found at <http://www.psa.co.uk/supporting-the-transition/appointing-person/advisory-panel/>.