

## **For publication**

### **Procurement of External Auditors**

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Meeting: Council

Date: 14<sup>th</sup> December 2016

Report by: Director of Finance & Resources

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#### **1.0 Purpose of report**

1.1 This report summarises the changes to the arrangements for appointing External Auditors at the end of the transitional period following the closure of the Audit Commission.

#### **2.0 Recommendations**

2.1 That the Council opts in to the appointing person arrangements made by Public Sector Audit Appointments for the procurement and appointment of external auditors (Option 2).

#### **3.0 Background**

3.1 The Local Audit & Accountability Act 2014 brought to a close the Audit Commission and established transitional arrangements for the appointment of external auditors and the setting of audit fees for all local government in England. In October 2015 the Secretary of State for Communities & Local Government determined that the transitional arrangements would be extended by one year to include the audit of the 2017/18 accounts.

3.2 The Council's current external auditor is KPMG and our costs were £58,000 in 2015/16. The contract is currently managed by Public

Sector Audit Appointments Ltd (PSAA) who was originally established to operate the transitional arrangements following the closure of the Audit Commission. It is a company owned by the Local Government Association's Improvement & Development Agency (IDeA).

- 3.3 When the current transitional arrangements come to an end, the Council will be able to move to local appointment of its auditors. Current fees are based on discounted rates offered by firms in return for substantial market share.
- 3.4 The scope of the audit will still be specified nationally; the National Audit Office is responsible for writing the Code of Audit Practice which all firms appointed to carry out the Council's audit must follow. Not all accounting firms are eligible to compete for the work. The registration process has not yet commenced but it is reasonable to expect that the list of eligible firms may include the top ten firms in the country, including our current auditor. It is unlikely that small local independent firms will meet the eligibility criteria.
- 3.5 This report and its recommendations were considered by the Standards and Audit Committee at its meeting on 23 November, 2016 where it resolved to support the recommendations and refer them to full Council for approval.

#### 4.0 **Options for appointment of External Auditors**

##### 4.1 Option 1 – to make a stand alone appointment

- 4.1.1 In order to make a stand alone appointment the Council would need to set up an Auditor Panel made up of elected and independent members and conduct its own procurement exercise.

##### Advantages

- It would allow the Council to take full advantage of the new local appointment regime and have local input to the decision

##### Disadvantages

- Recruitment and servicing of the Auditor panel, running the bidding exercise and negotiating the contract is estimated

by the LGA to cost around £15,000 plus on going allowances

- The council will be unable to take advantage of reduced fees that may be available through joint or national procurement contracts
- The assessment of bids and decisions on awarding contracts will be taken by independent appointees and not solely by elected members

#### 4.2 Option 2 – Opt in to PSAA national procurement

4.2.2 The PSAA are once again offering the opportunity for local authorities to opt in to a joint national procurement exercise.

##### Advantages

- The costs of setting up the appointment arrangements and negotiating fees would be shared across all opt in authorities.
- By offering large contract values the firms would be able to offer better rates and lower fees than are likely to result from local negotiation

##### Disadvantages

- In order for PSAA to be viable and to be placed in the strongest possible negotiating position, Councils will need to opt in to the process before final contract prices are known

4.3 On balance, option 2 provides the best solution as it will require fewer resources to undertake the procurement and should deliver the lowest cost.

#### 5.0 **Financial implications**

5.1 The current revenue budget includes a sum of £62,910 for this financial year 2016/17. The Council has benefited from a reduction in external audit fees of almost 50% since the current transitional arrangements began.

5.2 Current fee levels are expected to increase when the current contract ends. Until the procurement exercise is completed it is not possible to state what the additional cost of audit fees for

2018/19 will be, although it is anticipated that any increase will be minimised using PSAA.

## 6.0 **Legal and data protection implications**

6.1 The process outlined in this report and the recommendation should ensure compliance with the Local Audit & Accountability Act 2014.

6.2 Regulation 19 of the Local Audit (Appointing Person) Regulations 2015 requires that a decision to opt in must be made by the whole Council.

## 7.0 **Alternative options and reasons for rejection**

7.1 The auditor panel option (Option 1) is far more resource intensive and will be more costly to procure and without the bulk buying power of the sector led procurement, would be likely to result in a more costly service.

## 8.0 **Recommendations**

8.1 That the Council opts in to the appointing person arrangements made by Public Sector Audit Appointments for the procurement and appointment of external auditors (Option 2).

## 9.0 **Reasons for recommendations**

9.1 To consider the options and determine the arrangements for the appointment of external auditors.

### **Document information**

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<b>Background documents</b>	