



**DORSET & WILTSHIRE
FIRE AND RESCUE
AUTHORITY**

Item 8

MEETING	Dorset & Wiltshire Fire & Rescue Authority
DATE OF MEETING	15 December 2016
SUBJECT OF THE REPORT	Appointing an External Auditor 2018/19
STATUS OF REPORT	For open publication
PURPOSE OF REPORT	For decision
EXECUTIVE SUMMARY	The external audit regime changes on the audit of the 2018/19 accounts and as such Authorities need to decide on their preferred option for appointing an external auditor. Options for consideration include remaining with the current auditor short term or procuring an external auditor either on an individual basis or on a joint collaborative basis with other Authorities, or opting into a national scheme operated by Public Sector Audit Appointments Ltd (PSAA) as the 'appointing person'.
RISK ASSESSMENT	Ensuring an adequate external audit appointment carries risks in terms of continuity of the service, cumulative knowledge and experience, relationships and costs, all of which need to be considered on appointment.
COMMUNITY IMPACT ASSESSMENT	None for the purposes of this report.
BUDGET IMPLICATIONS	No budget implications can be identified as yet, but depending on the options considered and approved each are likely to impact on the budget for external audit and potentially procurement and Audit Panel costs.
RECOMMENDATIONS	1. Members approve Option 4, i.e. opt into a 'sector led body' arrangement.
BACKGROUND PAPERS	KPMG Paper – Appointing your External Auditors

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APPENDICES	Appendix A - PSAA letter 31.10.16.
REPORT ORIGINATOR AND CONTACT	Name: Phil Chow, Finance Director & Treasurer Email: phil.chow@dwfire.org.uk Tel: 01722 691071, Mob: 07809 548055

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1. Introduction

- 1.1 External Audit is currently provided by KPMG LLP, appointed by Public Sector Audit Appointments (PSAA) who are the current 'appointing person' for external audit for public bodies.
- 1.2 The external audit contracts were due to expire following conclusion of the audits of 2016/17 accounts, but were extended by PSAA, subject to DCLG amendment of transitional provisions to extend the period in which the statutory functions are delegated to PSAA to appoint external auditors for public bodies.
- 1.3 The transitional arrangements will now end on completion of the audit of the 2017/18 accounts with four main options available to local public bodies for appointing an auditor under the new audit regime. These are: -
- Option 1: Short term option to roll forward the incumbent auditor
 - Option 2: Undertake an individual auditor procurement and appointment exercise;
 - Option 3: Undertake a joint audit procurement and appointing exercise with other bodies, e.g. those in the same locality;
 - Option 4: Join a 'sector led body' arrangement where the specified appointing person status has been achieved under the relevant Regulations.
- 1.4 Regardless of the options followed, there are a number of requirements which will apply: -
- a) An audit panel is required, the role of which is to recommend which auditor to appoint and have oversight over any non-audit services provided. It must have an independent (unelected) chair and a majority of independent members. (Under option 4, the panel requirement can be fulfilled by PSAA).
 - b) The auditor appointed must comply with the code of practice issued by the National Audit Office.
 - c) The appointment must be made for the audit of the 2018/19 accounts by 31 December 2017.
 - d) The appointed auditor must be registered for local audit (Institute of Chartered Accountant in England and Wales (ICAEW) maintains a Local Audit Register).

2. Option 1: Roll forward the incumbent auditor

- 2.1 This option is the least preferred. This option involves: -
- a) engaging the current auditor KPMG directly for a short period (i.e. 1 – 2 years) prior to subsequent market testing.

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- b) developing a clear business setting out the rationale for this approach.

2.2 The benefits of this approach are that it:

- a) provides short term continuity of audit service, particularly useful if dealing with complexities in relation to this Authority e.g. post combination issues;
- b) allows for future tendering in a more settled and mature market.

2.3 The dis-benefits are:

- a) a competitive process, which otherwise would have been carried out would have the result of delaying market testing;
- b) may limit collaborative tendering, after the initial short period is over, due to timing;
- c) given the audit guidance and timescales, to not follow one of the alternative options 2, 3 or 4, it would be seen to be deferring the problem or procrastinating;
- d) an audit panel would still need to be set up and involved in the decision, which would mean additional costs.

3. Option 2: Individual Procurement and Appointment Exercise

3.1 This option is the not the preferred option. This option involves: -

- a) procuring external audit services through a tendering process in accordance with our procurement procedures.
- b) establishing an audit panel, which would recommend who the auditor should be following the procurement exercise.

3.2 The benefits of this approach are that it:

- a) provides the Authority with the greatest discretion over the approach and decision making;
- b) may provide a more competitive audit fee.

3.3 The dis-benefits are that:

- a) there will be additional costs of running a EU procurement process; this is unlikely to be viable option, due to our procurement and contract procedure rules for which we would be likely to require external professional advice as it would be likely to be in excess of the EU threshold (£164k) and require a full UE procurement process. Current contract for 2016/17 is for £45k, therefore a 5-year contract would be around £200k-£250k;

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- b) due to establishing an Audit Panel, which will involve recruiting independent members, this will lead to additional costs.

4. Option 3: Collaborative Procurement and Appointment Exercise

4.1 This option is not the preferred option. This option involves:

- a) a variation on option 2, where 2 or more Authorities undertake a joint procurement process;
- b) establishing a joint Audit Panel, which would recommend who the auditor should be following the procurement exercise.

4.2 The benefits of this approach are that:

- a) although not fully autonomous, it offers a high degree of influence over the approach and decision making;
- b) it may provide a more competitive audit fee than option 2;
- c) procurement and Audit Panel costs can be shared.

4.3 The dis-benefits are that:

- a) there is less discretion and autonomy over approach and decision making than option 2;
- b) there will be additional costs of running a EU procurement process (see 3.3 (b) above), albeit they will be shared;
- c) due to establishing an Audit Panel, which will involve recruiting independent members, this will lead to additional costs, albeit they will be shared;
- d) there may be little interest locally or across tiers of government in this option. In discussing this potential approach with the major constituent Authorities and Police all those contacted have stated their preference for the sector led approach, rather than a costly collaborative approach (see option 4 below).

5. Option 4: Sector Led Procurement

5.1 This option is the preferred option and is most similar to how the current arrangement operates. This option also requires full Authority approval to opt in and must be done and notified to PSAA by 9 March 2017. This option involves:

- a) opting into a sector led procurement run by Public Sector Audit Appointments Ltd (PSAA), who have been designated by the Secretary of State as an 'appointing person';

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- b) PSAA undertaking the necessary procurement to contract with a number of firms, and then proposing an auditor to each participating Authority.

5.2 The benefits of this approach are that it:

- a) avoids the need to establish an Audit Panel, which will involve recruiting independent members, and hence the costs of such;
- b) avoids the costs and practicalities of running an EU procurement process (as in options 2 and 3) as this will be done by PSAA, who are experienced in procuring external audit services.

5.3 The dis-benefits are that:

- a) this offers the least discretion over the choice of auditors;
- b) PSAA have yet to provide details of how the procurement will operate or what the costs will be etc., although it has set out its expectations (see attached letter).

5.4 It is recommended that this option be approved, primarily due to the Officer time considerations, low cost and much less bureaucratic process, especially when other options include establishing an independent Audit Panel.

6. Summary

6.1 The external audit regime changes on the audit of the 2018/19 accounts and as such the Authority is asked to decide on their preferred option for appointing an external auditor. Options for consideration include remaining with the current auditor short term (Option 1) or procuring an external auditor either individually (Option 2) or in a joint collaborative exercise (Option 3) with other authorities, or opting into a national scheme operated by Public Sector Audit Appointments Ltd(PSAA) as the appointing person (Option 4).

6.2 Option 1 defers the issue and is therefore not recommended. Options 2 and 3 will require establishing an independent Audit Panel and going through a full EU procurement exercise, which could be costly and be disproportionate. Option 3 also relies on collaboration with other Local Authorities, but canvassing all surrounding major Local Authorities, all have expressed their preference for Option 4 (PSAA) over Option 3 (joint procurement/Audit Panel). Option 4 is therefore the strongly recommended preferred Option, as it avoids establishing an Audit Panel and following an expensive and time consuming EU procurement process.

BENJAMIN ANSELL

Chief Fire Officer

15 December 2016