

## 7. APPOINTMENT OF EXTERNAL AUDITORS

REPORT OF: Head of Corporate Resources  
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Wards Affected: All  
Key Decision: No  
Report to: Audit Committee  
23<sup>rd</sup> January 2017

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### Summary

1. By 31<sup>st</sup> December 2017 the Council has to appoint new external auditors to audit its accounts for the 2018/19 financial year onwards. The Council can make this appointment on its own, with partners or through a national collective scheme.
2. The Council has received an invitation to opt into the national collective scheme run by Public Sector Audit Appointments Limited to appoint the external auditors and manage the contract. It is proposed to accept this invitation.

### Recommendation

3. **That the Audit Committee advises the Council to accept the invitation to procure a new auditor as part of the national offer.**
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### Background

4. This is new legislation which requires us to appoint new external auditors to audit our accounts from the 2018/19 financial year. Whilst it would be possible to do this as an individual authority it is felt that the disadvantages outweigh the benefits of so doing. These are discussed below.
5. The Council's current external auditors were appointed by the Audit Commission with a contract extended by the Government to run to the end of the audit of the 2016/17 accounts. The current audit contracts were novated from the Audit Commission to Public Sector Audit Appointments Ltd on 1 April 2015. The contracts were due to expire following conclusion of the audits of 2016/17 accounts, but could be extended for a period of up to three years by Public Sector Audit Appointments, subject to DCLG amendment of the transitional provisions to extend the period in which the statutory functions are delegated to Public Sector Audit Appointments Ltd.
6. Therefore the audit of accounts from 2018/19 Mid Sussex District Council has to appoint its own external auditor. Appointments for 2018/19 must be made by 31 December 2017. Councils can make the appointment themselves or in conjunction with other bodies, including by joining a national collective scheme. In July 2016, the Secretary of State for Communities and Local Government specified Public Sector Audit Appointments Ltd as an appointing person under regulation 3 of the Local Audit (Appointing Person) Regulations 2015 to operate a national collective scheme. 493 councils, including Mid Sussex District Council, are eligible to take part in this scheme. Public Sector Audit Appointments is a not-for-profit company which already administers the current audit contracts and was set up by the Local Government Association (LGA).

7. To operate the new external audit contract independently each Council will have to set up an auditor panel with independent members to manage the contract in addition to the Audit Committee.
8. For the audit of the accounts from 2018/19, Public Sector Audit Appointments Ltd says it will be able to appoint an auditor to relevant principal authorities that choose to opt into its national collective scheme. Public Sector Audit Appointments Ltd will also manage the contracts, avoiding the need for each individual council to set up and run its own auditor panel.
9. We expressed an initial interest in joining the national collective scheme in March 2016. On 27 October 2016 Public Sector Audit Appointments Ltd invited Councils to opt into the collective scheme by 9 March 2017. The regulations for appointing an external auditor state that this is a decision that must be made by full Council.
10. Public Sector Audit Appointments Ltd are offering a procurement approach that includes:
  - following the OJEU restricted procedure.
  - a 5 year contract length.
  - two or three contract areas (likely to be contiguous geographically);
  - awarding lots to the most economically advantageous tenders;
  - graduating lot size to reward the better tenders with larger volumes of work;
  - awarding no more than one lot per area to any successful supplier to support independence locally;
  - maximising the number of firms invited to tender aligned to the volume of principal authorities that opt in, by applying a framework of rules and evaluation criteria which will ensure multiple suppliers in each geographical area and which will avoid undue dominance across the areas and lots as a whole.
11. This procurement approach has a number of attractions to us:
  - Avoids the cost and time involved in carrying out an EU procurement exercise itself.
  - Avoids any direct procurement costs because Public Sector Audit Appointments Ltd is a not for profit company who will cover their costs as part of the on-going price.
  - Is likely to mean Mid Sussex will have the same auditors as West Sussex partners in shared services, all of whom have indicated they are likely to opt in
  - Is likely to give us a better price and quality mix than we could achieve by tendering alone in a market with a lot of buying and only a limited number of suppliers.
  - Reduces the risk of a substantial increase in fees above those of the current contracts that the Audit Commission obtained at very competitive rates.

- Gives us assurance we will have a qualified, registered and independent external auditor appointed on time.
- Avoids the cost of setting up an auditor panel to manage the contract while providing professional ongoing management of the contract on our behalf.

### Next Steps

12. This report recommends the Council accepts the invitation to become an opted in authority.
13. Public Sector Audit Appointments Ltd's timetable for the procurement is detailed in the table below.

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
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

### Other Options Considered

14. Appointing our own auditor was considered but rejected because there are 493 Councils seeking new auditors in the same time frame and the cost of following an OJEU process would be disproportionate to the benefit to be derived.
15. We could, theoretically, appoint auditors jointly with other Councils. In discussion with the West Sussex Chief Finance Officers, all propose to recommend joining the national procurement so there is no scope for a local option. The Council has not been notified of any other partnerships we would be eligible to join.

### Financial Implications

16. None. The procurement will be performed at nil cost to the authority.

### **Risk Management Implications**

17. None. The procurement carries little risk and demonstrably less than carrying out our own procurement.

### **Equality and Customer Service Implications**

18. There are no specific equality or customer services issues arising from this decision. In its use of lots, mostly regionally based, Public Sector Audit Appointments Ltd is seeking to ensure the best possible local access to the work without undermining the pressure to achieve value for money from the service.

### **Background Papers**

- None