

Report to Council

9 December 2016

By the Director of Corporate Resources (S151 Officer)

DECISION REQUIRED



**Horsham
District
Council**

Not Exempt

Invitation from Public Sector Audit Appointments Limited for Horsham DC to become an opted in authority for the purposes of appointing external auditors

Executive Summary

By 31 December 2017 the Council has to appoint new external auditors to audit its accounts from the 2018/19 financial year. The Council can do this on its own, with partners or through a national collective scheme. If the Council appoints its own auditors it will need to set up an audit panel with independent members to manage the scheme. Due to its value the appointment will require an EU procurement process. Since the Audit Commission had previously appointed the external auditors the Council has no officers with experience of procuring external audit services to carry out this work.

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. Council is recommended to accept this offer to avoid the procurement and on-going costs of running such a scheme, to achieve economies of scale, to be able to gain the same auditors as Councils with whom it is in partnership and to avoid the procurement risk of purchasing an unfamiliar service, as a small purchaser in a market overcrowded with purchasers but with a limited number of suitable suppliers.

Recommendations

That the Council is recommended:

- i) to accept the invitation to become an opted in authority and delegate to Director of Corporate Resources to enter into the scheme on behalf of the Council after being satisfied as to the terms and conditions.

Reasons for Recommendations

- i) Around 500 local authority bodies in the UK have to appoint new external auditors at the same time, for the auditing of the 2018/19 accounts. Due to this high number the Council will be purchasing in a difficult market place. Given Horsham District's size and the value of its contract we are unlikely to attract much interest in the marketplace if we went alone. Since Public Sector Audit Appointments Ltd will be letting the external audit contracts for a large number of Councils it is likely to be the largest purchaser in the marketplace and is likely to secure the most favourable

prices. Therefore the Council is likely to secure a better price for its external audit services by joining this arrangement.

- ii) The Council and its officers have no experience of procuring external audit services because they were previously procured by the Audit Commission. The procurement process would be an EU process, due to the value of the contract. Therefore a local option would be time consuming and carry the risk of inexperienced officers involved in the task. Public Sector Audit Appointments will complete the task for us for no direct cost and have officers experienced in buying external audit services.
- iii) Due to the number of partnership arrangements the Council has, or is planning, with other West Sussex Councils we are likely to achieve a lower cost of audit if we have the same external auditors as them. Our partner councils are all proposing to let their audit arrangements with Public Sector Audit Appointments Ltd.
- iv) Public Sector Audit Appointments Ltd will provide on-going management of the contract thus avoiding the costs and workload of setting up an independent audit panel to manage the appointment.

Background Papers

None

Wards affected: all

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Background Information

1. Introduction and Background

- 1.1. The Council's current external auditors, were appointed by the Audit Commission 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.
- 1.2. In October 2015, the Secretary of State confirmed the transitional provisions would be amended to allow an extension of the contracts for a period of one year for audits of principal local government bodies. These include Horsham District Council. This means new arrangements must be in place for Horsham District Council for the 2018/19 audits.
- 1.3. Therefore the audit of accounts from 2018/19 Horsham 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. Another option is to join 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 Horsham 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).
- 1.4. To operate the new external audit contract each Council will have to set up an auditor panel with independent members to manage the contract in addition to the Accounts, Audit and Governance Committee.
- 1.5. For 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.
- 1.6. The Chief Executive 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 say this is a decision that must be made by full Council.

2. Relevant Council policy

- 2.1. This report supports the Corporate Plan priority of ensuring financial sustainability by taking a procurement route most likely to secure the optimal combination of price and quality for external audit services.

3. Details

- 3.1. 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.

- 3.2. This procurement approach has a number of attractions to Horsham District Council:

- avoids the cost and time involved in carrying out an EU procurement exercise itself;
- because the Audit Commission made all previous external audit appointments avoids the risk of a contract being let by officers who have never let a contract for these services before;
- 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 Horsham 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 buyers 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.

4. Next Steps

- 4.1. This report recommends the Council accepts the invitation to become an opted in authority to the Public Sector Audit Appointments' procurement and delegate to Director of Corporate Resources to enter into the scheme on behalf of the Council

after being satisfied as to the terms and conditions. If the Council approves this recommendation the Director of Corporate Resources will notify Public Sector Audit Appointments Ltd as soon as possible, and certainly before the 9 March deadline.

- 4.2. 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

5. Outcome of Consultations

- 5.1. The Chairman of Accounts, Audit and Governance Committee and the Portfolio Holder for Finance & Assets were consulted. Both support the proposal.
- 5.2. The Monitoring Officer and the officer Senior Leadership Team have been consulted and support the proposal.

6. Other Courses of Action Considered but Rejected

- 6.1. Appointing our own auditor was considered but rejected because there are 493 Councils seeking new auditors in the same time frame and as one of the smaller organisations involved we are likely to get a better price buying as a collective. Other reasons are we have no experience of appointing external auditors, as they were previously appointed by the Audit Commission and the letting of the contract would be over the EU procurement limit and therefore would be time consuming and potentially expensive, to let. Managing such a contract would require us to set up an auditor panel with independent members to manage the contract in addition to the Accounts, Audit and Governance Committee. This would carry on-going costs that would be covered in the joint arrangements if the Council opted for the Public Sector Audit Appointments Limited approach.

- 6.2. We could, theoretically, appoint auditors jointly with other Councils. In discussion with the West Sussex Chief Finance Officers all propose to recommend joining the Public Sector Audit Appointments Ltd 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.

7. Resource Consequences

- 7.1. There are no immediate financial implications of this decision. There will not be a fee to join the sector-led arrangements. The audit fees that opted-in bodies will be charged will cover the costs to Public Sector Audit Appointments of appointing auditors and managing the arrangements. Public Sector Audit Appointments expect to achieve fees lower than the costs individual authorities will be able to negotiate. However, due to the relatively low fees of the current contracts the Council does carry a risk the new fees could be higher than those paid at present.
- 7.2. Opting into the Public Sector Audit Appointments offer, authorities will avoid the Council incurring its own procurement and management of contracts and also the costs of meeting the requirement to set up an auditor panel with independent members

8. Legal Consequences

- 8.1. The legal implications of this recommendation are referred to in the body of the report.

9. Risk Assessment

- 9.1. Appointing Public Sector Audit Appointments Ltd substantially reduces the key risks associated with appointing an external auditor. If the Council accepts this decision we do not consider there are any medium or high risks of not appointing an auditor on time, or achieving sub-optimal price or quality from the service.

10. Other Considerations

- 10.1. There are no specific equality, diversity or sustainability 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.