

CHESHIRE FIRE AUTHORITY

MEETING OF: CHESHIRE FIRE AUTHORITY
DATE: 7th DECEMBER 2016
REPORT OF: HEAD OF FINANCE
AUTHOR: HEAD OF FINANCE

SUBJECT: APPOINTMENT OF EXTERNAL AUDITORS

Purpose of Report

1. To seek Members' approval for a process for the appointment of external auditors (the auditor) for 2018-19.

Recommended: That

- [1] Members approve option 2 (as outlined in paragraph 8) and opt in to the appointing person arrangements for appointing the auditor from 2018-19 for a period of 5 years.

Background

2. In 2012-13 the Audit Commission ceased directly delivering audit services to public bodies. They continued acting in a commissioning role, and they appointed Grant Thornton as the auditor to the Fire Authority from the financial year 2012-13. The contract is in place until the financial year 2017-18.
3. The Local Audit and Accountability Act 2014 (the Act), put in place a new local audit and accountability framework for public bodies in England.
4. Section 7 of the Act requires local authorities and other public bodies, as "relevant authorities", to appoint an auditor to audit their accounts. An authority may appoint an auditor for more than one financial year up to a maximum of five years.
5. Section 9 of the Act stipulates that each relevant authority must have an auditor panel. The auditor panel must advise on the recruitment and selection of an auditor and the maintenance of an independent relationship with the auditor appointed. The auditor panel may be appointed by a single relevant authority or by one or more relevant authorities.
6. The auditor panel must consist of a majority of independent members (or wholly of independent members), and must be chaired by an independent member. A member of an auditor panel, is "independent" if:

- (i) the panel member has not been a member or officer of the relevant authority within the period of 5 years ending with that time, and
 - (ii) the panel member has not been an officer or employee of an entity connected with the relevant authority within that period, and
 - (iii) the panel member is not at that time a relative or close friend of a member or officer of the relevant authority or an officer or employee of an entity connected with the relevant authority.
7. Section 17 of the Act gives the Secretary of State the power to make provision, by regulations, for certain relevant authorities to have an auditor appointed on their behalf by a body (an 'appointing person') specified by the Secretary of State. This is to allow for sector-led collective procurement arrangements, under which relevant authorities would be able to opt to have their auditor appointed by a specified sector-led body, rather than appoint locally. In July 2016, the Secretary of State for Communities and Local Government specified Public Sector Audit Appointments Ltd (PSAA) as the "appointing person" under the Act. PSAA are an independent not for profit company established by the Local Government Association who already manage the current external audit arrangements nationally under contracts novated from the Audit Commission.

Information

8. The Authority has two options to appoint an auditor for 2018-19, most probably for five years. They are:
- (1) to set up an auditor panel, either on its own or jointly with others, and appoint an auditor
 - (2) to opt into the appointing person arrangements made by PSAA in respect of the procurement of an auditor.
9. The main benefit of the first option is that it allows the Authority direct involvement in the appointment process. However, this may be difficult and will involve some risks.
10. The appointment of an independent auditor panel is likely to be difficult as the Authority will need to find members with the necessary skills who wish to join the panel.
11. There is a cost and time to the procurement process which is likely to be significantly higher per authority for an individual or group of authorities than a national tendering exercise
12. There are very few firms qualified to carry out the audits and it is likely that the same firms would be involved as would be involved in the national tendering exercise under option 2. It seems highly unlikely that a sole or small joint tendering exercise involving the same pool of firms would be as competitive as a national one, so audit fees might be higher.

13. PSAA will manage the contract on behalf of the Authority and deal with any issues arising from it.
14. PSAA will focus on audit quality which would be difficult for a sole or small group of authorities to achieve.
15. PSAA will have the information and opportunity to benchmark audit performance.
16. Whilst some of our local partner authorities (local authorities, fire authorities and the Police and Crime Commissioner) are yet to make a decision, most have indicated they are likely to take option 2 themselves. This may make finding local bodies to partner with difficult. Nationally, PSAA has received positive responses from over 270 bodies.
17. If the Authority accepts the recommendation and agrees option 2, then the timetable is as follows:
 - Closing date for receipt of notices to opt into PSAA appointing process is 9 March 2017. Once this date has passed it will not be possible to opt into the process until April 2018.
 - Tenders for external audit to be invited in February 2017 by PSAA.
 - PSAA to award contract in June 2017, followed by period of consultation with the audited body and appointment made by 31 December 2017.
18. If option 1 was agreed, then a local timetable would need to be determined. The award of contract could be later than in the above timetable, but auditor appointments must be made by 31 December 2017.

Financial Implications

19. The external audit fee for 2016-17 is £29,860. It is not possible at this stage to assess what the implications on fees of the change in the arrangements will be, but as indicated in the report, it would seem likely that a national procurement exercise carried out by PSAA would lead to a lower level of fees. External audit fees have generally fallen significantly in recent years.

Legal Implications

20. The Authority must meet the requirements of the Act, and the course of action recommended in the report will enable it to do so.

Equality and Diversity Implications

21. There are no known equality and diversity implications.

Environmental Implications

22. There are no known environmental implications.