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**SUBJECT: PUBLIC SECTOR AUDIT APPOINTMENTS – UPDATE REPORT**

**JOINT REPORT OF THE CHIEF FIRE OFFICER/CHIEF EXECUTIVE (THE CLERK TO THE AUTHORITY) AND THE STRATEGIC FINANCE MANAGER**

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**1. INTRODUCTION**

- 1.1 This report sets out the outcome of the procurement exercise carried out by Public Sector Audit Appointments Ltd (PSAA), for appointing on the Authority's behalf, the External Auditors following the closure of the Audit Commission and the expiry of the current contract with Mazars (the current provider) which will end on 31<sup>st</sup> March 2018.
- 1.2 The report also provides updates on the further re-distributed funds that PSAA have made to all Authorities in 2017/18 which relate to the previous administration, the Audit Commission, and finally how the Authority performed in closing its 2016/2017 accounts compared to other authorities.

**2. BACKGROUND**

- 2.1 The contract with Mazars is currently managed by PSAA, the transitional body set up by the Local Government Association (LGA) as a result of closure of the Audit Commission. The transitional arrangements come to an end on 31<sup>st</sup> March 2018 and at the Authority meeting held in December 2016, members decided the option to continue to use PSAA Ltd to carry out the procurement exercise on its behalf was seen as the most economical and advantageous.
- 2.2 This route was used by most (484) local authority bodies.
- 2.3 PSAA indicated that they were proposing an appointing period of 5 consecutive financial years which would commence on 1 April 2018, and would cover the external audits for the 2018/19 to 2022/23 accounts. They also indicated that they expected to provide a very competitive cost outcome because of the very high opt in numbers it had received from most local authorities.

**3. PROCUREMENT UPDATE AND APPOINTMENT**

- 3.1 As a result of the highly successful procurement of auditor services, opted-in Authorities collectively will benefit from reduced fees for audit services in 2018/19 compared to 2016/17. Aggregate savings were expected to exceed £6 million per annum, equivalent to a reduction of approximately 18% in the scale fees payable

by local bodies. The reduction in costs has actually increased with an overall average saving of 23%.

The national scheme was set up by PSAA to ensure the delivery of a cost effective, quality audit service for authorities. The collaborative approach meant that the 484 opted-in local bodies saved time and expenses associated with having to establish and maintain an independent auditor panel to oversee the procurement and ongoing management of their local auditor arrangements.

The PSAA procurement of the audit services commenced in February 2017 following an exceptionally high take-up of the PSAA's Appointing Person scheme. The process tested audit quality as well as attracting highly competitive prices. The successful firms selected possess a wealth of public sector audit experience inspiring confidence that high standards of service will be maintained.

The tender process also encouraged firms to think creatively about maximising social value benefits. Their responses promise the creation of more than 400 new apprenticeships over the life of the contract, many of which will be recruited from more disadvantaged communities.

The results of the tender process announced on 20 June 2017 detailed the award of the following contracts:

- Lot 1 of approx. £14.6 million per audit year was awarded to Grant Thornton LLP;
- Lot 2 of approx. £10.9 million per audit year was awarded to EY LLP;
- Lot 3 of approx. £6.6 million per audit year was awarded to Mazars LLP;
- Lot 4 of approx. £2.2 million per audit year was awarded to BDO LLP;
- Lot 5 of approx. £2.2 million per audit year was awarded to Deloitte LLP; and
- Lot 6 with no guaranteed value of work was awarded to a consortium of Moore Stephens LLP and Scott-Moncrieff LLP.

Contracts were awarded on the basis of the most economically advantageous tender with 50% of the available score awarded to price and 50% awarded to quality.

The procurement strategy, agreed by the PSAA Board in December 2016, set out the basis on which the procurement of audit services was carried out. Once the process was concluded, PSAA then commenced the process of appointing auditors to all of the opted-in bodies.

- 3.2 The Authority in late September 2017 was notified that Mazars LLP (our current auditors) had been appointed from 1<sup>st</sup> April 2018 and that if no objections were received then the PSAA Ltd Board would ratify this appointment at its meeting held on 14<sup>th</sup> December 2017.

3.3 The Authority consequently has recently received written confirmation from PSAA that Mazars LLP will be our external auditors for the five financial years (2018/2019 to 2023/2024), once the current contract expires.

3.4 The current audit scale fees for 2017/18 amount to £30,636 per annum which have been frozen for the last 2 years. The revised cost for 2018/2019 from the tender exercise will be £23,590 a saving of £7,046 equivalent to a reduction of 23%, which is welcomed and justifies the decision made by the Authority to follow the PSAA Ltd procurement option.

#### **4. REDISTRIBUTION OF AUDIT COMMISSION FUNDS**

4.1 PSAA, have, since being established, also continued to review the previous external audit arrangements and notified the Authority in the Autumn that they were planning to re-distribute most of the retained earnings transferred to them from the Audit Commission when it closed in March 2015. The redistribution would include any other surpluses generated from audit fees once all PSAA costs had been met.

4.2 PSAA during the course of this financial year (2017/2018) notified the Authority that it would receive a refund of £4,550 out of the total remaining funds available, and this rebate has now been received.

#### **5. STATEMENT OF ACCOUNTS 2016/2017 PERFORMANCE**

5.1 PSAA also collate and report the performance of all local authorities in respect of publishing their statutory Statement of Accounts and recently issued their 'Report on the results of auditors' work 2016/2017'. The detailed report is attached (Appendix 1) for information and covers all local authorities that submitted accounts for 2016/2017.

5.2 From Appendix A you can compare how the Authority performed compared to other fire authorities and in fact to all other local authorities.

5.3 It is pleasing to report that in summary, it shows that the Authority:

- a) was one of only 7 Fire and Rescue Authorities to achieve the earlier closedown of 31st May 2017 with the audit being completed by 31st July 2017. This was achieved a year in advance of the statutory requirements. Importantly this was achieved whilst still gaining an unqualified audit opinion from our external auditor on both the financial statements and the Value for Money conclusion.
- b) To put this further into context the Authority was one of the 83 (17%) public sector bodies that achieved the earlier closedown out of the total (497) bodies audited.

- c) This helps to show that the Authority is in a very good position to meet the earlier statutory deadlines for 2017/2018, that came into force from 1st April 2017.

## **6. RECOMMENDATIONS**

### **6.1 The Authority is requested to:**

- a) Note the appointment of Mazars as the Authority's external auditor from 1<sup>st</sup> April 2018 in line with the PSAA Ltd procurement exercise and note the 23% reduction in the audit fees by 'opting in' to the arrangement carried out by PSAA Ltd which will save the Authority £7,046 in 2018/2019.
- b) Note and welcome the in year rebate of £4,550 in respect of the redistributed funds held by the previous Audit Commission regime.
- c) Note the positive performance of the Authority in respect of publishing its Statement of Accounts 2016/2017.