



**NOTTINGHAMSHIRE**  
**Fire & Rescue Service**  
*Creating Safer Communities*

Nottinghamshire and City of Nottingham  
Fire and Rescue Authority  
Finance and Resources Committee

# APPOINTMENT OF EXTERNAL AUDITORS

Report of the Chief Fire Officer

**Date:** 15 January 2016

**Purpose of Report:**

To inform Members of the requirement to re-procure local external audit services when the current contract expires and to set out a proposal that Officers carry out further work on this and report back to a future Committee with options and a recommended course of action.

## CONTACT OFFICER

**Name :** Sue Maycock  
Head of Finance

**Tel :** (0115) 967 0880

**Email :** sue.maycock@notts-fire.gov.uk

**Media Enquiries  
Contact :** Bridget Aherne  
(0115) 967 0880 bridget.aherne@notts-fire.gov.uk

## **1. BACKGROUND**

- 1.1 The requirement for local authority bodies, including Fire and Rescue Authorities, to have accounts audited by a local external auditor is set out in the Local Audit and Accountability Act 2014.
- 1.2 The Act also describes the duties of auditors who perform this function. In auditing the accounts of a local authority, a local auditor must, by examination of the accounts and otherwise, be satisfied:
  - That the accounts comply with the requirements of the enactments that apply to them;
  - That proper practices have been observed in the preparation of the statement of accounts, and that the statement presents a true and fair view; and
  - That the authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.
- 1.3 The Local Audit and Accountability Act 2014 served to dismantle the previous audit regime for local authority bodies and abolish the Audit Commission, and put in place new arrangements. These include the requirement for local authority bodies to re-appoint local external auditors at least once in every five years.
- 1.4 Public Sector Audit Appointments Limited (PSAA) is an independent company incorporated by the Local Government Association in 2014. The PSAA has delegated powers to appoint auditors to local government and other public bodies, to set audit fees and to manage contracts with audit firms. This has enabled transitional arrangements to be put in place, with the PSAA setting current audit fees and managing existing audit contracts.

## **2. REPORT**

- 2.1 The audit firm KPMG LLP was appointed by the Audit Commission as the local external auditor for the East Midlands region, including this Fire Authority. This contract was due to expire at the end of the 2016/17 financial year, however the Government has announced that audit contracts will be extended by one further year to include the audit of the 2017/18 accounts.
- 2.2 The Authority is now required to make arrangements to procure a local external audit service and a new audit contract must be in place by 31<sup>st</sup> December 2017 in good time for the start of the 2018/19 financial year.
- 2.3 It is expected that the PSAA will issue guidance to Authorities in due course to assist with this process but the Local Audit and Accountability Act 2014 requires Authorities to set up an Auditor Appointment Panel and to consult

with, and take the advice of, the Auditor Appointment Panel when selecting and appointing a local external auditor. An Auditor Appointment Panel must contain a majority of independent members and have an independent chair. The Act provides a definition of “independent” and sets out that Members and Officers of the Authority within the past five years are not deemed to be independent for this purpose.

- 2.4 A document has been provided by KPMG LLP which sets out the firm’s view of the requirements and considerations for the Authority in re-appointing a local external auditor. This document is attached at Appendix A for Members’ information.
- 2.5 As is the case with the appointment of these types of services contracts, there will be a number of considerations within the procurement process. The Auditor Appointment Panel will form a part of the process in setting these considerations.
- 2.6 There is the new requirement to set up an Auditor Appointment Panel and, given that all local authority bodies will be seeking to appoint a local external auditor within the same timescale, there are potential opportunities to collaborate on the procurement of external audit services.
- 2.7 Planning for the audit services procurement and for the appointment of an Auditor Appointment Panel will need to be carried out during 2016, in order to meet the appointment deadline. Over the next few months, Officers will further explore the various considerations around this task and present options and a recommended course of action to a future Finance and Resources Committee.

### **3. FINANCIAL IMPLICATIONS**

- 3.1 The Local Audit and Accountability Act 2014 specifies that Authorities must fund the cost of “reasonable expenses” of the Auditor Appointment Panel.
- 3.2 The external audit fees for 2016/17 are currently subject to consultation but are likely to remain the same as for 2015/16 i.e. at £31,050. This may serve as a benchmark for when the external audit service provision is opened to the commercial market.

### **4. HUMAN RESOURCES AND LEARNING AND DEVELOPMENT IMPLICATIONS**

There are no human resources or learning and development implications arising from this report.

## **5. EQUALITIES IMPLICATIONS**

An equality impact assessment has not been undertaken because this report does not amend any existing policies of the Authority.

## **6. CRIME AND DISORDER IMPLICATIONS**

There are no crime and disorder implications arising from this report.

## **7. LEGAL IMPLICATIONS**

In appointing a local external auditor, the Authority must comply with the requirements of the Local Audit and Accountability Act 2014. The main relevant requirements have been set out in this report.

## **8. RISK MANAGEMENT IMPLICATIONS**

The main risk is failure to comply with the requirements of the Local Audit and Accountability Act 2014. This risk is being managed by giving early consideration to the issue and by the development of a plan to achieve the necessary outcomes.

## **9. RECOMMENDATIONS**

That Members note the contents of this report.

## **10. BACKGROUND PAPERS FOR INSPECTION (OTHER THAN PUBLISHED DOCUMENTS)**

None

John Buckley  
**CHIEF FIRE OFFICER**



cutting through complexity

# Appointing your external auditor

Considerations for the local government sector

November 2015



# Appointing your external auditor

## Background

In August 2010 the then Secretary of State for Communities and Local Government, Eric Pickles, announced that he intended to close the Audit Commission, the body that appointed external auditors to Local Government and NHS organisations (excluding Foundation Trusts). As part of this announcement, he also stated that organisations whose appointments were previously controlled by the Audit Commission should have the freedom to appoint their own external auditors.

The Audit Commission closed on 31 March 2015. At that time contracts were already in place for local government and NHS external audit appointments that covered audits up to and including the financial year 2016/17. Within these contracts there is an option to extend for a maximum of three further years, i.e. up to and including the financial year 2019/20.

A consultation exercise with key stakeholder groups has recently been concluded on whether, and if so for how long, to extend these contracts. The Government decided that for local government bodies the contracts will be extended by one year, so incorporating the audit of the 2017/18 financial year. Contracts for NHS bodies will not be extended.

## What does this mean for Nottinghamshire and City of Nottingham Fire and Rescue Authority?

This decision means that you will assume the power to appoint your external auditor from the 2018/19 financial year onwards. This will be the first time you have made such an appointment. External auditors provide an important professional service and play a critical role in the stewardship of public spending, so it is vital that this new decision making power is exercised after careful consideration on how to proceed. Whilst you have different options open to you on how to approach this new power, you will need to comply with some specific requirements.

# Appointing your external auditor

## What should local authorities be considering?

In deciding what to do there are a number of considerations.

<b>Do your current external auditors provide you with a good service?</b>	If yes, do you need to change? If no, now you have an opportunity to do something about it.
<b>How could we procure an external audit service to ensure we get best value?</b>	<p>You will have a number of options on how and when to procure your external audit service – these are summarised later in this document.</p> <p>Given the range of options it will be important to consider the best approach for Nottinghamshire and City of Nottingham Fire and Rescue Authority.</p>
<b>What do we need to do before we start a procurement process?</b>	The new regulations require you to have an Audit Panel, which will be responsible for recommending who your external auditor should be. This Panel must include a majority of independent (i.e. not elected) members and an independent chair. It makes sense for the Panel to have links with your audit committee or equivalent.
<b>When do we need to undertake a procurement exercise?</b>	<p>The regulations require you to have appointed your external auditor by 31 December in the year preceding the year of audit. As 2018/19 is the first year of these new arrangements, you will need to have appointed your auditor by 31 December 2017.</p> <p>You will need to undertake whatever procurement process you follow in good time – sometime between the Spring and Autumn of 2017. And before doing that you will need to have established your Audit Panel – by early 2017 would be sensible.</p>
<b>Who can I appoint to be our external auditor?</b>	You will only be able to appoint an audit firm that has been authorised by the ICAEW to undertake ‘local audit work’. Local government auditing is highly specialised and you will need to ensure that your auditor has the necessary capability, experience and capacity to fulfil the statutory duties of a local government auditor.

# Appointing your external auditor

## Procurement options

Although local government bodies will all assume the same power to appoint their external auditor, it is likely that various options will be followed on how they go about doing this. The main options are set out below.

<b>Re-appoint incumbent auditor</b>	One option might be to continue with your current audit provider for a short period, say between one and three years. This would delay testing the market, although you could benchmark proposed fees for reasonableness against published data or by comparing to similar bodies. This would provide stability of service in the short term and also avoid the 'rush to market' as large numbers of local authorities undertake procurement exercises within a short period of time, allowing you to procure later in a more settled audit market.
<b>Stand-alone tendering</b>	As with any other service, you could run your own procurement process. This allows complete autonomy over how and when you want this to be done, although you will need to ensure you follow the Regulations and consider any guidance issued by DCLG or other relevant bodies. However, you should consider whether you will have sufficient purchasing power on your own to obtain best value.
<b>Combined procurement</b>	You could join together with one or more neighbouring authorities to undertake a collective procurement exercise. This would enhance your purchasing power, but would diminish your autonomy over the process and you would need to consider how to retain sufficient sovereignty over decision making and whether this might complicate auditor independence considerations.
<b>Existing frameworks</b>	You could use one of the many existing government or public sector frameworks. These list firms who have already been shortlisted and therefore might speed up the process. You will need to ensure that the firms on any framework have been authorised by the ICEAW for local audit work, however.
<b>Sector led procurement</b>	The new audit legislation allows for a sector-led body (referred to as a 'specified person' in the Regulations) to undertake a bulk procurement process. If such an organisation emerges then this option provides an administratively easy route and would most likely have the greatest element of specialist audit procurement expertise. It would also provide good purchasing power, although with less autonomy than some other options, and might afford easier management of potential auditor independence issues than other combined procurements approaches. It will be the most similar option to the current arrangements.



# Appointing your external auditor

## What other factors should you consider?

When you are deciding who to appoint as your external auditor you will need to consider a range of factors. Key areas to consider are as follows:

- **Quality:** This is a vital consideration and should be appropriately weighted in any scoring methodology for assessing tenders. Relevant considerations include audit methodologies, systems and processes, staff training and expertise, and quality monitoring arrangements.
- **Experience:** Local government auditing is a specialist business and your auditor must have the necessary skills and sector experience. This is not just about understanding local authority financial reporting, but extends into auditors' value for money audit responsibilities and 'challenge' work.
- **Independence:** You will need to consider possible relationships with audit firms via non-audit work such as consultancy and tax advice. Independence is also an important mind-set for auditors to adopt, where you should be satisfied that your future auditor will be sufficiently challenging (and your current auditor should not be constrained in exercising their duties by any tendering process).
- **Organisational fit:** As with any service it is important to consider how the people you see in the audit team fit with your own organisational culture – i.e. can you work with these people.
- **Price:** Like any other out-sourced service you need to obtain good value through a competitive audit fee. However, best value does not mean the cheapest quote. The fee must be sufficient to provide a good quality service taking account of the scale, nature and risk profile of the Authority, and also the requirement for your external auditor to comply with auditing standards and other statutory duties.
- **Other services:** Although ethical standards provide limitations, you should consider what other services you might want your auditor to perform, whether that is other assurance services (e.g. certifying grant claims) or more added-value services.

# Appointing your external auditor

## What next?

There is still plenty of time before you appoint your external auditor for the first time, but there will be a long lead up to that decision. It is therefore important to think about how the Authority should approach this in good time. We would suggest that you should be developing your procurement strategy and selecting your preferred approach during 2016.

It is likely that further guidance and support will be issued by DCLG, and potentially other organisations such as CIPFA, to help you with the decisions you need to make and how you proceed. We will continue to update you on key developments.

If you want to discuss this further please contact your audit Engagement Lead, Andrew Cardoza.



**Contact**



**Andrew Cardoza**  
*Director, KPMG LLP*  
Public Sector Audit  
One Snowhill, Snow Hill Queensway  
Birmingham, B4 6GH  
Tel: +44 (0) 121 232 3869  
Email:  
Andrew.Cardoza@kpmg.co.uk



*cutting through complexity*

© 2015 KPMG LLP, a UK limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative (“KPMG International”), a Swiss entity. All rights reserved.

The KPMG name, logo and “cutting through complexity” are registered trademarks or trademarks of KPMG International.