

APPOINTMENT OF EXTERNAL AUDITORS 2012/13

Report of the Director and Company Secretary

1. SUMMARY

This report considers the options available to Derby Homes for the provision of external audit services.

2. RECOMMENDATION

To re-appoint the current external auditors – PKF, on a three year contract extension to March 2015 and have termination issues clearly written in the contract in the event of Derby Homes ceasing to trade.

3. MATTER FOR CONSIDERATION

- 3.1 The current contract with PKF for external audit services expires in February 2013, after three years.
- 3.2 There are a number of options available :-

Option 1

Extend the external audit contract with PKF, for upto 3 years, from February 2013, subject to any re-negotiation required in the event of the company ceasing to trade during the period.

The quality of work and support from PKF during the contract has been very good and Derby Homes has developed good understandings of each other's requirements to enable the service to be delivered efficiently and effectively.

PKF have offered a range of extension options, ranging from a year to three years. Details of their offer are :-

Fee if contract extended for one year to March 2013

- Audit £18,450
- Tax £950
- iXBRL £825

The March 2013 audit fee is 5.3% lower than the March 2012 current fee.

Fee if contract extended for two years to March 2014

- Audit £17,950 in 2013, £18,500 in 2014
- Tax £950 in 2013, £995 in 2014
- iXBRL £825 in 2013, £850 in 2014

The March 2013 audit fee is 8% lower than the March 2012 current fee.

Fee if contract extended for three years to March 2015

- Audit £17,000 in 2013, £17,750 in 2014, £18,500 in 2015
- Tax £950 in 2013, £995 in 2014, £1,050 in 2015
- iXBRL £825 in 2013, £850 in 2014, £900 in 2015

The March 2013 audit fee is 12.8% lower than the £19,500 March 2012 current fee.

- 3.3 A benchmarking exercise undertaken with other Midlands ALMO's indicated that the charges from PKF were the best value option. The results of the exercise were considered by the Audit Committee.
- 3.4 The associated services with the audit around tax advice and iXBRL filing of the accounts are in line with previous years and are considered a fair charge.
- 3.5 Under Derby Homes Procurement Standing Orders (PSO) the maximum contract extension could be for 18 months, effectively limiting this to the one year extension option. A re-tendering exercise would then be required.
- 3.6 A contract above 1 year would require a waiver of PSO on the grounds that it was in the interest of business operation or best value.

Option 2

- 3.7 Undertake a full tendering exercise now to gauge the market rates available. The current contract was market tested three years ago and there is the potential for more competitive rates being available.
- 3.8 However, it is not considered likely that re-tendering the contract will result in a material cashable saving compared against the extension rates proposed by PKF.
- 3.9 Also it is likely the expense of tendering and the time taken to establish new relationships with a new provider would offset any financial saving notionally made.
- 3.10 Most importantly, in view of the current uncertainty around the future of Derby Homes it is difficult to let a contract that would be attractive to suppliers. There is a considerable initial time investment from an Auditor in the first year to hand over from the existing Auditors and to make a review of the internal controls within an organisation. The cost of which is normally recovered over a contract period of a number of years. Derby Homes is not in a position to guarantee a contract period above one year presently.
- 3.11 The above options were discussed by the Audit Committee on 8 October 2012. Their recommendation to the Board was to re-appoint the current external auditors – PKF, on a three year contract extension to March 2015 and have termination issues clearly written in the contract in the event of Derby Homes ceasing to trade.

4. FINANCIAL AND BUSINESS PLAN IMPLICATIONS

- 4.1 The proposed extension fees from PKF are in line with expectations, industry norms and budgeted levels.
- 4.2 It is not considered likely that re-tendering the contract will result in a material cashable saving and the expense of tendering and the time taken to establish new relationships with a new provider would offset any financial saving notionally made.

5. LEGAL AND CONFIDENTIALITY IMPLICATIONS

- 5.1 This report contains confidential information as defined in Standing Order 20.2 (g) of Part IV of the Derby Homes Governance Arrangements.
- 5.2 The Board of Derby Homes is required to appoint an external auditor under the provisions of the Companies Act 2006.
- 5.3 If a contract extension with the current providers is agreed, then a waiver of PSO will need to be sought and agreed with the lead officer for Procurement and the Chief Executive.

The areas listed below have no implications directly arising from this report:

Consultation
Council
Personnel
Environmental
Equalities Impact Assessment
Health & Safety
Risk Policy Review

If Board Members or others would like to discuss this report ahead of the meeting please contact:

Author: Michael Kirk / Head of Finance / 01332 888703 / Email Michael.kirk2@derbyhomes.org

Background Information: None

Supporting Information: None