

**ARRANGEMENTS FOR THE APPOINTMENT OF EXTERNAL  
AUDITORS**

Report of the Director of Derby Homes

**SUMMARY OF REPORT**

1. This report develops proposals tabled at the Board meeting held on 29 August 2002 and reflects the points raised by Board members and a further meeting with PriceWaterhouseCoopers (PWC) on Monday 16 September 2002.

**RECOMMENDATIONS**

2. That the Board
  - 2.1 Recommends the appointment of PWC as external auditors for the year 2002-03 at the Annual General Meeting on 31 October 2002.
  - 2.2 Approves the appointment of PWC to provide tax planning and advice up to a value of £1500.
  - 2.3 Approves the appointment of PWC to calculate the Corporation Tax liability for Derby Homes for year ended 31 March 2003 for a fee of £500.
  - 2.4 Approves that a process of competitive tendering for the appointment of external auditors for 2003-04 is carried out.

**MATTER FOR CONSIDERATION**

- 3.1 A meeting was held with PWC on Monday 16 September 2002 to discuss the issues arising from the Board meeting held on 29 August 2002.
- 3.2 The matters covered being
  - the establishment of comparator costs to assist decision making
  - the temporary appointment of PWC
  - the provision of tax planning and advice
  - the calculation of corporate tax liability
  - the preparation of accounts for filing at Companies House.

## The establishment of comparator costs to assist decision making

- 3.3 To date, 2 external audit organisations have been approached to provide a price for fulfilling the audit needs of Derby Homes. The details are provided below

	Audit £	Tax Comp £	Tax Advice £	Contingency £	Total £
KPMG	15,000	3,000	-	-	18,000+
PWC	10,000	500	up to 1,500	3,000	15,000

Both organisations identified difficulty in providing further detail of costs through the lack of market knowledge of supporting Arms Length Housing Management Organisations.

## The appointment of PriceWaterhouseCoopers

- 3.4 It is custom and practice to appoint external auditors at Annual General Meetings. The first opportunity to do this for Derby Homes is on the 31 October 2002. This appointment would be expected to remain until the next Annual General Meeting during 2003.
- 3.5 PWC are to be appointed as external auditors for Derby City Council. There is a strong case for Derby Homes to work with the same auditors because of the possibility of co-ordinating the requirements of both organisations. Potential cost saving may not be achieved by Derby Homes, but would benefit tenants through savings to the Housing Revenue Account.

## The provision of tax planning and advice

- 3.6 It is in the best interest of Derby Homes to seek tax planning and guidance on potential corporation tax liabilities as soon as possible, so that the accounting systems are set up correctly to produce appropriate final accounts.
- 3.7 It is also imperative that informed decisions are made to minimise corporation tax paid. Derby City Council is exempt from corporation tax liability, but Derby Homes is not.
- 3.8 It is believed that this advice is best taken from an organisation with a long term relationship with Derby Homes.
- 3.9 PWC have proposed to provide this service up to a value of £1,500. If this is insufficient, a further report will be brought to the Board. It is difficult to provide detailed costs of the service required until PWC tax experts have met with Derby Homes senior management team and negotiated with the Inland Revenue.

### **Calculation of corporation tax liability**

- 3.10 PWC believe that the tax computation will be relatively straightforward and propose a fee of £500.

### **Preparation of accounts for filing at Companies House**

- 3.11 PWC confirmed that the price of £10,000 includes preparation of the final accounts and notes to be signed by the Board and submitted to Companies House by the Company Secretary.

### **Specification and tendering exercise 2003**

- 3.12 Following the experience of the Company's first audit, a detailed specification will be drawn up of external audit needs, tax planning and guidance and computation, and the tender offered to the open market between July 2003 and the Annual General Meeting held in 2003.

### **CONSULTATION IMPLICATIONS**

4. The City Council's Director of Finance has been consulted and supports the proposed approach.

### **FINANCIAL IMPLICATIONS**

5. PWC are proposing a combined fee of £15,000 for the 2002/03 audit. This compares to the £18,000 fee previously quoted by KPMG. Provision for this is included in the operation budget for 2002/3.

### **LEGAL IMPLICATIONS**

6. Derby Homes is legally obliged to appoint external auditors by the date of the first AGM at which accounts are presented.

### **PERSONNEL IMPLICATIONS**

7. None directly arising from this report.

### **ENVIRONMENTAL IMPLICATIONS**

8. None directly arising from this report.

### **EQUALITIES IMPLICATIONS**

9. None directly arising from this report.

### **Contact Officer**

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