

STATES OF JERSEY



STATES AUDITORS: FURTHER EXTENSION OF CONTRACT

**Lodged au Greffe on 19th October 2004
by the Finance and Economics Committee**

STATES GREFFE

PROPOSITION

THE STATES are asked to decide whether they are of opinion –

to approve the further extension of PricewaterhouseCoopers' contract as States Auditor for the period ending 30th April 2006 to cover the audit of the 2005 States of Jersey Accounts.

FINANCE AND ECONOMICS COMMITTEE

REPORT

Article 11(1) of the Public Finances (Administration) (Jersey) Law 1967 states –

“The States shall, on the recommendation of the Finance and Economics Committee, appoint on such terms and conditions as the States may specify, a person or firm of accountants to exercise the powers conferred and to perform the duties imposed on the States Auditor by this Law.”

Price Waterhouse (now known as PricewaterhouseCoopers) (PWC) were first engaged as the States Auditor in November 1993. Their first audit was of the States 1994 annual accounts. The contract has been renewed since that date as follows –

- 1996 for a further 3 years (audit of the accounts for 1997, 1998 and 1999);
- April 2000 (P.33/2000) for a further one year – this report stated that in the light of the recommendation, from the Hepworth Strategic Review of Audit Arrangements within the States of Jersey^[1], that there should be an Auditor General and Public Accounts Committee, PWC’s contract should be extended for a further year pending confirmation of this recommendation by the Clothier Panel;
- July 2001 (P.77/2001) for a further 2 years– this report again recommended an extension to PWC’s contract until the timing of the establishment of an Auditor General and Public Accounts Committee was clearer;
- September 2003 (P.113/2003) for a further 2 years (for the audit of the 2003 and 2004 accounts)– this report again recommended an extension to PWC’s contract on the basis that the earliest funding would be available for the appointment of an Auditor General would be in 2005.

This means that PWC have fulfilled the role of States Auditor for 11 years. Their current contract expires on 30th April 2005, following the completion of the audit of the 2004 annual accounts.

The fee for the audit of the States of Jersey’s 2004 accounts is £155,000 plus out-of-pocket expenses. PWC have confirmed that they would be willing to continue as States Auditor for the audit of the States of Jersey’s 2005 accounts for an annual fee of £160,000 plus expenses (which will not exceed £7,500). This fee increase equates to 3.2% which is in line with inflation.

Eleven years is a long time for a company to hold the external audit contract without any competition. However, since 2000 the reason for extensions being awarded is due to the planned establishment of an Auditor General and Public Accounts Committee. The Auditor General will be responsible for the appointment of a suitable firm of auditors to undertake the audit of the States of Jersey’s accounts. If the external audit contract was put out to tender now, a term of 3 years would have to be offered– i.e. the contract term would cover the audit of the 2005 2006 and 2007 accounts and would expire in April 2008. The tender process would have to be led by the Treasury and the appointment would be made by the States based on a recommendation from the Finance and Economics Committee. As pointed out in the Hepworth review, it is not best practise for the same body to both produce the annual accounts and appoint the auditors. It should be one of the first jobs of the new Auditor General to decide on how the external audit of the States annual accounts should be provided. If a competitive tendering exercise is initiated by the Treasury now, the Auditor General would not have an opportunity to influence the appointment of the external auditors until the audit of the 2008 accounts.

Funding for the establishment of the Office of the Auditor General has been provided via the Fundamental Spending Review from October 2005.

It is proposed that given the impending appointment of an Auditor General, it would not be advantageous to enter into a tendering exercise for the appointment of States Auditor. There is now certainty that the Auditor General will be appointed, as funding has been earmarked in 2005 and the post is established in the new Public Finance Law. The Committee therefore recommends that the current contract with PWC is extended for one further year

to cover the audit of the 2005 annual accounts – i.e. until April 2006.

The Shadow Public Accounts Committee considered the re-appointment of PWC at its meeting on 22nd September and agreed to support a one-year extension of the contract, subject to the Auditor General being in post by at least 1st January 2006.

The proposed contract will cease on 30th April 2006 upon completion of PWC's audit of the States of Jersey's 2005 accounts.

^[1] *The Strategic Review of Audit Arrangements within the States of Jersey undertaken in 1999 by Mr. Noel Hepworth, (then) Chairman of the Institute of Public Finance.*