

<b>SUBJECT:</b>	<b>APPOINTMENT OF EXTERNAL AUDITOR</b>
<b>DIRECTORATE:</b>	<b>CHIEF EXECUTIVE AND TOWN CLERK</b>
<b>REPORT AUTHOR:</b>	<b>JACLYN GIBSON, CHIEF FINANCE OFFICER</b>

## **1. Purpose of Report**

- 1.1 To present to the Audit Committee the outcome of the process to appoint an external auditor for the Council with effect from 1 April 2018.

## **2. Executive Summary**

- 2.1 The transitional arrangements in respect of the appointment of the Council's external auditors, currently KMPG LLP, are due to come to an end following the audit of the 2017/18 accounts.
- 2.2 The Council, in 2017 agreed to opt into the appointing persons arrangements made by the Public Sector Audit Appointments (PSAA) for the appointment of its external auditors.
- 2.3 Following a tender process to procure the audit services the PSAA have appointed Mazars LLP as the Council's external auditor for five years from 2018/19, with the appointment commencing on 1 April 2018. This represents a change from the existing appointed auditor; KPMG LLP.

## **3. Background**

- 3.1 The Local Audit and Accountability Act 2014 brought to a close the Audit Commission and established transitional arrangements for the appointment of external auditors and the setting of audit fees for principal local government bodies. These transitional arrangements were set for the period to include the audit of the 2017/18 accounts.
- 3.2 The Council's current external auditor is KPMG LLP, this appointment having been made under the transitional arrangements.
- 3.2 In July 2016 the PSAA was selected by the Secretary of State for Communities and Local Government to take on the role of Appointing Person for principal local government bodies for the audit of accounts from 2018/19 onwards. After consideration by the Audit Committee, on 28 February 2017 Council resolved to accept the invitation to opt into the appointing persons arrangements made by PSAA for the appointment of external auditors.

#### **4. Local auditor appointment process**

- 4.1 A total of 483 bodies (98%) of eligible bodies (including police bodies) opted into the sector-led approach offered by PSAA.
- 4.2 During the period February to June 2017 the PSAA managed a tender process to procure audit services, the total volume of audit work was divided into six contract lots, with the size of the lots graduated to incentivise competing bids. The procurement process has been hailed as highly successful, delivering a reduction in the scale fees payable by local bodies.
- 4.3 The successful contractors, together with their estimated lot values, are listed below:
- 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 to awarded to Mazars LLP;
  - Lot 4 of approx. £2.2 million per audit year to awarded to BDO LLP;
  - Lot 5 of approx. £2.2 million per audit year to awarded to Deloitte LLP; and,
  - Lot 6 with no guaranteed value of work to awarded to a consortium of Moore Stephens LLP and Scott-Moncrieff LLP.
- 4.4 On 14 August 2017, the Council received communication from PSAA of the intention to appoint Mazars LLP as its auditor for five years from 2018/19, with the appointment commencing on 1 April 2018. This represents a change from the existing appointed auditor; KPMG LLP. The communication is attached at Appendix A for information.
- 4.5 The Council had the opportunity to make representations to PSAA on the proposed appointment, with the following provided as acceptable reasons:
- There is an independence issue in relation to the firm proposed as the auditor, which had not been previously notified to PSAA;
  - There are formal and joint working arrangements relevant to the auditor's responsibilities, which had not been previously notified to PSAA; or
  - There is another valid reason, for example you can demonstrate a history of inadequate service from the proposed firm.
- 4.6 There were considered to be no reasons for the Council to make such representations on the appointment and as such the Chief Executive wrote to PSAA on behalf of the Council to accept the appointment of Mazars LLP in September 2017.
- 4.7 PSAA have subsequently confirmed the appointment of Mazars LLP as the Council's external auditor to audit its accounts for five years, from 2018/19 to 2022/23.
- 4.8 The appointment of Mazars LLP as the Council's external auditor excludes the Housing Benefits Certification work, this was not included in the scope of works for the PSAA and must be procured separately. The Department for Work and

Pensions (DWP) has now assumed responsibility for issuing guidance and providing support for this assurance process. The Council is currently undertaken a separate procurement process for this element of assurance work.

## **5. Strategic Priorities**

- 5.1 There are no direct implications for the Council's strategic priorities. The appointment of an external auditor is a statutory requirement of the Council and as such contributes towards the fitness for purpose of the Council's governance arrangements.

## **6. Organisational Impacts**

### **6.1 Finance**

As a result of the bulk procurement for opted in bodies a reduction in audit fees from 2017/18 of 23% has been achieved. The proposed scale fee for the audit of the accounts and VFM conclusion for 2018/19 is £36,332 in comparison to £47,185 for 2017/18.

Once the procurement for the Housing Benefits Certification work is complete and the contract value is known the overall budget saving will be clear.

### **6.2 Legal Implications including Procurement Rules**

Section 7 of the Local Audit and Accountability Act 2014 requires a relevant authority to appoint a local auditor to audit its accounts for a financial year not later than 31 December in the preceding year.

Section 17 gives the Secretary of State the power to make regulations in relation to an 'appointing person' specified by the Secretary of State. This power has been exercised in the Local Audit (Appointing Person) Regulations 2015 and this gives the Secretary of State the ability to enable a sector led body to become the appointing person.

The appointment of Mazars LLP has been made under regulation 13 of the Local Audit (Appointing Person) Regulations 2015, and was approved by the PSAA Board at its meeting on 14 December 2017.

## **7. Risk Implications**

- 7.1 The Council has adopted a sector led approach, through PSAA, to the appointment of the new external auditor to ensure a successful transition to the new arrangements in a timely and efficient manner.

## **8. Recommendation**

- 8.1 The Audit Committee is asked note the appointment by PSAA of Mazars LLP as the external auditor for the Council for a five year period from 1 April 2018.

**Is this a key decision?** No

**Do the exempt information categories apply?** No

**Does Rule 15 of the Scrutiny Procedure Rules (call-in and urgency) apply?** No

**How many appendices does the report contain?** None

**List of Background Papers:** Appointment of external auditors, Audit Committee 13 December 2016 and Council 28 February 2017

**Lead Officer:** Jaclyn Gibson, Chief Finance Officer  
Telephone (01522) 873258

## **This is a formal communication to the chief executive and chief finance officer of City of Lincoln Council to consult on the auditor appointment from 2018/19**

I am writing to consult you on the appointment of Mazars LLP to audit the accounts of City of Lincoln Council for five years from 2018/19. The appointment will start on 1 April 2018.

### **Background**

For audits of the accounts from 2018/19, PSAA is responsible for appointing an auditor to principal local government and police bodies that have chosen to opt into its national auditor appointment arrangements. More information on the [appointing person scheme](#) is available on our website.

### **About the proposed appointment**

PSAA must, under regulation 13 of the Regulations, appoint an external auditor to each opted-in authority and consult the authority about the proposed appointment.

City of Lincoln Council has opted into PSAA's auditor appointment arrangements. We have sent regular email communications to audited bodies about this process, and wrote to you on 19 June 2017 to advise you that we had completed a procurement to let audit contracts from 2018/19. Mazars LLP was successful in winning a contract in the procurement, and we propose appointing this firm as the auditor of City of Lincoln Council.

Mazars is a large global audit and accounting firm with over 18,000 professionals in 79 countries worldwide. In the UK the firm ranks in the top ten with 1,700 employees and 140 partners working out of 19 offices, and UK fee income in 2016 of £160m. The firm's dedicated public audit team has significant experience in providing external audit to public sector bodies. It comprises individuals with experience of auditing councils, combined authorities, police bodies, fire and rescue authorities, local government pension funds and other public bodies. In addition to its audit contract with PSAA, the firm also has a substantial portfolio of NHS audits and is one of the National Audit Office's framework suppliers for central government audit.

In developing this appointment proposal, we have applied the following principles, balancing competing demands as much as we can, based on the information provided to us by audited bodies and audit firms:

- ensuring auditor independence, as we are required to do by the Regulations;
- meeting our commitments to the firms under the audit contracts;
- accommodating joint/shared working arrangements where these are relevant to the auditor's responsibilities;
- ensuring a balanced mix of authority types for each firm;
- taking account of each firm's principal locations; and
- providing continuity of audit firm if possible, but avoiding long appointments.

Further information on the [auditor appointment process](#) is available on our website.

### **Responding to this consultation**

We are consulting you on the proposed appointment of Mazars LLP to audit the accounts of

City of Lincoln Council for five years from 2018/19. The consultation will close at **5pm on Friday 22 September 2017**.

If you are satisfied with the proposed appointment, please confirm this by email to [auditorappointments@psaa.co.uk](mailto:auditorappointments@psaa.co.uk). No further action is needed from you.

The PSAA Board will consider all proposed auditor appointments at its meeting scheduled for 14 December 2017. We will write by email to all opted-in bodies after this Board meeting to confirm auditor appointments.

**Process for objecting to the proposed auditor appointment**

If you wish to make representations to PSAA about the proposed auditor appointment, please send them by email to [auditorappointments@psaa.co.uk](mailto:auditorappointments@psaa.co.uk) to arrive by **5pm on Friday 22 September 2017**.

Representations can include matters that you believe might be an impediment to the proposed firm's independence, were it to be your appointed auditor. Your email should set out the reasons why you think the proposed appointment should not be made. The following may represent acceptable reasons:

1. there is an independence issue in relation to the firm proposed as the auditor, which had not previously been notified to PSAA;
2. there are formal and joint working arrangements relevant to the auditor's responsibilities, which had not previously been notified to PSAA; or
3. there is another valid reason, for example you can demonstrate a history of inadequate service from the proposed firm.

We will consider carefully all representations and will respond by Monday 16 October 2017 by email.

If your representations are accepted, we will consult you on an alternative auditor appointment between 16-27 October 2017. If your representations are not accepted, we will confirm this to you. You may choose to make further representations to the PSAA Board, providing any additional information to support your case.

We will write to all bodies to confirm the Board's final decision on the appointment of the auditor before 21 December 2017.

**Scale fees for 2018/19**

We will consult on scale fees for 2018/19 in due course and will publish confirmed scale fees for 2018/19 for opted-in bodies on our website in March 2018. The results of the audit procurement indicate that a reduction in scale fees in the region of approximately 18 per cent should be possible for 2018/19, based on the individual scale fees applicable for 2016/17. Further [information on the audit procurement](#) is available on our website.

**Further information**

If you have any questions about your proposed auditor appointment or the consultation process, please email us at [auditorappointments@psaa.co.uk](mailto:auditorappointments@psaa.co.uk).

Yours sincerely  
Jon Hayes  
Chief Officer