



CORPORATE GOVERNANCE COMMITTEE – 22 SEPTEMBER 2017

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

APPOINTMENT OF EXTERNAL AUDITOR 2018/19 - UPDATE

Purpose of Report

1. To provide an update on the arrangements for appointing the County Council's external auditor for 2018/19.

Background

2. 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 all local government and NHS bodies in England.
3. As part of the arrangements the existing Audit Commission contract for external audit services was transferred to Public Sector Audit Appointments Limited (PSAA), the sector led body set up by the Local Government Association with delegated authority from the Secretary of State for Communities and Local Government. The current contracts run until 31 March 2018.
4. After this time Councils will be able to appoint their own external auditor or they can opt in to the PSAA arrangements. Councils who choose to undertake their own appointment process will need to establish and maintain an independent auditor panel to oversee the procurement and ongoing management of a local auditor appointment.
5. The PSAA has the ability to negotiate contracts with auditing firms nationally, maximising the opportunities for the most economic and efficient approach to procurement of external audit on behalf of the whole sector. The scope of audits will still be specified nationally; the National Audit Office (NAO) is responsible for writing the Code of Audit Practice which all firms appointed to carry out the Council's audit must follow.
6. Following reports to the Corporate Governance Committee and County Council in 2016, the County Council opted in to the PSAA auditor arrangements from 2018/19.
7. The Council's current external auditor is KPMG. The external audit applies to the County Council's Statement of Accounts and the Leicestershire Pension Fund Accounts. The current external audit fees are £77,000 per annum for the Statement of Accounts and £28,000 for the Leicestershire Pension Fund.

8. 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.

PSAA Procurement Update 2018/19

9. Of 493 eligible local bodies, 484 have opted into the PSAA scheme.
10. The PSAA have now completed their procurement exercise to let audit contracts for 2018/19. Results of the exercise report overall savings expected to exceed £6m per annum, equivalent to a reduction of approximately 18% in the scale fees payable by local bodies.
11. The results of the process involve the award of the following contracts:
- Lot 1 (value: approx. £14.4 million per audit year) awarded to Grant Thornton LLP;
 - Lot 2 (value: approx. £10.9 million per audit year) awarded to EY LLP;
 - Lot 3 (value: approx. £6.6 million per audit year) awarded to Mazars LLP;
 - Lot 4 (value: approx. £2.2 million per audit year) awarded to BDO LLP;
 - Lot 5 (value: approx. £2.2 million per audit year) awarded to Deloitte LLP; and
 - Lot 6 (value not pre-determined) awarded to a consortium of Moore Stephens LLP and Scott-Moncrieff LLP.
12. The contracts will cover a five year period commencing with the audit of accounts for 2018/19. PSAA has an option to extend the contracts for a further two year period, to a total of seven years, if it chooses to do so.
13. PSAA have now started a consultation process on the appointment of named audit firms to each individual authority and have written to the County Council to propose that Mazars LLP are appointed as the County Council's external auditor, for five years from 2018/19.
14. PSAA have provided the following information about Mazars LLP:
- '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.'*
15. In developing their appointment proposal, PSAA have applied the following principles, balancing competing demands as much as they can, based on the information provided to them by audited bodies and audit firms:
- ensuring auditor independence;
 - meeting their 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.
16. The County Council is required to respond by email to the consultation to confirm that it is satisfied with the appointment or make representations to object to the appointment. The consultation closes at 5pm on Friday 22 September 2017.
17. Representations can include matters that it believes might be an impediment to the proposed firm's independence, were it to be the County Council's appointed auditor. PSAA have advised that the following may represent acceptable reasons:
- there is an independence issue in relation to the firm proposed as the auditor, which had not previously been notified to PSAA;
 - there are formal and joint working arrangements relevant to the auditor's responsibilities, which had not previously been notified to PSAA; or
 - there is another valid reason, for example you can demonstrate a history of inadequate service from the proposed firm.
18. PSAA will review all representations and will respond by 16 October 2017. If the representations are accepted, they will consult with the County Council on an alternative auditor appointment between 16 - 27 October 2017. The PSAA Board will consider all proposed auditor appointments at its meeting scheduled for 14 December 2017 and write to confirm the Board's final decision on the appointment of the auditor before 21 December 2017.
19. The County Council is not aware of any conflicts of interest with the proposed appointment of Mazars LLP. However, the Council is aware that Leicester City Council (LCC) and Nottingham City Council (NCC) have been advised that Grant Thornton LLP will be their appointed auditor. Given the close working relationship between the County Council and LCC and NCC, through the joint internal audit arrangements with LCC, and East Midlands Shared Service for transactional finance and HR and shared use of the Oracle system with NCC, there will be opportunities to reduce costs and increase efficiency in the audit process for all parties to have the same external auditor.
20. It is therefore proposed that the County Council responds to the consultation to advise that there are no known conflicts of interest with the appointment of Mazars LLP, but ask that consideration is made of the close working arrangements between the County Council and LCC and NCC and that by having the same auditor, Grant Thornton LLP, this will offer efficiencies in the audit to all parties.
21. PSAA 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 their website in March 2018.

Conclusion

22. PSAA are consulting on their proposal to appoint Mazars LLP as the appointed external auditor for the County Council.

23. The County Council is required to confirm, by email, the auditor appointment or make representations to object to the appointment by 5pm on 22 September 2017.
24. There are no known conflicts of interest in the appointment of Mazars LLP but there are potential synergies with having the same external auditor as both Leicester City Council and Nottingham City Council given joint working between the authorities.
25. 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.

Recommendation

26. The Committee is asked to comment on the proposed auditor appointment of Mazars LLP and proposed response to the consultation.

Equality and Human Rights Opportunities

27. None.

Circulation Under the Local Issues Alert Procedure

28. None.

Background Papers

Corporate Governance Committee 23 September 2016 – Appointment of External Auditor 2018/19 – update

<http://politics.leics.gov.uk/documents/s122619/Auditor%20Choice%20Sep16.pdf>

County Council 7 December 2016 – Appointment of External Auditors 2018/19

<http://politics.leics.gov.uk/documents/s124906/A%20Report%20of%20the%20Corporate%20Governance%20Committee.pdf>

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