

AUDIT COMMITTEE
28 SEPTEMBER 2017
UPDATE ON THE APPOINTMENT OF EXTERNAL
AUDITORS

Report from: Phil Watts, Chief Finance Officer

Author: Katey Arrowsmith, Head of Finance Strategy

Summary

This report presents the outcome of the process to appoint an external auditor for the Council from 2018/19.

1. Budget and Policy Framework

1.1 The decision on the appointment of an external auditor is a matter for Full Council, though Audit Committee has an advisory role.

2. Background

2.1 The Local Audit and Accountability Act 2014 brought to a close the Audit commission and established new arrangements for the appointment of external auditors, applicable to audits of the accounts of principal local government bodies from 2018/19 onwards.

2.2 In July 2016, Public Sector Audit Appointments (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 and police bodies. After consideration by the Audit Committee, on 13 October 2016 Council resolved to accept the invitation to opt into the appointing persons arrangements made by PSAA for the appointment of external auditors.

3. Local auditor appointment process

3.1 A total of 484 bodies (98% of eligible bodies) opted into the sector-led approach offered by PSAA.

3.2 Between February and June 2017, PSAA managed a tender process to procure audit services 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 an expected reduction of approximately 18% in the scale fees payable by local bodies.

3.3 The successful contractors, together with their estimated lot values, are listed below for information:

- 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.

3.4 On 15 August 2017, the Council received communication from PSAA of the intention to appoint Grant Thornton (UK) LLP as the auditor for Medway Council. This represents a change from the existing appointed auditor; BDO. The communication is attached at Appendix 1 for information.

3.5 Members are asked to consider and endorse the appointment of Grant Thornton (UK) LLP as the Council's auditor for five years from 1 April 2018.

3.6 The Council do have 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.

3.7 There are considered to be no reasons for the Council to make representations on the appointment and as such the Chief Finance Officer has written to PSAA on behalf of the Council to accept the appointment of Grant Thornton (UK) LLP, ahead of the deadline of 5pm on Friday 22 September 2017.

4. Risk management

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

5. Financial implications

5.1 Current external audit fees are expected to reduce by around 18% when the current contracts end in 2018. Planned audit fees for 2016/17 have been set as £151,639 in relation to the audit of the accounts; an 18% reduction would represent an annual saving to the Council of £27,295.

6. Legal implications

- 6.1 Section 7 of the Local Audit and Accountability Act 2014 (the Act) 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 12 makes provision for the failure to appoint a local auditor: the authority must immediately inform the Secretary of State, who may direct the authority to appoint the auditor named in the direction or appoint a local auditor on behalf of the authority.
- 6.2 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 (SI 192) and this gives the Secretary of State the ability to enable a Sector Led Body (PSAA) to become the appointing person.

7. Recommendations

- 7.1 The Audit Committee are asked to note the appointment by PSAA of Grant Thornton (UK) LLP as the auditor for Medway Council for a five year period from 1 April 2018.

Lead officer contact

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Appendices

Appendix 1 – Notification of appointed auditor from PSAA.

Background papers

None

Appendix 1

From: auditorappointments@psaa.co.uk [<mailto:auditorappointments@psaa.co.uk>]
Sent: 15 August 2017 08:01
To: davies, neil; watts, phil
Cc: auditorappointments@psaa.co.uk
Subject: Medway Council - consultation on auditor appointment from 2018/19
Importance: High

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

I am writing to consult you on the appointment of Grant Thornton (UK) LLP to audit the accounts of Medway 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.

Medway 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. Grant Thornton (UK) LLP was successful in winning a contract in the procurement, and we propose appointing this firm as the auditor of Medway Council.

Grant Thornton UK comprises around 4,500 employees delivering services to 40,000 clients. The public sector has played a significant role within the firm for over 30 years. The UK Public Sector Assurance team employs 301 people, including 29 Key Audit Partners, based in designated 'centres of excellence', providing it with locally based public sector specialists across the country. The team is solely dedicated to public audit work in local government and the NHS, with contracts with PSAA, Audit Scotland and the Wales Audit Office. The Public Sector Assurance team is a regular commentator on issues facing the sector and oversees the firm's development of appropriate thought leadership and support, such as its series of publications and workshops on income generation in local authorities. In addition, the team can draw on the commercial skills and experience of a wider assurance team of over 1,516 individuals, to reflect the changing assurance needs of local authorities and NHS bodies.

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 Grant Thornton (UK) LLP to audit the accounts of Medway 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. 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 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.

Yours sincerely

Jon Hayes
Chief Officer