

# Audit & Governance Committee

12 September 2017

Is the final decision on the recommendations in this report to be made at this meeting?

Yes

## External Auditor Appointment Update

<b>Final Decision-Maker</b>	Audit and Governance Committee
<b>Portfolio Holder(s)</b>	Councillor David Reilly – Portfolio Holder for Finance and Governance
<b>Lead Director</b>	Lee Colyer – Director of Finance, Policy and Development (S151 Officer)
<b>Head of Service</b>	Rich Clarke – Head of Audit Partnership
<b>Lead Officer/Author</b>	Rich Clarke – Head of Audit Partnership
<b>Classification</b>	Non-exempt
<b>Wards affected</b>	All

### This report makes the following recommendations to the final decision-maker:

1. That the Committee **notes** the proposal of PSAA for Grant Thornton to continue as the Council's external auditor; and
2. That the Committee **directs** the Director of Finance, Policy and Development (S151 Officer) to respond to PSAA's consultation, considering comments from members.

### This report relates to the following Five Year Plan Key Objectives:

- A Prosperous Borough
- A Green Borough
- A Confident Borough

This report concerns governance of the Council. Effective governance underpins all corporate priorities.

### Timetable

<b>Meeting</b>	<b>Date</b>
Audit and Governance Committee	12 September 2017

# External Audit Procurement Update

## 1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1 This report builds on previous presentations to this Committee, summarised and linked below:
- 26 July 2016 ([AG22/16](#)): Introductory report setting out the different approaches with the Local Audit & Accountability Act 2014 for local authorities to appoint their external auditors.
  - 20 September 2016 ([AG33/16](#)): Further report including research on the plans of other local authorities. The Committee resolved following this report to recommend the Council opted-in to PSAA's joint procurement arrangement.
  - Verbal updates provided to the Committee in April, June and July 2017, summarising PSAA's progress against its procurement timetable.
- 1.2 On 15 August PSAA told the Council it was proposing that **Grant Thornton** continue as the Council's external auditors.
- 1.3 This report serves to update members and canvass any views that might shape the Council's response to the proposal.
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## 2. INTRODUCTION AND BACKGROUND

- 2.1 The Local Audit & Accountability Act 2014 abolished the Audit Commission and directed local authorities to appoint their own external auditors before 31 December 2017. The Act also created a category of 'approved persons' able to manage procurement for authorities who choose to opt in to that path. The Department of Communities & Local Government approved Public Sector Audit Appointments Limited (PSAA), a wholly-owned subsidiary of the Local Government Association, to act as an 'approved person' and invite local authorities to opt in.
- 2.2 On 7 December 2016 the Full Council decided (FC52/16) to opt in to PSAA's procurement arrangement. All but one district council in England took the same decision meaning PSAA effectively ran a single national procurement exercise.
- 2.3 PSAA have largely kept to the procurement timetable and approach advised to the Council in 2016. This approach awarded national contracts divided on the volume of audit work on offer, with a second step following to assign auditors to individual authorities. On 22 June 2017 PSAA announced the results of its national exercise.

Lot	Value	Percentage	Winner
1	£14.6m	40%	Grant Thornton LLP
2	£10.9m	30%	EY LLP (Ernst & Young)
3	£6.6m	18%	Mazars LLP
4	£2.2m	6%	BDO LLP
5	£2.2m	6%	Deloitte LLP
6	No set value	N/A	Moore Stephens LLP/Scott-Moncrieff LLP Consortium

- 2.4 The overall value of the award suggests an average decrease in audit fees of 18% compared to 2016/17. However, the specific fees for individual authorities will be subject to separate consultation in early 2018.
- 2.5 PSAA then began to assign work to individual authorities in line with these overall values. On 15 August 2017 PSAA told the Council of its proposal to appoint **Grant Thornton** as the Council's external auditor from the 2018/19 financial year on a five year contract with a potential two year extension.
- 2.6 Grant Thornton are the Council's current external auditors and have held that role since the Audit Commission shed its audit arm in 2012. It is understood that Grant Thornton are also the proposed auditors for Maidstone and Swale Borough Councils.
- 2.7 The appointment only covers work directed by the National Audit Office's Code of Audit Practice. This covers most of external audit's current work, for example the accounts and value for money opinions. The most notable omission is certification of the Council's Housing Benefit Claim form, which it must provide to the Department of Work and Pensions by 30 November each year. The Council will consider arrangements for that appointment soon, and must tell DWP of its decision on that matter by 28 February 2018.

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### 3. AVAILABLE OPTIONS

- 3.1 The Council may object to PSAA's proposal to appoint Grant Thornton. PSAA give only limited grounds for objection:
- An independence issue that has not previously been notified to PSAA,
  - Formal joint working arrangements with another authority that are both relevant to the auditor's responsibilities and not previously notified to PSAA,
  - Another valid reason, for example a history of inadequate service.
- 3.2 We believe the Council has no valid grounds under these headings to raise an objection to the proposed appointment.
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#### **4. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS**

- 4.1 In previous meetings members have reported a preference to minimise the disruption arising from a change in external auditors. Officers have echoed this preference, noting that they enjoy a strong and professional working relationship with Grant Thornton.
- 4.2 So, the Council is expected to welcome PSAA's proposal that Grant Thornton continue as its external auditors and respond affirmatively. It is also noted, as expected given their current role, there are no conflicts of interest with Grant Thornton that would exclude their continuing as external auditors.
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#### **5. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK**

- 5.1 Previous discussions on this topic have been considered in compiling this report.
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#### **6. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION**

- 6.1 The Council must respond to PSAA by 22 September 2017. If the Council confirms its satisfaction with the proposed appointment no further action needs to be taken. PSAA will confirm the Tunbridge Wells BC appointment, with appointments for all opted-in authorities, at its board meeting on 14 December 2017. PSAA will write with final confirmation of appointments by 21 December 2017, so meeting the statutory deadline of 31 December.
- 6.2 If the Council wishes to object to the proposed appointment, PSAA will consider the authority's reasons. If PSAA accept those reasons they will respond by 27 October 2017 with an alternative proposal. The Council must accept that alternative proposal or opt out of joint procurement which will leave little time to set up its own arrangements.
- 6.3 PSAA will embark on a separate consultation on audit fee scales early in the new year.
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#### **7. CROSS-CUTTING ISSUES AND IMPLICATIONS**

This report is provided for information rather than decision and consequently raises no new issues or implications.

Issue	Implications	Sign-off
Legal including Human Rights Act	Not applicable	

Finance and other resources	Not applicable	
Staffing establishment	Not applicable	
Risk management	Not applicable	
Environment and sustainability	Not applicable	
Community safety	Not applicable	
Health and Safety	Not applicable	
Health and wellbeing	Not applicable	
Equalities	Not applicable	

## **8. REPORT APPENDICES**

The following documents are to be published with and form part of the report:

None

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## **9. BACKGROUND PAPERS**

The report builds on previous information provided to the Committee. That information has been linked within this report.

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