

**REPORT OF: FINANCIAL SERVICES MANAGER**

**TO: EXECUTIVE**

**DATE: 21<sup>st</sup> SEPTEMBER 2017**

**Report Author:** Vince Green

**Contact Details:** 01282 661867

**E-mail:** vince.green@pendle.gov.uk

## **APPOINTMENT OF EXTERNAL AUDITOR TO THE COUNCIL**

### **PURPOSE OF REPORT**

1. To report on the consultation by Public Sector Audit Appointments (PSAA) regarding their proposal to appoint Grant Thornton (UK) LLP<sup>1</sup> as the Council's appointed external auditor for a period of five years from 1<sup>st</sup> April 2018.

### **RECOMMENDATIONS**

2. The Executive is recommended to:
  - (a) endorse the proposal to appoint Grant Thornton as the appointed auditor to the Council from 1<sup>st</sup> April 2018, and
  - (b) authorise the Financial Services Manager to inform the PSAA that the Council is satisfied with the proposed auditor appointment.

### **REASONS FOR RECOMMENDATION**

3. To conclude the process leading to the appointment of external auditor to the Council with effect from 1<sup>st</sup> April 2018 in accordance with the requirements of the Local Audit and Accountability Act 2014.

### **ISSUE**

4. In December 2016 the Council opted in to the national scheme for auditor appointments being developed by the PSAA. Under the scheme the Council's appointed auditor from 1<sup>st</sup> April 2018 would be appointed by the PSAA following their procurement process and by no later than 31<sup>st</sup> December 2017.
5. The PSAA completed their procurement process during June 2017 which resulted in the award of 6 contract lots, for varying values, to the following firms:

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<sup>1</sup> LLP Limited Liability Partnership

- Grant Thornton LLP
- EY (formerly Ernst & Young) LLP
- Mazars LLP
- BDO LLP
- Deloitte LLP
- Moore Stephens and Scott-Moncrieff LLP (consortium)

6. Under regulations, the PSAA must appoint an external auditor to each opted-in authority and consult the authority about the proposed appointment. Since our decision to opt in to this arrangement, the PSAA have sent us regular email communications about the process and in June they advised us that they had completed a procurement to let audit contracts from 2018/19.
7. Grant Thornton (UK) LLP was successful in winning a contract in the procurement, and they propose appointing this firm as the auditor of Pendle Borough Council. The appointment would start on 1st April 2018 and run for a period of 5 years.
8. In their formal proposal to the Council, received on 14th August, the PSAA state the following in respect of the proposed appointment:

*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.*

9. In developing this appointment proposal, the PSAA state they 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, 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.
10. The Council has until 5pm on Friday 22<sup>nd</sup> September 2017 to respond to the consultation. As this deadline comes before the next meeting of the Accounts and Audit Committee (28<sup>th</sup> Sept), the matter is being reported to this meeting of the Executive.
11. Representations can include matters that we believe might be an impediment to the proposed firm's independence, were it to be our appointed auditor. The PSAA suggest 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 if we can demonstrate a history of inadequate service from the proposed firm.
12. Grant Thornton are the Council's current external auditor and we have established a constructive and professional working relationship with the team that undertakes the Pendle audit. They have a good understanding of the Council and the financial challenges we face. From our experience of working with Grant Thornton your officers have no concerns to raise and would be satisfied with their appointment as auditor to the Council from 2018/19.
13. The Executive is asked to endorse this position and authorise the report author to respond accordingly to the consultation. We simply have to e-mail confirmation of acceptance to the PSAA with no further action required on our part. The PSAA intend to write to all bodies to confirm the Board's final decision on the appointment of the auditor before 21 December 2017.
14. The audit appointment does not include the certification work required on the Housing Benefit Subsidy claim. We will either have to make separate arrangements for this work to be completed or, preferably, agree terms with Grant Thornton, subject to confirmation of their appointment, for them to do this work, as they do now. The work is complex and we would benefit from the continuity and experience that Grant Thornton should provide.

### **Policy**

15. There are no policy implications arising from the contents of this report.

### **Financial**

16. There are no direct financial implications resulting from this report. The audit fees payable in the current financial year total £48,616. The results of the audit procurement by the PSAA 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. However, this will not be confirmed until March 2018.

### **Legal**

17. The process followed by the Council for the appointment of auditor from 1st April 2018 is in compliance with the requirements of the Local Audit and Accountability Act 2014.

### **Risk Management**

18. The sector led approach will help mitigate the risks of delay and additional costs associated with the appointment of external auditors to the Council. If the Council failed to appoint an external auditor the 2014 Act contains provisions for the Secretary of State to direct the Council to appoint a named auditor or to appoint a local auditor on behalf of the authority. Opting in to the PSAA scheme of appointments resolves this risk.

### **Health and Safety**

19. There are no health and safety implications arising directly from the contents of this report.

### **Sustainability**

20. There are no sustainability implications arising directly from this report.

## **Community Safety**

21. There are no community safety issues arising directly from the contents of this report.

## **Equality and Diversity**

22. There are no equality and diversity issues arising from the contents of this report.

## **Background Papers**

PSAA Appointing Person information <http://www.psa.co.uk/appointing-person/>