

Audit and Performance Committee Report

Meeting or Decision Maker:	Audit and Performance Committee
Date:	17 th September 2015
Classification:	General Release
Title:	Change of Auditor
Key Decision:	Information Only
Financial Summary:	n/a
Report of:	Steven Mair, City Treasurer

1. Executive Summary

The Council has been informed by Public Sector Auditor Appointments (PSAA) that the Council's auditor, KPMG, cannot continue in this role. This is because a KPMG employee has been a Member of the Council and a KPMG employee since 2006. This is not permitted under PSAA's terms of appointment and consequently the PSAA has consulted with the Council on a change in auditor with its proposal being that Grant Thornton are appointed effective from 7 August 2015.

Council officers are in the process of taking steps to ensure that the changeover of auditor happens in a managed and controlled way. To ensure this a number of actions are being taken including:

- Arranging final sign off of the Council's Whole of Government Accounts (WGA) by KPMG in advance of the 2nd October deadline.
- A series of briefings with Grant Thornton are planned during September 2015 and beyond.
- Arrangements are being made for Grant Thornton to audit the Pooling of Housing Capital Receipts Return and the Teachers' Pensions return.
- Discussions are on-going with the PSAA around whether KPMG or Grant Thornton should deal with objections against the Council's accounts which are outstanding.

The Council has written to the PSAA stating that it does not expect audit fees payable to increase as a consequence of this situation which is not of its making. This is to be confirmed.

2. Recommendations

That the committee notes the content of the report

3. Reasons for Decision

To inform Members of how the City Council about a change of Auditor for reasons beyond the Council's control.

4. Background, including Policy Context

Background to the change of auditor

The Council has been informed by Public Sector Auditor Appointments (PSAA) that the Council's auditor, KPMG, cannot continue in this role. This is because a KPMG employee has been a Member of the Council and a KPMG employee since 2006. This is not permitted under PSAA's terms of appointment and consequently the PSAA has consulted with the Council on a change in auditor with its proposal being that Grant Thornton are appointed to this role.

The PSAA has powers allowing it to appoint auditors to public sector bodies following the closure of the Audit Commission and they include provisions to protect the independence of appointed auditors. These provisions are more demanding than for auditors in the private sector due to the wider statutory scope of audit for local public bodies.

Specifically, the PSAA terms of auditor appointment state:

2.39 No member or employee of the firm should accept or hold an appointment as a member of an audited body whose auditor is, or is proposed to be, from the same firm. In addition, no member or employee of the firm should accept or hold such appointments at related bodies, such as those linked to the audited body through a strategic partnership.

2.40 This exclusion includes the appointment as councillor at local government bodies or as non-executive director at health bodies.

The PSAA has advised the Council that when auditor appointments are made, audit firms are asked whether there are any independence considerations at bodies where the firm could be appointed as the auditor. The Audit Commission made the current auditor appointment in 2012, for the period 2012/13 to 2016/17. It is understood that KPMG did not provide any information at that time in relation to independence issues in respect of the proposed appointment at the Council. The PSAA has notified that Council that the Commission would not have appointed KPMG if it had been aware of this risk to the firm's independence as auditor.

The Council further understands that KPMG has accepted that they did not notify the Commission as required, and is investigating why the matter was not identified by the firm's internal systems. This issue was considered by the PSAA Board on 25 June which instructed that steps be taken to appoint a new auditor to the Council.

The PSAA subsequently notified the Council that it wishes to appoint Grant Thornton UK LLP as the Council's auditor for the audit of the accounts for two years from 2015/16 onwards and to pick up work relating to previous audits, to the extent that it cannot be completed quickly by KPMG as part of the handover.

Council officers are in the process of taking steps to ensure that the changeover of auditor happens in a managed and controlled way. To ensure this a number of actions are being taken including:

- Arranging final sign off of the Council's Whole of Government Accounts (WGA) by KPMG. Audit work is complete but final sign off cannot occur until other Authorities are in a position to confirm their counter party balances with the Council. Final sign off is anticipated in advance of the deadline of 2nd October.
- A series of meetings with Grant Thornton are planned during September 2015 and beyond. Papers and other documents will be prepared detailing the Council's financial position and covering work related to and including the Managed Services Project.
- Arrangements are being made to finalise the audit of the Pooling of Housing Capital Receipts Return and the Teachers' Pensions return. It is expected that Grant Thornton will audit these returns. No significant issues are anticipated.
- The Council has a number of objections pertaining to prior year's accounts going back 7 years. The Council has provided KPMG with information regarding these objections. The PSAA are planning that KPMG should deal with the matters outstanding prior to 2014/15 and Grant Thornton should pick up any subsequent matters arising. Discussions are on-going to ensure that this process is managed as smoothly as possible with the objective of resolving all issues in respect of objections as soon as possible.

5. Financial Implications

The Council has written to the PSAA to state that it does not expect the Council to be financially disadvantaged as a consequence of this issue in respect of audit fees. Section 7 of the Audit Commission Act 1998 provided for determination of a scale fee by the Audit Commission and a discretion to vary the fee where it appeared that substantially more or less work than that envisaged by fee was undertaken. These powers have been delegated to the PSAA.

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| 6. | Legal Implications | N/A |
| 7. | Staffing Implications | N/A |
| 8. | Consultation | N/A |