

Arrangements for the Appointment of External Auditors

Report of Chief Finance Officer 22 March 2023

PURPOSE OF REPORT

The purpose of this report is to inform the Audit Committee of the outcome of Public Sector Audit Appointments (PSAA) procurement process for the appointment of External Auditors to the Council for the period 2023/24 to 2027/28.

This report is public

RECOMMENDATIONS

It is recommended that the Audit Committee:

1. Note that KPMG have been appointed as the Council's external auditor for the appointing period from 2023/24 to 2027/28.

1.0 INTRODUCTION

- 1.1 The Local Audit and Accountability Act 2014 (the Act) at Section 7 states that an authority must appoint a local auditor to audit its accounts for a financial year not later than 31 December in the preceding financial year.
- 1.2 In 2017, the Council opted into the 'appointing person' national auditor appointment arrangements established by Public Sector Audit Appointments (PSAA) for the period covering the accounts for 2018/19 to 2022/23. Deloitte has been the council's external auditor under this appointment.
- 1.3 Council agreed at its meeting 23 February 2022 for PSAA to appoint its external auditor for the appointing period spanning the audits from 2023/24 to 2027/28. The procurement process conducted by PSAA took place during the Spring/Summer of 2022. On 3rd October, PSAA informed the Council of the outcome of the procurement process. In summary, PSAA offered contracts to six suppliers: Grant Thornton, Mazars, Ernst and Young, KPMG, Bishop Fleming and Azets Audit Services. On 17th October, PSAA subsequently informed the Council that they proposed appointing **KPMG** as the External Auditor for Lancaster City Council for 5 years from 2023/24 to 2027/28.

2.0 BACKGROUND

- 2.1 KPMG is one of the 'Big Four' audit firms and operates in over 100 countries with over 230,000 employees providing audit, assurance, tax, consulting and advisory services to the public and private sectors. KPMG employees around 16,000 people in the UK. Within the public sector they have 14 active Key Audit Partners supported by a team of 100 staff and a range of specialists. KPMG undertakes a range of other public sector audit work including Local Audits in the NHS, central and local government audit work on behalf of NAO and Audit Scotland and a range of external audits in the education and social housing sectors. Prior to 2018, KPMG were the Council's appointed auditors.

- 2.2 In developing appointment proposals PSAA considered information provided by both opted-in bodies and audit firms, and have had regard to and sought to balance a range of factors including:
- auditor independence, the most critical of all the factors;
 - joint/shared working arrangements and information from bodies, where we have prioritised those requests that are most relevant to the auditor's responsibilities;
 - our commitments to the firms under the audit contracts;
 - bodies' main offices and firms' geographical preferences;
 - the status of prior years' audits; and
 - continuity of auditor where appropriate.

- 2.3 The Council was given the opportunity to make representations about the choice of Auditor appointment. Following discussions with the Finance Team and in consultation with the Chief Executive Member for Finance and Resources and the Chairman of the Audit Committee, no such representations were considered necessary. This will mean that, subject to the Council's resolution, the current External Auditor, Deloitte will remain in place to undertake the audit of the Council's accounts for 2022/23 and KPMG will be appointed by PSAA for the audit of the Council's accounts from the 2023/24 financial year for five years

3.0 DETAILS OF CONSULTATION

- 3.1 Under regulation 13 of the Appointing Persons Regulations, PSAA must appoint an external auditor to each opted-in body having consulted on their proposal.

- 3.2 PSAA sent consultation emails to Section 151 Officers and copied in the Audit Committee Chair and Chief Executive from 17 October 2022, with responses requested by 14 November 2022.

- 3.3 Through this consultation, the Council was able to make representations to PSAA about the proposed auditor appointment including any reasons why the proposed appointment should not be made, for example:

- There is an independence issue in relation to the firm proposed as the auditor, which had not previously been notified
- There are formal and joint working arrangements relevant to the auditor's responsibilities which had not previously been notified

- 3.4 The s151 Officer was satisfied with the appointment of KPMG as the external auditor for the Council given there are no such circumstances of concern.

4.0 OPTIONS AND OPTIONS ANALYSIS

- 4.1 As the report is only for noting the options that Audit Committee Members might consider in relation to the contents of this report are:

- a) Note the appointment of KPMG as the Council's external auditors 2023/24 to 2027/28.
- b) Do not note the appointment of KPMG as the Council's external auditors 2023/24 to 2027/28.

- 4.2 The preferred option is option a at paragraph 4.1.

5.0 CONCLUSION

- 5.1 Members should note the appointment of KPMG as the Council's external auditors for 2023/24 to 2027/28.

CONCLUSION OF IMPACT ASSESSMENT

(including Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing)

Not Applicable

FINANCIAL IMPLICATIONS

In concluding the procurement process for the appointment of External Auditors, PSAA advised audit bodies to anticipate an increase in fees in the region of 150% with effect from 2023/24 (whilst acknowledging that actual fees will depend on the amount of work required by individual auditors). It must be stressed that, irrespective of the choice of auditor appointment, the fees would be the same.

On the basis of the latest fee estimates for 2021/22 (the latest information available) which is c£45K, this would imply that the Council's audit fees will rise to c£113k. It should also be noted that it is not known at this stage to what extent the Government will provide Councils with additional funding to reflect the new burdens place on them by the changes in the audit regime.

SECTION 151 OFFICER'S COMMENTS

The Section 151 Officer has authored his report in his capacity as Chief Finance Officer

LEGAL IMPLICATIONS

Section 7 of the Local Audit and Accountability Act 2014 requires the Council to appoint a local auditor to audit its accounts for a financial year not later than 31 December in the preceding year. This report has been produced to comply with this statutory obligation.

MONITORING OFFICER'S COMMENTS

The Monitoring Officer has been consulted and has no comments to make on this report.

BACKGROUND PAPERS

Council 23 February 2022

[Agenda for Council on Wednesday, 23rd February 2022, 6.00 p.m. - Lancaster City Council](#)

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