

Report of the Director of Resources

Report to Corporate Governance and Audit Committee

Date: 23rd January 2012

Subject: Consultation on the interim auditor appointment for 2012/13

Are specific electoral Wards affected? If relevant, name(s) of Ward(s):	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Are there implications for equality and diversity and cohesion and integration?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Is the decision eligible for Call-In?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Does the report contain confidential or exempt information? If relevant, Access to Information Procedure Rule number: Appendix number:	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

Summary of main issues

1. The Department of Communities and Local Government (DCLG) have consulted on the disbanding of the Audit Commission. The necessary arrangements for a post-Audit Commission era have not yet been established. The Council's current external auditor's appointment runs until the conclusion of the final account audit for 2011/12. Therefore there is a requirement to make interim arrangements to ensure that external auditors are in place for the 2012/13 financial year.
2. The Audit Commission are consulting with the Council on their proposal to reappoint KPMG for the period 1st April 2012 to 31st August 2012.

Recommendations

3. Members are requested to note that the Director of Resources intends to raise no objections to the appointment of KPMG on an interim basis and comment on this proposal.

1 Purpose of this report

- 1.1 This purpose of this report is to inform members that the Audit Commission are consulting with the Council on making an interim appointment for the 2012/13 audit.

2 Background information

- 2.1 The Audit Commission has previously appointed KPMG LLP to audit up to the 2011/12 accounts of Leeds City Council. The Commission now needs to make a new auditor appointment for 2012/13.
- 2.2 DCLG have consulted on the disbanding of the Audit Commission. The necessary arrangements for a post-Audit Commission era have not yet been established although a number of interim measures have been taken by DCLG and the Audit Commission. One such measure is that, following a request from DCLG, the Commissioning Board of the Audit Commission agreed to outsource the work currently undertaken by its in-house audit practice. New contracts will be let for either 3 or 5 years starting with the audit of accounts for 2012/13. The process of outsourcing work undertaken by the in-house team will be completed before turning attention to other organisations, like Leeds City Council, that have auditors other than the Audit Commission's in-house team. Therefore, the Audit Commission will not be able to make an appointment before 1st September 2012.
- 2.3 As auditors must be in place at the start of the financial year, the Audit Commission are proposing to make an interim appointment to cover the period 1st April 2012 to 31st August 2012.

3 Main issues

- 3.1 The Audit Commission proposes to appoint KPMG to audit the accounts for 2012/13 on an interim basis. The expectation is that KPMG will not need to undertake any substantive audit work and their role will be limited to a watching brief. If this is the case, the Audit Commission will meet any costs incurred by KPMG. During the course of any year there are occasions when the accounting treatment of a particular transaction is open to interpretation. When this occurs, the Council would routinely seek advice from the external auditors rather than wait for the auditors to question the accounting treatment as part of their audit and verification of balance sheet figures. It is understood that this is what the Audit Commission have in mind when they refer to 'watching brief'.
- 3.2 If any substantive work is required, it will be of an exceptional nature, for example, in the event of KPMG exercising their statutory report powers and producing a 'report in the public interest'. Such additional fees will be met by the Council, not the Audit Commission.
- 3.3 Given the progress made on the consultation by DCLG on 'the Future of Local Public Audit', there would appear to be no sensible alternative to the interim appointment of KPMG. It would appear highly unlikely that another provider could be appointed to an interim watching brief on the same terms (i.e. nil cost to the Council). In addition,

there are no adverse performance issues that would suggest an appointment other than KPMG should be made.

- 3.4 Following the award of contracts in Spring 2012 for those organisations that current have the Audit Commission's in-house team as their appointed auditors, The Audit Commission will consult with the Council on the appointment of auditors to audit 2012/13 and future years' accounts. However, there are also concerns about the timetable for the implementation of any new audit framework. Indeed, the timetable is dependent on parliamentary time to introduce primary legislation. There is therefore a possibility that the six month interim appointment may need to be extended.

4 Corporate Considerations

4.1 Consultation and Engagement

- 4.1.1 The Audit Commission are consulting on their proposal to appoint KPMG on an interim basis for the 2012/13 audit of accounts. Members' views will inform the proposed response to the consultation.

4.2 Equality and Diversity / Cohesion and Integration

- 4.2.1 This report does not highlight any issues regarding equality, diversity, cohesion and integration.

4.3 Council Policies and City Priorities

- 4.4 The terms of reference of the Corporate Governance and Audit Committee require the Committee to consider the Council's arrangements relating to external audit requirements. In that regard, Members are asked to agree to the proposal from the Audit Commission to reappoint KPMG as the Council's external auditors from 1/4/12 to 31/8/12

4.5 Resources and Value for Money

- 4.5.1 In the absence of any viable alternative and because the cost of the proposal is to be met by the Audit Commission (subject to there being no exceptional work to be completed), the proposal represents value for money and can be contained within existing resources.

4.6 Legal Implications, Access to Information and Call In

- 4.7 The Audit Commission are required under section 3 of the Audit Commission Act 1998 to appoint external auditors. A response on behalf of the Council to consultation by the Secretary of State or Minister of the Crown (construed to be consultation of this type by the Audit Commission) are defined in constitution as significant operational decisions and therefore not subject to call in.

4.8 Risk Management

- 4.8.1 There are no direct risk management implications of this report.

5 Conclusions

- 5.1 The Director of Resources is minded to respond to the consultation and raise no objections to the re-appointment of KPMG as interim auditors. The views of Corporate Governance and Audit Committee will be taken into account in the response.

6 Recommendations

- 6.1 Members are requested to note that the Director of Resources intends to raise no objections to the appointment of KPMG on an interim basis and comment on this proposal.

7 Background documents

- 7.1 None.