

Leaders' Committee

Extension of External Audit Contract Item no: 17

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Summary

At its meeting on 22 March 2018, the Audit Committee received a report regarding the extension of the external audit contract for an additional year to include the audit of the 2018/19 accounts. KPMG was awarded the contract in December 2015 for an initial three year period with an option to extend it for an additional year subject to satisfactory performance. The initial three year period covered the audit of the 2015/16, 2016/17 and 2017/18 financial accounts. The Audit Committee considered the report and recommends that Leaders' Committee approves the extension of the external audit contract.

Recommendations

Leaders' Committee is asked:

- to note the recommendation of the Audit Committee; and
 - approve the extension of the external audit contract with KPMG for an additional year to include the audit of the 2018/19 accounts.
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Extension of External Audit Contract

Introduction

1. In accordance with the requirements of London Councils' governing agreement, the Director of Corporate Resources has to make appropriate arrangements to procure the audit of London Councils' annual accounts. An audited version of the annual accounts is presented to the Audit Committee for approval before circulation to all member boroughs each year. In December 2015, Leaders' Committee appointed KPMG LLP as London Councils' external auditor for a three year period commencing from 2015/16 to 2017/18. KPMG's services were procured through a Crown Commercial Services' procurement framework and the contract includes an option to extend it by a further year. The Audit Committee considered the option to extend the contract at its meeting on 22 March 2018.

Extension of Existing Contract

2. The 2017/18 accounts is the final set of annual accounts that will be audited by KPMG. The current contract for the provision of external audit services includes an option to extend the contract for a maximum of one year subject to satisfactory performance. It is the view of London Councils officers, that KPMG has provided a highly professional and efficient external audit service over the three years of the contract. The firm has consistently met the deadlines and milestones set out in the contract and has not received any complaints on the quality of its audit services.
3. KPMG has indicated that it would be prepared to accept the contract extension. KPMG has charged an annual audit fee of £36,000 over the course of the three years and has stated that the proposed fees for 2018/19 will remain at the same value. The proposed fee of £36,000 appears reasonable in comparison to fees incurred by local government bodies with a similar level of financial transactions. The Committee should be aware that there are some instances where the proposed fee could be increased such as a change in the scope of the audit. Any change in the proposed fees would have to be agreed with the Director of Corporate Resources and presented to the Audit Committee for approval.

Audit Committee Recommendation

4. The Audit Committee's Terms of Reference includes the responsibility to make a recommendation to the Leaders Committee on the appointment, reappointment and removal

of the external auditor. The Audit Committee considered the contract extension at its meeting on 22 March 2018 and agreed to recommend that Leaders' Committee approve the extension of the external audit contract with KPMG for an additional year to include the audit of the 2018/19 accounts.

Procurement of New External Audit Contract

5. London Councils officers will commence arrangements to procure an external audit service for 2019/20 onwards and intend to complete the exercise by March 2019.

Recommendations

6. Leaders' Committee is asked:
 - to note the recommendation of the Audit Committee; and
 - approve the extension of the external audit contract with KPMG for an additional year to include the audit of the 2018/19 accounts.

Financial Implications for London Councils

The proposed audit fee for the 2018/19 financial accounts of £36,000 has been provided for in the 2018/19 budget approved by Leaders' Committee in December 2017.

Legal Implications for London Councils

London Councils' financial regulations require the 2018/19 audited accounts to be presented to the Audit Committee for approval by 30 September 2019. If the decision to extend the contract is not agreed, London Councils officers will have to bring forward the procurement exercise for a new external audit contract to ensure that the audit of the 2018/19 accounts is completed within the deadline.

Equalities Implications for London Councils

None

Background Papers

London Councils Leaders' Committee Governing Agreement
London Councils Audit Committee – Terms of Reference