

<b>Committee(s):</b> Audit and Risk Management – For decision	<b>Date(s):</b> 28/01/2020
<b>Subject:</b> External audit procurement – next steps	<b>Public</b>
<b>Report of:</b> The Chamberlain	<b>For Decision</b>
<b>Report author:</b> Neilesh Kakad, Group Accountant, Financial Services Division	

### Summary

The City Corporation's external audit service contract is due to end in 2020/21 and your Committee has decided to re-tender this contract. This report sets out the next steps in the procurement process. This includes re-convening the Independent Audit Appointment Panel (IAAP), as required by the Local Audit and Accountability Act 2014 (the Act), details of the procurement process and an estimated timeline of activities leading to the award of a new contract.

### Recommendation(s)

Members are asked to:

- endorse the procurement approach for the new external audit service contract;
- agree the Chairman of the IAAP; and,
- agree the elected Members (a maximum of 2) who will sit on the IAAP.

### Main Report

#### Background

1. At your September Committee meeting it was agreed the City Corporation would re-tender the external audit contract following the conclusion of the current contract with BDO, which will end with the 2020-21 audits. This decision also confirmed that the City Corporation would seek to appoint a single audit firm across all its funds. The Local Audit and Accountability Act 2014, which governs the auditor appointment process for City Fund, requires an auditor to be appointed by the December of the financial year prior to the start of the new contract. This means an appointment is required by December 2020 in order to comply with the Act. The Act also requires that an IAAP be convened to advise on the following matters:

- the selection and appointment of the auditor;

- whether the authority should adopt a policy on obtaining non-audit service from the auditor, included the contents of such a policy;
  - the maintenance of an independent relationship with the local auditor appointed to audit its accounts;
  - any proposal by the authority to enter to enter into a liability limitation agreement, and,
  - the outcome of any investigation of an auditor's resignation from office, if this occurs, or on any proposal to remove a local auditor from office.
2. It should be noted that the IAAP must have a majority of and be chaired by an independent member with a minimum of 2 independent members.

### **Current Position**

3. Following the decision to re-tender, the current external audit contract will end with the 2020-21 audit. In order for an audit firm to be appointed within the required timeframe, a procurement exercise will need to be completed during 2020 to ensure compliance with the relevant legislation. The below sets out the proposed approach.

### **Proposal**

4. Following your decision to re-tender, the below high-level timetable has been drawn up setting out the steps to award a new audit contract by the December 2020 deadline.

<b>PROCUREMENT STAGES</b>	<b>DATE</b>
IAAP to agree service specification and invitation to tender (ITT) documentation	April 2020
Issue ITT	April 2020
Deadline for ITT Submission	May 2020
Initial evaluation of bids	May 2020
Presentations from bidders to IAAP and final evaluation	June 2020
IAAP Recommendation and A&RM confirmation of successful bidder	July 2020
Notification of Outcome	August 2020
Contract Award	October 2020

5. It is proposed that the City Corporation utilises the Crown Commercial Services Management Consultancy Framework agreement as this is the most efficient route to market given the timescales involved, the resources required with alternative routes and the fact that the firms included in the framework (listed in Appendix 1), are likely to be those who would be able to fulfil the requirements of each of the City Corporations funds.
6. For completeness, the specific requirements for auditors of Bridge House Estates (BHE) and City's Cash (CC) can be found in Appendix 2. These requirements will

form part of the service specification so all bidders will need to ensure they are met.

7. As in the previous tender exercise, the IAAP will carry out the following functions:
  - to agree the service specifications and invitation to tender (ITT) documents including assessment criterion;
  - review and score all bids submitted; and,
  - make a recommendation to Audit and Risk Management Committee on the appointment of an auditor.
8. The 3 independent Members of your committee are also appointed as Members of the IAAP. This will enable up to 2 elected Members to also sit on the panel, whilst maintaining the requirement for a majority of independent Members.
9. The panel must also be chaired by an independent Member. It is therefore requested that your committee confirm which elected Members will sit on the panel and confirm which of the independent Member will be the panel Chairman.

### **Corporate & Strategic Implications**

10. Aside from the statutory requirements of this area of work, gaining assurance on the financial standing of the City Corporation's funds is a core element in enabling delivery of the City Corporation's corporate plan on contributing to a flourishing society, shaping an outstanding environment and supporting a thriving economy.

### **Implications**

11. Once the tender process has been completed, the financial implications will be incorporated into the City Corporation's financial plans.

### **Conclusion**

12. Following the decision by your Committee to re-tender the external audit contract, a high-level procurement timetable has been drawn up setting out the steps required to appoint a new audit firm by December 2020. The Local Audit and Accountability Act 2014 requires that an IAAP carry out the procurement process and recommend to your Committee the appointment of a new auditor.
13. The 3 independent Members of your Committee are also Members of the IAAP. 2 elected Members can also sit on the panel. Confirmation of the Chairman of the panel (which must be an independent Member) and of the elected Members which will sit on the panel is requested from your Committee.

## **Appendices**

- Appendix 1 – List of audit firms included in the Crown Commercial Services Management Consultancy Framework – Audit.
- Appendix 2 - Qualification criterion for auditors of the Chamberlain's and Bridgemasters' Accounts

## **Background Papers**

Report on External Audit Appointment, Audit and Risk Management Committee,  
24/09/2019

### **Neilesh Kakad**

Group Accountant, Financial Services  
Chamberlain's

T: 020 7332 1381

E: [Neilesh.Kakad@cityoflondon.gov.uk](mailto:Neilesh.Kakad@cityoflondon.gov.uk)

## **Appendix 1 – List of audit firms included in the Crown Commercial Services Management Consultancy Framework – Audit**

Actica Consulting Limited  
Alvarez & Marsal Europe Holding LTD  
Ankura Consulting (Europe) Limited  
BDO LLP  
Beever & Struthers  
Berkeley Research Group LLC  
Bramble Hub Limited  
Capita Business Services LTD  
Deloitte LLP  
Ernst & Young LLP  
FTI Consulting LLP  
Grant Thornton UK LLP  
Kosi Corporation Limited  
KPMG LLP  
Mazars LLP  
PricewaterhouseCoopers LLP  
Protiviti Limited  
RSM UK Tax and Accounting Limited  
Scott-Moncrieff  
Veractiy OSI UK Limited

## **Appendix 2**

### **Auditors of the Chamberlain's and Bridgemasters' Accounts (the Audit Panel)**

#### **Qualifications**

1. The qualifications are:
  - (i) the Auditor and the firm they represent must meet all legal requirements to carry out an audit of the Chamberlain's and Bridgemasters' Accounts;
  - (ii) the firm they represent must have experience of auditing –
    - (a) organisations employing over 3,000 staff; or
    - (b) organisations with turnovers in excess of £500 million and reserves in excess of £1 billion; or
    - (c) public authorities or other public sector organisations; or
    - (d) charities with turnovers in excess of £40million.
  - (iii) the Auditor and the firm they represent must have signed or be willing to sign an engagement letter in the standard form.
  - (iv) the firm represented by the Auditor must have generated audit fees of at least £5million in its last accounting year.
2. For the purpose of paragraph 1, an Auditor represents a firm where:
  - (i) the firm is a company and he is a director of that company; or
  - (ii) the firm is a partnership and he is a partner in that partnership; or
  - (iii) the firm is a limited liability partnership and he is a member of that limited liability partnership; or
  - (iv) he is an employee of that firm.

#### **The Audit Panel**

3. The lead partner/employee of the successful firm will be required to be elected to the Audit Panel. The Audit Panel comprises up to six partners/employees drawn from different firms (including the partner of the successful firm).
4. Those partners/employees who are not from the successful firm are responsible for reviewing the processes adopted by the successful firm for the annual audit of the City's Cash Trusts and City's Cash, the Bridge House Estates and the Sundry Trust Funds and reporting on whether the audit of these financial statements has been conducted in accordance with proper auditing standards.
5. The role of the lead partner/employee of the successful firm is to provide the information for the Panel's review, to advise on the processes followed during the audit, and to respond to questions and issues raised by Panel Members.
6. The lead partner/employee must be willing to sign a Letter of Engagement for the Audit Panel in the standard form.
7. The terms of reference for the Audit Panel are set out in the Letter of Engagement. Essentially they provide the following services:

- such part of the services agreed with other Panel Members;
  - to review the procedures adopted by the appointed audit firm for the annual audit in order to ascertain whether, in the Panel Member's view, the audit of the financial statements of that entity have been conducted in accordance with the auditing procedures referred to in the appointed audit firm's opinion; and
  - to carry out such work as may be agreed with other members of the Panel which will form the basis of a report which will be agreed and signed between the Panel Members in the prescribed form. The report will be included in the annual accounts of the entities set out above.
8. The work of the Audit Panel shall not constitute an audit of the financial statements of any entity and the responsibility for the audit rests with the appointed audit firm.
  9. The work of the Audit Panel is normally undertaken over the course of a day with a subsequent meeting between the Chamberlain (the City of London Corporation's Chief Financial Officer) and the Audit Panel to discuss the Panel's findings, queries etc.
  10. The Audit Panel is completely separate from the Audit and Risk Management Committee and the Independent Auditor Appointment Panel. It has a specific responsibility to review the processes adopted by the appointed auditor and report on whether the audit of the financial statements listed above has been conducted in accordance with proper auditing standards.
  11. The Audit Panel is elected by and reports to the Lord Mayor, Aldermen and Livery of the several Companies of the City of London in Common Hall as part of the financial statements listed above. There is no requirement for the Audit Panel to report directly to the Audit and Risk Management Committee, however the Audit Panel's Report will be considered by the Audit and Risk Management Committee as part of the approval process for the financial statements.