

NOTTINGHAM CITY HOMES**REPORT OF THE ASSISTANT DIRECTOR OF
FINANCE AND PROCUREMENT****AUDIT COMMITTEE
25 SEPTEMBER 2014****APPOINTMENT AND REMUNERATION OF THE EXTERNAL AUDITORS****1 SUMMARY**

- 1.1 The contract with KPMG LLP for the provision of external audit services ended this year. The Company's standing orders allow for the contract to be extended into a 4th year and this report puts forward that recommendation to Committee Members.

2 RECOMMENDATIONS

It is recommended that the Audit Committee:

- 2.1 Approve the proposal that KPMG's current contract, audit fee and terms of engagement are extended for 1 year.
- 2.2 Agree the re-appointment of KPMG LLP as the Company's external auditors and recommend this for approval by the Board.

3 REPORT

- 3.1 The Finance and Audit Committee agreed at its May 2010 meeting that the external audit service would be market tested in 2012 in line with best practice. Following an invitation to tender in January 2012 only 3 bids were received, which were assessed based on a weighting of 40% price and 60% quality within the tender evaluation.
- 3.3 Following interviews with each audit firm, which included Audit Committee members on the panel, the tender submission ranked highest and hence deemed to be the most economically advantageous offer in relation to the assessment criteria, was from KPMG. The appointment of KPMG as the Company's external auditors for a period of up to 3 years was subsequently approved by the Audit Committee and Board in February and March 2012 respectively.
- 3.4 The external audit contract has been well managed by KPMG over the last 3 years and KPMG are also now the City Council's external auditors. This is beneficial in relation to work on shared systems, the efficiency of the audit process and keeping officer time supporting the auditors to a minimum. It also gives NCH a greater level of comfort on the inter-company balances, mitigation of shared audit risks and audit issues reported on by KPMG.
- 3.5 The contract with KPMG has now ended but the Company's Standing Orders: Part 3 – Tender and Contract Procedure Rules allow for contracts

to be extended for 1 year with the agreement of the Chief Executive and in consultation with the Chair of the Board. When an organisation changes its external auditors the workload of the finance team, in relation to supporting and providing information to the new auditors, increases in comparison to retaining audit arrangements that have been in place for 2 or 3 years.

- 3.6 It is therefore proposed that KPMG's contract is extended and they are appointed to provide external audit services for 1 further year and hence perform the audit of NCH's 2014/15 financial statements. The terms of engagement and fees would be those currently in place and the external audit service would subsequently be market tested in 2015.

4 FINANCE, LEGAL AND RISK IMPLICATIONS

4.1 Financial Implications

- 4.1.1 KPMG's audit fee in relation to their audit of NCH's 2013/14 Financial Statements was £19.5k. It has been agreed with KPMG that if their contract is extended for 1 year that the audit fee will be frozen at this amount. As a result of undergoing the formal tender in 2012, a saving of £2k was achieved against the previous audit fee budget.

- 4.1.2 During the 3 years they have been appointed as NCH's external auditors, KPMG's audit fee has only risen by £570 (3%). If extended under the current agreed terms that will equate to an annual increase of just under 1% per annum.

4.2 Legal Implications

- 4.2.1 It is a statutory requirement of the Companies Act 2006 for audited annual financial statements to be produced and submitted to Companies House.

4.3 Risk Implications

None noted.

5 IMPLICATIONS FOR NOTTINGHAM CITY HOMES OBJECTIVES

- 5.1 The Audit Committee's Terms of Reference delegate responsibility to:
- Make recommendations to the Board on the appointment, re-appointment or otherwise, of the external auditors; and
 - Approve the fees and terms of engagement of the external auditors.

6 EQUALITY & DIVERSITY IMPLICATIONS

- 6.1 Has the equality impact of these proposals been assessed?
- Yes (EIA attached)
- No (this report does not contain proposals which require an EIA)

**7 BACKGROUND MATERIAL AND PUBLISHED DOCUMENTS
REFERRED TO IN COMPILING THIS REPORT**

7.1 None.

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