

To: Shareholder and Joint Venture Group
Date: 27 March 2024
Report of: Head of Financial Services
Title of Report: Oxford City Housing Group, Oxford Direct Services Ltd and Oxford Direct Services Trading Ltd External Auditor Appointment 2023/24 onwards

Summary and recommendations	
Purpose of report:	To propose the appointment of Mazars LLP as external auditor for the 2023/24 financial statements and subsequent 3 years.
Recommendation: that the Shareholder and Joint Venture Group resolves to:	
1.	Approve the appointment of Mazars LLP as external auditor for the 2023/24 financial statements and the following three years, with the final year being subject to satisfactory performance.

Appendices	
None	

Background

1. The previous contract for the external audit of the Council's wholly owned group companies was held by Mazars LLP for audits up to the and including the conclusion of the 2021/22 audit. A decision was taken by the Shareholder and Joint Venture Group to extend the appointment for another year to enable the delivery of the 2022/23 financial year audit. This extension was taken, rather than going out to tender at that point, due to the for Oxford Direct Services Limited (ODSL) for 2021/22 not being completed until August 2023 due mainly to issues experienced with QL. The extension covered ODSL, Oxford Direct Services Trading Limited (ODSTL) and the Housing Group so that there was one auditor for all of the wholly owned companies.
2. The appointment of company auditors is a reserved matter for the shareholder and this report is being brought in order to gain approval from the shareholder for the appointment of Mazars LLP following a procurement process (outlined later in the report). The contract is arranged by the Council as shareholder of Oxford City

Housing Limited, ODSL, and ODSTL, however the services are to be provided to the relevant legal entity and the fees are payable by them.

Audit Market Capacity

3. There is a lack of capacity in the audit market for large scale audits such as Councils and Council group companies and auditors are able to choose work that fits their capacity. Increased scrutiny from the Financial Reporting Council (FRC) on the work of audit firms has led to a number of very significant fines of audit firms. Auditors are therefore undertaking more intensive work to cover off the risks.

Auditing Standards

4. Recent years have seen significant revisions to auditing standards, addressing the audit of accounting estimates and going concern with further revisions to major auditing standards on risk assessment and fraud (revisions to existing International Standards on Auditing (ISAs) (ISA (UK) 315 and ISA (UK) 240)) in the following year. The reason for these changes has been the sudden and high profile failures of major companies and the subsequent scrutiny of the audits of those organisations. As a result, there have been several reviews of the audit market with the aim of improving audit quality. In addition, auditing standards have been updated to keep pace with technology and the way businesses operate today in a digital world. These changes impact on the audits for private and public companies alike, including the Council's group companies. (They also impact on the Council itself since the council operates under the International Financial Reporting Standards and the Council auditors have to comply with ISAs.)
5. ISA (UK) 315, the standard on identifying and assessing the risks of material misstatements has seen a significant expansion. This standard is all about understanding the entity, its environment, and the applicable financial reporting framework, in order to adequately identify the risks of material misstatement. This standard has specific relevance to ODSL and ODSTL due to the issues that arose in 2021/22. Changes to ISA (UK) 315 mean that the auditor now looks more closely at policies, procedures and internal controls than they have done in previous years, and they will focus more heavily on the general IT environment to gather a greater understanding of the potential risks arising from the technology used within the business. The auditor will need to maintain a thorough understanding of the structure of the IT hardware and software and the various layers of the IT system such as security and access rights.
6. Five inherent risk factors have also been introduced to risk assessment: complexity, subjectivity, change, uncertainty and susceptibility to misstatement due to management bias or other fraud risk factors, insofar as they affect inherent risk. New requirements have been added with respect to the entity's control environment, including more evidence/information on controls relevant to the audit and on the design and implementation testing required to be undertaken in all cases.
7. These changes have a direct impact on both the willingness of audit firms to undertake work (especially when combined with increased FCA scrutiny) and the

price that needs to be paid for an audit. The latter is impacted both through the increased workload and also the increased risk of undertaking an audit.

External Audit Procurement

8. The latest procurement process was to let a contract to a single auditor for them to provide the audit for all of these companies due to both the complex inter-company relationships which are best dealt with on a consistent basis by one auditor and also to enable Council officers to have one point of contact and one process through which to manage the audit.
9. The procurement was undertaken through a Crown Commercial Services framework. The timeframe of the contract is 3 years with an option to extend by one further year. There were 10 expressions of interest from firms on the framework, however ultimately only one firm submitted a tender which was from the existing auditor for the companies.
10. Mazars LLP proposal is for the same audit partner to be in charge of the audit as was in charge for the 2021/22 and 2022/23 audits and for the same audit team as the 2022/23 audit. As the incumbent auditor for all entities the need to undertake significant preparatory work is mitigated and the continuity of the members of an audit team allows Council officers and employees of the companies to maintain established good relationships that have been built up. This will be subject to an annual independence review. The submission from Mazars meets the requirements included in the tender specification.
11. The prices quoted are:

Housing Group	£55,000
ODSL and ODSTL	£70,000

The above price will be fixed for the years ending 31 March 2024 and 2025 and thereafter, as long as there are no significant changes to the scope of work, the fee will increase by an inflationary amount set at CPI +2% (based on CPI on each anniversary date of the award of the contract).

The initial price quoted is the same price as paid for the audit of the 2022/23 statements of accounts.
12. The proposed audit timeline is:
 - a) Planning and Risk Assessment – March/April
 - b) Test of controls – April
 - c) Substantive procedures – May/July
 - d) Completion – August/September

Conclusion

13. For all of the reasons included within this report it is considered that appointing Mazars LLP is the best approach for the Council and its group.

Financial implications

14. The proposed fees are in line with the fees paid for the audit of the 2022/23 financial accounts.

Legal issues

15. Section 475 of the Companies Act 2006 requires that a company's annual accounts for a financial year must be audited unless the company is exempt due to being a small company, a subsidiary of another company or dormant.

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Background Papers:
None