

Report subject	<b>Change of Auditor for Bournemouth Building and Maintenance Limited and Seascope Group Limited.</b>
Meeting date	29 July 2020
Status	Public Report
Executive summary	<p>Grant Thornton resigned with effect from 4 June 2020 as the auditors for the wholly owned council companies, Bournemouth Building and Maintenance Limited (BBML) and Seascope Group Limited (SGL) including its subsidiaries.</p> <p>While Grant Thornton will continue as BCP Council's external auditors, they have stated it is not operationally efficient for them to continue as the companies' auditors as a different audit team was required to the local public sector audit team.</p> <p>A new auditor must therefore be appointed for the companies and a procurement exercise has been conducted.</p> <p>It is a requirement of the Shareholders Agreement for both BBML and SGL that authority is sought from the council as sole shareholder for the appointment of a new auditor.</p> <p>Company audits must be carried out in accordance with UK Generally Accepted Accounting Practice and applicable Financial Reporting Standards. The proposed auditor, Hixsons Limited, was selected as they supplied the most cost effective quote to comply with these requirements.</p>
Recommendations	<p><b>It is RECOMMENDED that Cabinet:</b></p> <p><b>a) approves the appointment of Hixsons Limited as the external auditor for Bournemouth Building and Maintenance Limited (BBML) and Seascope Group Limited (SGL).</b></p>
Reason for recommendations	<p>It is a requirement on the companies to provide audited accounts in accordance with Section 475 of the Companies Act 2006.</p> <p>It is a requirement of the Shareholders Agreement for both BBML and SGL that authority is sought from the council as sole shareholder for the appointment of a new auditor.</p>

Portfolio Holder(s):	David Brown for Finance
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Wards	Council-wide
Classification	For Decision

## Background

1. The council established its company structure so that it is able to trade commercially. The council is legally constrained in its ability to generate a surplus by selling its services as a council unless it trades through a company. The structure established by the council is one whereby the council retains control as sole shareholder of Bournemouth Building and Maintenance Limited (BBML) and Seascope Group Limited (SGL). These companies and their subsidiaries are local authority trading companies and are private companies limited by shares.
2. BBML and SGL have a direct relationship with the council as their sole shareholder. Seascope South Limited and Seascope Homes and Property Limited are subsidiaries of Seascope Group Limited, which in turn is their shareholder.
3. The council, through Cabinet, retains control and influence as the sole shareholder of key aspects of BBML and SGL. It does this primarily through the Shareholder Agreement which sets out a number of specific matters, known as “reserved matters”, which have to be referred to the council as shareholder for decision, and also sets out the reporting arrangements whereby the company will report to Cabinet.
4. The matters which are reserved to the council as shareholder for decision include matters relating to the appointment and removal of directors; any proposals to form new subsidiary companies; appointment of auditors; change in company name; transactions over certain financial thresholds; selling or disposing of or any part of the company.
5. Traditionally BCP Council and the wholly owned council companies have had the same auditor. For 2019/20 this was Grant Thornton UK LLP.
6. Discussions with the auditor during the autumn of 2019 confirmed that it was no longer operationally efficient for Grant Thornton UK LLP to continue to audit the companies. Grant Thornton UK LLP advised that companies operate in a different regulatory regime to the council and therefore require different specialisms to those of the core council audit team.
7. Grant Thornton UK LLP formally resigned from the role of auditors of these wholly owned council companies with effect 4 June 2020.

8. The companies must have an appointed auditor in order to provide audited accounts to comply with Section 475 of the Companies Act 2006. Audits must be conducted in accordance with UK Generally Accepted Accounting Practice, International Financial Reporting Standards and International Standards on Auditing.

#### **Selection of new auditor for company accounts**

9. The resignation by Grant Thornton UK LLP was anticipated and therefore an exercise to select a new auditor commenced in March 2020.
10. The council and companies used the same auditors in the past, being those selected through Public Sector Audit Appointments Limited as the main council auditor. In order to test the market in terms of price and quality the procurement exercise sought a new auditor for the 2019/20 financial year. This allows the new arrangement to be tested without committing the council to a longer contract at this stage. The arrangement will be reviewed with a view to procuring a longer term solution in time for the audit of the 2020/21 financial year.
11. In accordance with financial regulations quotes were requested from three certified accountancy firms, all of which have a local presence. During the process it was confirmed that they would all provide audits to the required professional standards.
12. Upon evaluation, Hixsons Ltd were selected as the preferred supplier and are therefore recommended to be appointed as the auditor for the wholly owned council companies due to providing the most cost effective quote.
13. As well as being the most cost effective quote, the companies will benefit from audit cost savings compared to previous fees charged by Grant Thornton UK LLP.

#### **Options Appraisal**

14. It is a requirement of the Shareholder Agreements to seek authority to appoint a new auditor. No alternative options are appropriate.
15. The audit of company accounts must be conducted in accordance with relevant national, international and professional standards.

#### **Summary of financial implications**

16. The most cost effective quote is the basis of the selection of the new auditor. The companies will each benefit from savings compared to previous audit costs.

#### **Summary of legal implications**

17. The respective Shareholder's Agreements are the key documents setting out the legal relationship between the council as shareholder and each of BBML and SGL.
18. The companies are Local Authority Trading Companies further to the provisions of the Local Government Act 2003 and as such are wholly owned by the council. The council as shareholder retains control and influence over its wholly owned subsidiaries by way of the limitations on the companies to make certain decisions set out in the Shareholder's Agreement.
19. As the appointment of an auditor is a reserved matter in the Shareholder Agreement, the appointment must be approved by Cabinet (on behalf of the Council as shareholder).

### **Summary of human resources implications**

20. None.

### **Summary of sustainability impact**

21. The recommended audit appointment is a local company based in Bournemouth. Therefore the effects of travel on the environment will be minimised, and much of the audit work is planned to be completed remotely.

### **Summary of public health implications**

22. None.

### **Summary of equality implications**

23. None.

### **Summary of risk assessment**

24. The companies must have an auditor in place in good time to commence planning for the audit to allow for the submission of annual financial statements to Companies House by 31 December 2020. Therefore early engagement and commencement of the procurement process ensures a new auditor can be appointed in a timely manner.
25. Audits must be conducted in accordance with UK Generally Accepted Accounting Practice, International Financial Reporting Standards and International Standards on Auditing.

### **Background papers**

None.

### **Appendices**

There are no appendices to this report.