

**Manchester City Council
Report for Resolution**

Report to: Council - 3 March 2017
Subject: Appointment of External Auditor
Report of: City Treasurer

Summary

The Local Audit and Accountability Act 2014 (the Act), Section 7, states that a “relevant authority must appoint a local auditor to audit its accounts for a financial year not later than 31 December in the preceding financial year.” Current auditor contracts have been extended for 12 months, therefore for the City Council the appointment of an auditor must be completed by 31 December 2017 for the audit year 2018/19.

The Council has three options to secure an appointment: to run a local procurement; procure in partnership with other authorities; or opt into a national arrangement. Options have been assessed and reported to Audit Committee and the preferred solution supported by the City Treasurer, Executive Member and Audit Committee, is to opt into the national procurement being run by Public Sector Audit Appointments Limited and supported by the LGA.

Legislation requires that the decision to opt-in to this arrangement has to be made by Council.

Recommendations

Council is recommended to:

- approve the City Treasurer to confirm opt-in to the national external audit procurement process being run by PSAA Limited in conjunction with the LGA;
 - note that the Executive Member for Finance and Human Resources and Audit Committee will continue to receive update reports on progress in the procurement process.
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Wards Affected: All

Contact Officers:

Name: Carol Culley
Position: City Treasurer
Telephone: 0161 234 3506
E-mail: carol.culley@manchester.gov.uk

Background documents (available for public inspection):

Documents used in the development of the assurance report include:

- DCLG: Government response to the Future of Local Audit
- DCLG: Future of Local Public Audit – consultation: summary of responses
- Local Audit and Accountability Act 2014 (the Act)
- CIPFA Guide to Auditor Panels
- Reports to Audit Committee 5 October 2016 and 25 January 2017

1. Introduction

- 1.1 The Local Audit and Accountability Act 2014 (the Act), Section 7, states that a “relevant authority must appoint a local auditor to audit its accounts for a financial year not later than 31 December in the preceding financial year.” Current auditor contracts have been extended for 12 months, therefore for the City Council the appointment of an auditor must be completed by 31 December 2017 for the audit year 2018/19.
- 1.2 In October 2016 and January 2017 Audit Committee received reports on proposals for the appointment of external auditors. Following consultation and engagement with Audit Committee, the Executive Member (Finance and HR) and Greater Manchester Treasurers, the preferred option for the appointment is to opt into a national arrangement being run by Public Sector Audit Appointments (“PSAA”) Limited, as supported by the Local Government Association

2 Background

- 2.1 There is a requirement under the Local Audit and Accountability Act 2014, following the closure of the Audit Commission, for all local government and NHS bodies in England to locally appoint their external auditors.
- 2.2 There are three options open to the Council under the Act which are:
- Option 1: Make a stand-alone appointment as Manchester City Council
 - Option 2: Establish local joint procurement arrangements
 - Option 3: Opt-in to a sector led body appointed by the Secretary of State under the Act - Public Sector Audit Appointments (PSAA) Limited.
- 2.3 New appointments for auditors need to be made by December 2017 regardless of which option is chosen.
- 2.4 In accordance with Regulation 19 of the Local Audit (Appointing Person) Regulations 2015, the decision on opt-in has to be taken by Council (“full authority”).

3 Review of Options

- 3.1 Reports to Audit Committee have explored the above options in detail. Option 1 was not considered to be an efficient and cost effective approach. Under Option 2 the City Treasurer and counterparts in the GM Combined Authority, Transport for GM, GM Police and Crime Commissioners Office, GM Police, GM Fire and Rescue Service and across GM local government explored the possibility of a GM level procurement. At the same time Option 3 was explored and Treasurers met with the PSAA and LGA to influence the procurement approach being proposed.
- 3.2 In January 2017 Audit Committee received a report proposing opt-in to the national arrangements. This followed discussions and meetings with PSAA to

explore whether the approach being developed could be utilised to better meet the City Council and GM local authority needs. In particular PSSA were asked to confirm whether their process would (i) enable the same external auditor to be appointed to all GM local authorities and (ii) ensure an acceptable recognition of social value to be reflected in the procurement process.

- 3.3 PSAA were unable to guarantee the same external auditor for all GM local authorities due to strict conflicts of interest provisions in the legislation and in the professional standards with which accounting and audit firms must comply. Treasurers and Audit Committee accepted that whilst desirable this was not a barrier to opt-in.
- 3.4 The PSAA procurement process gives a lower proportion of the award criteria to social value than that set out in the Council's Ethical Procurement Policy. This has been raised with PSAA who have now included 5% for social value and confirmation that at Initiation to Tender firms will be asked to respond to a two questions related to social value. The outcome is disappointing but the recommendation is being made to proceed as the overall cost of the extra audit appointments process is expected to be lower through the national arrangement than if the Council procured this service locally, the Local Authority has relatively limited capacity to carry out this work and will benefit from the PSAA approach outlined below.
- 3.5 Key features of the PSAA approach are:
- Contracts let under the PSAA opt-in will run for five years.
 - The audit contracts between PSAA and the audit firms will require firms to deliver audits compliant with the National Audit Office (NAO) Code of Audit Practice.
 - The number of firms eligible to undertake local public audit is regulated through the Financial Reporting Council and the recognised Supervisory Bodies (RSBs). Only appropriately accredited firms will be able to bid for appointments.
 - PSAA will manage current and potential future conflicts of interest rather than the Council having to re-procure contracts should such conflicts arise.
 - Opting into the PSAA will remove the need to set up an auditor panel in addition to the Council's Audit Committee.
 - In addition to working with the LGA, a stakeholder advisory panel with representative organisations for councils, police and fire bodies has been established to ensure ongoing influence and engagement with PSAA.

4 Consultation with Executive Member and Audit Committee

- 4.1 The Executive Member for Finance and Human Resources and Audit Committee have been kept updated on developments through this process. They have sought assurance over social value and fee costs and will continue to be updated on these as arrangements process. PSAA have confirmed that they will pool scheme costs and charge fees to audited bodies in accordance

with a fair scale of fees which has regard to size, complexity and audit risk, most likely as currently evidenced by audit fees for 2016/17. Pooling means that everyone in the scheme will benefit from the most competitive prices. Fees will reflect the number of scheme participants and the greater the level of participation, the better the value represented by the scale fees.

- 4.2 As at 13 January PSAA confirmed that 200 authorities had opted-in to the national arrangement. All GM authorities and Core Cities are expected to opt-in. The deadline for opt-in is 9 March 2017.
- 4.3 The deadline for the City Council to opt into the sector led approach is 9 March 2017 and is a decision that must be approved at Full Council.

5 Recommendations

- 5.1 Council is requested to approve the City Treasurer to confirm opt-in to the national external audit procurement process being run by PSAA Limited in conjunction with the LGA.
- 5.2 Council is requested to note that the Executive Member for Finance and Human Resources and Audit Committee will continue to receive update reports on progress in the procurement process.