

Manchester City Council Report for Resolution

Report to: Council – 2 February 2022

Subject: Process for the Appointment of the External Auditor

Report of: Deputy Chief Executive and City Treasurer

Summary

This report sets out proposals for appointing the City Council' external auditor for the five-year period from 2023/24.

The Local Audit and Accountability Act 2014 (the Act) at 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." The City Council's current auditor contract with Mazars LLP has run from 2017 and was arranged through Public Sector Audit Appointments Limited (PSAA). It expires on completion of the 2022/23 audit.

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 the preferred solution as agreed at Audit Committee is to again opt into the national procurement being run by PSAA and supported by the LGA.

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

Recommendation

Council is requested to approve the preferred option to opt into the sector-led option through PSAA for the appointment of external auditors to principal local government and police bodies for five financial years from 1 April 2023.

Wards Affected - All

Environmental Impact Assessment – there are no specific implications from this decision that link to the Council's zero carbon target for the City.

Our Manchester Strategy Outcomes – there are no specific Our Manchester Strategy Outcomes that link directly to this decision. The external audit is a statutory requirement and a key element of the Council's governance framework.

Equal Opportunities Policy – there are no specific implications from the decision that link to the Council's equal opportunities policy.

Risk Management and Legal Considerations – are referenced within the report.

Financial Consequences – Revenue

This decision is to confirm the proposed procurement process for the appointment of an external auditor. The actual costs of this service will be determined as part of the procurement process and confirmed to Audit Committee as part of regular progress updates.

Capital Consequences – None

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Background documents (available for public inspection):

Documents used in the development of the assurance report include:

- 2017 reports to Audit Committee and Council
- Report to Audit Committee 23 November 2021
- Local Audit and Accountability Act 2014 (the Act)
- Local Audit (appointing Person) Regulations 2015
- CIPFA Guide to Auditor Panels

1 Introduction

- 1.1 The Local Audit and Accountability Act 2014 (the Act) at 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.” The current auditor appointment arrangements cover the period up to and including the audit of the 2022/23 accounts.
- 1.2 In 2017 the Council opted into the ‘appointing person’ national auditor appointment arrangements established by Public Sector Audit Appointments (PSAA) for the period covering the accounts for 2018/19 to 2022/23.
- 1.3 PSAA is now undertaking a procurement for the next appointing period, covering audits for 2023/24 to 2027/28. During Autumn 2021 all local government bodies need to make decisions about their external audit arrangements for accounting periods from 2023/24.
- 1.4 The closing date to opt in to the PSAA arrangement is 11 March 2022. This enables procurement and award of contracts by the statutory deadline of 31 December 2022.
- 1.5 A report to Audit Committee on 23 November 2021 set out the options open to the Council and the basis of officers’ recommendation to opt into the national arrangement with PSAA. Audit Committee supported the this preferred option and confirmed that Council be asked to endorse and approve this approach.

2 Background

- 2.1 There is a requirement under the Local Audit and Accountability Act 2014 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 2022 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 must be taken by Council (“full authority”).

3 Review of Options

- 3.1 A review of options was presented to Audit Committee and Council in 2017 to support the decision to opt in to the PSAA arrangements at that time. The November 2021 report to Audit Committee confirmed that the basis for that decision has not fundamentally changed in the intervening period and set out the pros and cons of the options:

Option 1: Make a stand-alone appointment as Manchester City Council

- 3.2 This option requires the Council to appoint an Audit Panel, separate in role and membership to the Audit Committee, to oversee the procurement and management of the external audit contract. It requires the whole or majority of the membership to be independent of the Council and this means that elected members will not have a majority input to assessing bids and choosing to which audit firm to award a contract for the Council's external audit.
- 3.3 This approach requires additional capacity and expertise to administer the process and to deliver the functions of the Panel. It will also result in the costs of tendering being borne solely by the Council.
- 3.4 The option limits the market influence that the Council has through the letting of a standalone contract and it is not guaranteed that firms will submit tenders for this work given widely reported capacity issues in the market and given they will also be competing as part of the PSAA arrangement. This presents a risk of being unable to make an appointment by the statutory deadline.
- 3.5 This option does enable the Council to determine cost, quality and social value weightings in its procurement process whereas opting into PSAA will require alignment with the scoring and appointment process agreed through their process.

Option 2: Establish local joint procurement arrangements

- 3.6 An option was explored to establish Greater Manchester level procurement arrangements. Whilst affording greater economies of scale this approach does largely present the same risks and opportunities as the stand-alone option. It also increases the risk that firms will not bid as they are at heightened risk of having a conflict of interest at one of the authorities. This option has been discussed with Greater Manchester Treasurers and the consensus is that this presents a high level of risk with relatively low benefits compared to option 3.

Option 3: Opt in to PSAA

- 3.7 PSAA was the option selected in 2017 for the reasons set out below. Given challenges and capacity in the market and the need to maintain quality of external audit provision, there is an even stronger case that this option will produce better outcomes and will be less burdensome for the Council than a procurement undertaken locally because:

- collective procurement reduces overall costs for the sector and for individual authorities compared to smaller local procurements and contract management arrangements;
- there is no required to establish a specific Council auditor panel with an independent chair and independent members to oversee a local auditor procurement and ongoing management of an audit contract;
- it is the best opportunity to secure the appointment of a qualified, registered auditor - there are only nine accredited local audit firms, and a local procurement would be drawing from the same limited supply of auditor resources as PSAA's national procurement; and
- supporting the sector-led body offers the best way of to ensuring there is a continuing and sustainable public audit market into the medium and long term.

3.8 Key features of the PSAA approach are:

- contracts let under the PSAA opt-in will run for five years;
- 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 ensures ongoing influence and engagement with PSAA;
- PSAA is a not-for-profit organisation whose costs are around 4% of the scheme with any surplus distributed back to scheme members;
- scale fees will vary in line with the additional work needed which reflects risk and complexity (scale is set following consultation with opted in bodies);
- PSAA will manage variation requests and approve where appropriate; and
- This approach is supported and endorsed by the LGA.

- 3.9 The main downside with this option is the inability to determine the evaluation criteria that will be used for procurement. Given that the audit approach is mandated through standards and guidance there is minimal flexibility in the scope of work requested. Nonetheless current stakeholder networks through Core Cities and the LGA will be used to encourage the application of appropriate quality, cost and social value weightings. We expect quality to constitute a high element of scoring and note that it is unlikely that PSAA will apply the same weighting to social value as is used by the City Council and would expect this to be no more than 5% of the total score.
- 3.10 The PSAA route was adopted by 484 of 494 bodies in the previous exercise. Feedback from across Greater Manchester and North West authorities, as well as Core Cities, is that they will be adopting this same approach in 2022.

4 Current Issues in External Audit Provision

- 4.1 Whilst the PSAA arrangement is the preferred procurement route, it needs to be acknowledged that there are significant inadequacies in current external audit arrangements across local government. Notwithstanding the impact of Covid19, the timeliness of external audit completion and reporting on the accounts is a concern and reflects a national issue with the ability of the market to deliver on contracts and commitments.
- 4.2 There is a range of factors contributing to these delays and to concerns over audit quality. These are referenced in the Redmond Review and include a reduction in fee levels; the increased focus in financial reporting standards and audits on estimates, assumptions and valuations; skills and capacity; the narrow focus of the audit approach; and the need for more effective contract management, oversight and accountability.
- 4.3 It is essential for the reputation of the Council and the sector that there is a credible external audit process so the planned procurement and contract management approach to be adopted by PSAA needs to be designed to help address these concerns.

5 Audit Committee Conclusion

- 5.1 Audit Committee considered the available options at their meeting on 23 November 2021. The Committee supported officers' recommendation to opt into the PSAA arrangement and to seek Council approval for this decision.
- 5.2 Committee also acknowledged that concerns over external audit quality and timeliness should continue to be raised with PSAA and requested assurance as to how the risk of capacity, standards and quality would be managed through the procurement and contract management process. Further updates will be provided to Audit Committee on these matters as the process develops.

6 Recommendation

- 6.1 Council is asked to approve the preferred option to opt into the sector-led option through PSAA for the appointment of external auditors to principal local government and police bodies for five financial years from 1 April 2023.