



Report To:	COUNCIL
Date:	10 October 2017
Reporting Officer:	Cllr J Fitzpatrick - First Deputy (Performance and Finance) Kathy Roe – Director of Finance
Subject:	LOCAL AUDIT AND ACCOUNTABILITY ACT 2014 – APPOINTMENT OF EXTERNAL AUDITORS
Report Summary:	This report provides an update on the appointment of the Council’s External Auditors following the decision in February 2017 to opt into the Sector Led Procurement for External Auditors arranged by Public Sector Audit Appointments Limited (PSAA).
Recommendations:	<ol style="list-style-type: none"> 1. That Council agrees that it is satisfied with the appointment of Mazars LLP to audit the accounts of Tameside Metropolitan Borough Council for five years from 2018/19 following the procurement process undertaken by Public Sector Audit Appointments Limited (PSAA) and in line with the approval given by Council on the 28 February 2017; 2. That Council agrees the appointment to Council subject to the conclusion of the Public Sector Audit Appointments Limited (PSAA) process outlined in 4.5 of the report.
Links to Community Strategy:	The changes required by the Act will enable the Council to continue to be fully accountable to local people for its financial activities, as part of the Council’s commitment to improvement, efficiency and good governance.
Policy Implications:	None
Financial Implications: (Authorised by the Section 151 Officer)	Consultation on scale fees for 2018/19 will commence in due course and will be published on Public Sector Audit Appointment Limited’s website in March 2018.
Legal Implications: (Authorised by the Borough Solicitor)	Demonstrates compliance with the Local audit and Accountability Act 2014
Risk Management:	As the Council has been appointed a new auditor detailed planning will need to take place so as to achieve a successful transition to the new arrangement in a timely and efficient manner.
Access to Information:	The background papers can be obtained from the author of the report, Wendy Poole, Head of Risk Management and Audit Services by contacting:  Telephone:0161 342 3846  e-mail: wendy.poole@tameside.gov.uk

1. INTRODUCTION

- 1.1 In February 2017, the Executive Cabinet/Overview (Audit) Panel received a report on the Local Audit and Accountability Act 2014 - Changes to arrangements for the appointment of External Auditors. The report presented the options open to the Council, outlined the advantages/benefit, disadvantages/risks for each and recommended that the Council should opt into the Sector Led Procurement for External Auditors arranged by Public Sector Audit Appointments Limited (PSAA), by 9 March 2017. The recommendation to follow this procurement process to appoint auditors was then approved by Full Council on 28 February 2017.
- 1.2 This report provides an update on the outcome of the procurement exercise.

2. BACKGROUND TO THE ISSUE

- 2.1. The Local Audit and Accountability Act 2014 brought to a close the Audit Commission and established transitional arrangements for the appointment of external auditors and the setting of audit fees for all local government and NHS bodies in England. On 5 October 2015 the Secretary of State Communities and Local Government determined that the transitional arrangements for local government bodies would be extended by one year to also include the audit of the accounts for 2017/18.
- 2.2. Section 7 of the Act 2014 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.” Therefore the appointment of an auditor must be completed by 31 December 2017 for the audit year 2018/19.
- 2.3. The Council's current external auditor is Grant Thornton, this appointment having been made under a contract let by the Audit Commission. Following closure of the Audit Commission the contract is currently managed by PSAA, the transitional body set up by the Local Government Association with delegated authority from the Secretary of State Communities and Local Government. Over recent years we have benefited from reduction in fees in the order of 50% compared with historic levels. This has been the result of a combination of factors including new contracts negotiated nationally with the firms of accountants and savings from closure of the Audit Commission. The Council's current external audit fees are £172,500 per annum.

3. OUTCOME OF PROCUREMENT EXERCISE

- 3.1 Whilst the overall details of the procurement exercise are not yet available on PSAA's website, the Council received an email on 14 August 2017, consulting on the appointment of Mazars LLP to audit the accounts of Tameside Metropolitan Borough Council for five years from 2018/19. The appointment will start on 1 April 2018.
- 3.2 The previous Auditor appointments for the Council have been as follows:

Auditor	From Financial Year	To Financial Year
Grant Thornton	2012/13	2017/18
Audit Commission	2008/09	2011/12
PWC	2002/03	2007/08
District Audit	Unknown	2001/02

- 3.3 Grant Thornton have been the Council's External Auditors for five years and probably would have been rotated for 2018/19.

- 3.4 It has also been confirmed that Mazars LLP have been appointed across Greater Manchester as requested by the Greater Manchester Treasurers Group.
- 3.5 Mazars is a large global audit and accounting firm with over 18,000 professionals in 79 countries worldwide. In the UK the firm ranks in the top ten with 1,700 employees and 140 partners working out of 19 offices, and UK fee income in 2016 of £160m. The firm's dedicated public audit team has significant experience in providing external audit to public sector bodies. It comprises individuals with experience of auditing councils, combined authorities, police bodies, fire and rescue authorities, local government pension funds and other public bodies. In addition to its audit contract with PSAA, the firm also has a substantial portfolio of NHS audits and is one of the National Audit Office's framework suppliers for central government audit.
- 3.6 In developing this appointment proposal, PSAA have applied the following principles, balancing competing demands as much as they can, based on the information provided to them by audited bodies and audit firms:
- ensuring auditor independence, as required to do by the Regulations;
 - meeting our commitments to the firms under the audit contracts;
 - accommodating joint/shared working arrangements where these are relevant to the auditor's responsibilities;
 - ensuring a balanced mix of authority types for each firm;
 - taking account of each firm's principal locations; and
 - providing continuity of audit firm if possible, but avoiding long appointments.
- 3.7 The Treasurer of the Greater Manchester Combined Authority sought clarification from PSAA on two points following a recent meeting of the Greater Manchester Treasurers as follows:
- How would transition work, both in terms of Grant Thornton needing to keep the resources in place for 2017/18 but also how Mazars would resource the workload in Greater Manchester?
 - How would Mazars get themselves up to speed without undue 'teaching' requirements on the Councils concerned?
- 3.8 PSAA has well-established arrangements for handover of audits between firms, currently set out in Appendix 12 of the Terms of Appointment. It is recognised that rotating the appointment of an auditor can present difficulties for the audited body and both the outgoing and incoming auditors if not properly managed. In order to minimise disruption to all parties, and maximise the transfer of the outgoing auditor's knowledge of the audited body, in summary PSAA expects the following:
- co-operation between the outgoing and incoming auditor to ensure that the incoming auditor is fully briefed on the specific audit issues facing the audited body;
 - co-operation between the outgoing and incoming auditors to determine responsibility for undertaking specific pieces of audit work in the lead up to, or period immediately following, handover and advise the audited body accordingly;
 - where appropriate, co-operation between the outgoing and incoming auditor to ensure that the incoming auditor is fully briefed on the wider issues facing the audited body; and
 - timely communication by the incoming auditor to the audited body, as soon as possible after formal appointment, of the contact details of the audit team and future audit arrangements, requirements and expectations.
- 3.9 All firms with PSAA contracts are familiar with these arrangements, which were applied successfully for audits from 2012/13 when the work of the Audit Commission's audit practice transferred to firms. Mazars was one of those firms. In the recent procurement exercise to let audit services contracts from 2018/19, one of the questions considered in

some depth in the evaluation of tenders was the capacity of the prospective firm and the realism of its plans to take on the volume of work for which it was bidding. Mazars has an experienced and capable team, from which they are able to deploy resources to cover the audits of the Greater Manchester bodies. PSAA are confident Grant Thornton will retain sufficient resources for 2017/18 work as their total requirement for 2018/19 is slightly larger than for 2017/18, albeit in slightly different geographies. In addition they do not regard Grant Thornton's new geographical allocation as too difficult for them, given a number of their staff need to rotate off certain audits anyway to comply with PSAA and FRC rules about tenure at audited bodies.

3.10 Before considering the allocation of firms to individual audits, PSAA confirmed with Greater Manchester Treasurers the previous joint working request that the Greater Manchester bodies all have the same firm. This requirement limited significantly the appointment options available because of independence considerations. PSAA have also considered the length of the current appointment to Greater Manchester Councils, and the geographical location of one other firm, and are therefore proposing Mazars as the most appropriate appointment option. Their scope for changing such a large group of auditor appointments is relatively limited now that we are in the consultation phase with opted-in bodies on proposed appointments. There is some flexibility in the proposals to make small changes in response to representations from opted-in bodies, but significant changes would not be possible without removing proposed appointments from other opted-in bodies and starting the consultation process again. Balancing the competing demands in relation to independence and joint working requirements in particular, in Manchester and other areas, makes this complex.

3.11 The following information from Gareth Davies at Mazars may also be helpful (Gareth was formerly MD of the Audit Commission's Audit Practice):

- Gareth Davies, the PSAA contact partner at Mazars, will personally lead the firm's engagement with Greater Manchester in the run up to the start of the contract and will take a number of the appointments. He would welcome the chance to meet with colleagues to explain the firm's preparations and discuss any questions.
- The contract is a strategic priority for the firm as a whole and for the Manchester office (One St Peter's Square). Tim Hudson, the firm's managing partner for Manchester, is a key member of the project team. Mazars has experience of gearing up successfully for substantial new contracts both in the public and commercial sectors, often on much shorter timescales than this.
- The firm has a detailed project plan for ensuring that appropriately experienced and skilled resources are in place and fully up to speed in time for the planning work for 2018/19 to begin. As part of that, and in the event that TUPE does not apply, the firm aims to recruit a number of staff already working with Greater Manchester without disrupting Grant Thornton's work on 2017/18 audits (by timing start dates with Mazars for September 2018). They will also deploy existing members of their team with previous Greater Manchester experience.
- As well as Gareth Davies, Gareth Hitchmough is a Mazars registered Key Audit Partner (KAP) for local public audit, based in the North West. The firm is recruiting one other experienced KAP to help cover Greater Manchester and has identified their preferred candidate.
- Mazars has experience of working directly with three combined authorities including one Mayoral Combined Authority (Tees Valley), although they recognise that the arrangements in Greater Manchester are the most developed and have unique features.
- The firm will use the well-established protocol for handover to an incoming auditor to liaise with Grant Thornton on each audit and GM as a whole, quickly building their knowledge of risks and issues and where necessary seeking to review Grant Thornton's working papers.
- The project plan includes using the firm's own knowledge and internal research capability to ensure that their teams are well briefed on how the current arrangements

in Greater Manchester have developed and the plans for the future. They are confident that the time required from key officers would be no more than that required in any well-managed rotation between audit firms. They would of course gratefully take up the offer of induction at Greater Manchester level.

- On the CCG point, Mazars has existing engagements where the local government and health audits are carried out by different firms but they always endeavour to establish arrangements with other suppliers to avoid difficulties for clients. For example, with Grant Thornton in the York area where the two firms recently collaborated to assist the local health economy with observations on the scope for improved partnership governance arrangements.

4. RESPONDING TO THE CONSULTATION

4.1 The consultation closes at 5pm on Friday 22 September 2017.

4.2 If the Council is satisfied with the proposed appointment, then this needs to be confirmed by email to auditorappointments@psaa.co.uk before the deadline. No further action is needed. If the Council wishes to object to the proposed auditor appointment then representations to PSAA need to be by email to auditorappointments@psaa.co.uk before the above deadline.

4.3 Representations can include matters that the Council believes might be an impediment to the proposed firm's independence, were it to be appointed. The email should set out the reasons why the proposed appointment should not be made. The following may represent acceptable reasons:

- there is an independence issue in relation to the firm proposed as the auditor, which had not previously been notified to PSAA;
- there are formal and joint working arrangements relevant to the auditor's responsibilities, which had not previously been notified to PSAA; or
- there is another valid reason, for example you can demonstrate a history of inadequate service from the proposed firm.

4.4 PSAA will consider carefully all representations and will respond by Monday 16 October 2017 by email. If representations are accepted, the Council will be consulted on an alternative auditor appointment between 16 and 27 October 2017. If representations are not accepted, this will be confirmed by email. Council's may then choose to make further representations to the PSAA Board, providing any additional information to support the case.

4.5 The PSAA Board will consider all proposed auditor appointments at its meeting scheduled for 14 December 2017 and will write to all bodies to confirm the Board's final decision on the appointment of the auditor before 21 December 2017.

5. SCALE FEES FOR 2018/19

5.1 PSAA will consult on scale fees for 2018/19 in due course and will publish confirmed scale fees for 2018/19 for opted-in bodies on their website in March 2018. The results of the audit procurement exercise indicates that a reduction in scale fees in the region of approximately 18 per cent should be possible for 2018/19, based on the individual scale fees applicable for 2016/17.

6. RECOMMENDATION

6.1 As set out on the front of the report.