



## ***Committee Report***

**Public**

**Date of Meeting:** 15<sup>th</sup> August 2011

**Title:** FUTURE OF THE WORK OF THE AUDIT PRACTICE

**Report of:** Assistant Director (Resources)

**Report reference:** RD34/11

### **Summary:**

On 28<sup>th</sup> July the DCLG issued a letter to all Local Authority Chief Executives detailing the process for future local audits and the transferring of the in-house audit practice to the private sector. The letter is attached to this paper along with the press notice issued for information.

The Audit Commission has responded and has provided further details and a timetable for the procurement process and any interim arrangements. This letter is also attached to this report for your information.

The key timescales are as follows:

- Current auditors remain from 1<sup>st</sup> April 2011
- Interim appointment for period 1<sup>st</sup> April 2012 to 31<sup>st</sup> August 2012. Any ad-hoc audit advice will be paid for by the Audit Commission.
- New auditors (private firm) from 1<sup>st</sup> September 2012.

The consultation process for a new local audit framework ended on the 30<sup>th</sup> June and officers from the DCLG are currently analysing the responses. They intend to refine their proposals and respond in due course and bring forward primary legislation as soon as Parliamentary time allows.

**Recommendations:**

Members are asked to note the correspondence from both the DCLG and the Audit Commission, noting that officers from the Audit Commission will provide a verbal update at the meeting if required.

P MASON  
Assistant Director (Resources)

**Contact Officer:** Alison Taylor

**Ext:** 7290

*From the Permanent Secretary*

Local Authority Chief Executives

28 July 2011

## **UPDATE ON WORK ON THE FUTURE OF LOCAL AUDIT**

I wrote to you on 2 June 2011 letting you know that we had asked the Audit Commission to begin preparatory work for outsourcing all local audits from 2012/13. As you will see from the attached press notice Ministers have now confirmed that they want to proceed with outsourcing.

The Commission timetable for running an outsourcing process means it is unlikely audit appointments would be made by the 1 April date they usually adopt, but they would nevertheless be made by the start of the Annual Audit Cycle on 1 September 2012. We are confident that the practical effects of this are manageable, but we are committed to working with you and with the Commission to ensure practical arrangements are in place to address any issues that do arise.

We have been considering carefully how long the outsourced contracts should be. Our initial proposal was for three years from 2012/13, after which, legislation permitting, local authorities would be free to appoint their own auditors. But it's possible that longer contracts (over five years) might achieve greater value for money. However, this would need to be balanced against delaying the point at which local public bodies can appoint their own auditor and the benefits of greater transparency and accountability in a new, decentralised local audit framework. This is clearly a trade-off in which local government has a very strong interest. We therefore plan to seek bids from audit firms on the basis of three and five years after which we want to talk to the sector about this trade off once we have a better sense of the difference this makes to audit fees. We will let you know how we plan to handle this discussion in the Autumn.

In addition, you will wish to note that the Commission's timetable to appoint auditors for 2012/12 envisages them consulting you on those appointments between April and June next year.

In the meantime we continue to make progress on what a new local audit framework will look like. The consultation on proposals for this framework closed on 30 June

and I wanted to take this opportunity to thank all those who responded to and contributed to the consultation. All these views are currently being analysed and we plan to refine our proposals further, respond in due course, and then to bring forward primary legislation as soon as Parliamentary time allows.

We continue to be committed to working closely with local government and the Commission to ensure a smooth transition through outsourcing and into a new local audit framework. I will keep you informed of developments accordingly.

A handwritten signature in black ink, consisting of a stylized 'B' followed by a horizontal line that extends to the right.

**SIR BOB KERSLAKE**

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## **PRESS NOTICE**

### **AUDIT COMMISSION TO OUTSOURCE AUDIT PRACTICE NEXT YEAR**

The Audit Commission will outsource all its in-house local public audit work to the private sector in the next financial year, Communities Secretary [Eric Pickles] announced today.

Ministers have determined this approach should offer the best value for money. This follows the decision to disband the Audit Commission last year which will refocus audit on helping local people hold their councils to account for local spending decisions.

The Commission has already been asked to begin substantive preparations for outsourcing. The contracts, which start from 2012-13 are expected to run for three or five years giving local councils and other public bodies the time to plan for appointing their own auditors.

A fair and competitive procurement process will be run that would give suitable private sector bidders the chance to compete for the Commission's audit work in a way that gives taxpayers best value for money.

This option would also allow for the possibility of a bid on behalf of the staff of the Audit Commission which could then form the basis for an employee owned company. Arrangements are in place to ensure such a bid does not have an unfair advantage.

The Commission will radically reduce in size by the end next year as a consequence of outsourcing its audit work. Prior to primary legislation being enacted a small residual body will remain to oversee the contracts and make audit appointments. The Commission's inspection work and Comprehensive Areas Assessments has already ended.

Mr Pickles said:

"We have set in train measures to save council taxpayers money by radically scaling back on the centrally imposed, bureaucratic and costly audit and inspections previously undertaken by the Audit Commission.

This Government is determined to refocus local audit on helping local people hold councils to account. We believe that the next step is to outsource the audit practice next year as a way to secure best value for money.

"We are working closely with the Audit Commission to design a fair procurement process that will allow a wide range of bidders, whether a mutual or private sector accountancy firm, to compete for the Commission's audit business.

“Outsourcing will also allow further progress to be made on the new audit framework that will give councils the power to appoint their own auditors.”

The consultation on proposals for a new audit framework closed on 30 June. Ministers are considering the proposals in light of the consultation responses received and the Government will bring forward primary legislation in due course. Once established the Audit Commission would be formally disbanded and local public bodies would appoint their own auditors.

### **Notes to Editors**

1. Around 11,000 local public bodies are audited under the Audit Commission's regime, including local government, health and police bodies, national parks authorities and passenger transport executives.
2. The Audit Commission's Board met this morning and formally agreed the process for outsourcing the audit work from 2012/13 onwards.
3. The Audit Commission will be running two outsourcing processes in parallel, one for principal local public bodies and another for the smaller bodies which fall under the limited assurance regime following which private sector auditors (as opposed to Commission auditors) will be appointed to all local public bodies.
4. Outsourcing the Commission's in-house practice will mean that many of the Commission's audit staff would transfer with their work to the private sector under TUPE terms. In line with previous practice, the Commission plan to allow for a significant period of consultation with local authorities prior to finalising appointments. Their procurement and consultation timetable means that appointments are planned by the start of the Annual Audit Cycle on 1 September 2012, which will be manageable as the focus of auditors work in the first half of the financial year is generally on the previous year's accounts.
5. The Commission will seek bids from audit firms on the basis of three and five year outsourced contracts. Longer outsourced contracts, five years as opposed to three, have the potential to generate lower audit fees. The Department therefore plans to engage in a short discussion with local public bodies about the trade off between the potential for lower audit fees and delaying the point at which local public bodies can appoint their own auditor once there is a better sense of the difference this makes to audit fees.
6. The Department for Communities and Local Government's Permanent Secretary, Sir Bob Kerslake, wrote to local authorities on 2 June to advise Ministers' initial view was that outsourcing was likely to offer the quickest, most straightforward and value for money option for transferring the work to the private sector. Sir Bob Kerslake is writing again today to local authorities. The Department of Health and Home Office are communicating the same message to health bodies and police authorities respectively.



Dear Mr Mason

### **Future of Local Audit**

The Department for Communities and Local Government (DCLG) has been considering the options for transferring the audit work of the Audit Commission's in-house audit practice to the private sector. Ministers have now decided the best value for money should be achieved by outsourcing the work through a procurement exercise. Sir Bob Kerslake, Permanent Secretary at DCLG, has written to the chief executives of all local authorities to advise them of the decision.

I am writing to tell you about the timetable for this procurement and what it means for your auditor appointment.

### **Procurement exercise**

DCLG has asked the Commission to seek bids for the work currently undertaken by the in-house audit practice. New contracts will be awarded for three or five years, commencing from the audit of the accounts for 2012/13. We aim to issue a Contract Notice in the Official Journal of the European Union in early September 2011.

The Commission will award contracts in spring 2012 to allow new auditor appointments to be in place by 1 September 2012.

### **Auditor appointment**

Your current auditor, from the in-house audit practice, is appointed to audit the accounts for the 2011/12 financial year. The procurement does not affect this appointment.

As we will not be awarding contracts until spring 2012 we will not be able to appoint your auditor for 2012/13 until after the start of that financial year. Because an auditor needs to be in place at the start of the financial year, we will need to make an interim auditor appointment to cover the period from 1 April 2012 to 31 August 2012.

To minimise disruption, we are proposing to extend your current auditor's appointment to deal with any issues that may arise during that period. This 'interim' auditor's role will be limited to keeping a 'watching brief'. Any costs incurred by interim auditors will be paid by the Commission. We will write to you again to formally consult you on the interim appointment by the end of this year.

Following the procurement exercise we will be appointing a new auditor, to audit the 2012/13 and future years' accounts, with effect from 1 September 2012. We will consult

you on this appointment following the award of contracts in spring 2012.

I recognise these arrangements may raise questions but I have tried to anticipate these by setting out the position in the table below:

Period	Auditor Appointment	Comments
From 1 April 2011	Current auditor (in-house audit practice)	<ul style="list-style-type: none"><li>• <b>No change</b> for audit of 2011/12 accounts.</li></ul>
1 April 2011 to 31 August 2012	Current auditor (in-house audit practice)	<ul style="list-style-type: none"><li>• Interim appointment for 2012/13: <b>no change</b> - subject to consultation by end of 2011.</li><li>• Role will be to keep a 'watching brief' only and any costs incurred by auditors will be paid by the Commission.</li></ul>
From 1 September 2012	New auditor (private firm)	<ul style="list-style-type: none"><li>• <b>Change of auditor (to a private firm)</b> - subject to consultation following award of contracts in spring 2012.</li><li>• Auditor will audit the 2012/13 accounts (opinion on the financial statements and the annual VFM conclusion).</li><li>• Full year's scale fee payable by audited body.</li><li>• Auditor responsible for audit of future year's accounts.</li></ul>

If you want to clarify any of the points in this letter or ask other questions about the content of this letter, please email: [auditor-appointments@audit-commission.gov.uk](mailto:auditor-appointments@audit-commission.gov.uk) or contact Andrew Davies or Marcine Waterman on 0844 798 2447.

Yours sincerely

Eugene Sullivan  
Chief Executive, Audit Commission

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