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## **EXCERPT FROM THE MINUTES OF THE AUDIT COMMITTEE HELD ON 15 AUGUST 2011**

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### **AUC.53/11 FUTURE OF THE WORK OF THE AUDIT PRACTICE**

The Financial Services Manager submitted report RD.34/11 providing details of correspondence received to date in relation to the future of the work of the audit practice. She advised Members that the Department for Communities and Local Government (DCLG) had on 28 July 2011 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 Audit commission had responded and had provided further details and a timetable for the procurement process and any interim arrangements. The Financial Services Manager outlined the key timescales, namely:

- The current Auditors would remain from 1 April 2011;
- Interim appointment for period 1 April 2012 to 31 August 2012. Any ad-hoc audit advice would be paid for by the Audit Commission;
- New Auditors (private firm) from 1 September 2012.

The Financial Services Manager explained that the consultation process for a new local audit framework had ended on 30 June 2011 and Officers from the DCLG were currently analysing the responses. They intended to refine their proposals and respond in due course, bringing forward primary legislation as soon as Parliamentary time allowed.

In conclusion, the Financial Services Manager advised that there was nothing that the authority could or should be doing at the current time.

The Audit Manager then explained that Ministers had decided that the best value for money should be achieved by outsourcing the work through a procurement exercise. The DCLG had therefore asked the Audit Commission to seek bids for the work currently undertaken by the in-house audit practice.

The Audit Manager added that the District Auditor and himself would remain in place until the Council's 2011/12 Accounts were signed and would transfer thereafter to a firm.

A Member asked whether there would be one national outsourced contract (for a period of three or five years) and, importantly, whether there would be continuity, at least initially, in terms of the people undertaking the City Council's audit.

The Audit Manager replied that, as far as he was aware, contracting would be undertaken on a national basis. The DCLG was interested in increased competition and clearly one national contract would not address that. Accordingly he expected that a number of contracts would be awarded. Referring to timescales, he expressed the hope that the position would be clarified by the Autumn.

On the second point the Audit Manager commented that it would be a matter for any new firm to decide how the audits were staffed, but acknowledged that clearly there would be some benefit if the same Auditors remained in place. It should be noted, however, that District Auditors were required to rotate (every five to seven years) irrespective of any change in management.

The Chairman said that the Committee would keep a watching brief on the national position / timescales, and requested that Members receive an update at a future meeting. She further suggested that the Committee recommend that the Executive raise the matter through the Cumbria Leadership Board in order that the Council was aware of the stance adopted by other Cumbrian Local Authorities.

Whilst the Member considered the above approach to be a very sensible course of action, he emphasised the need for the authority to be made aware of its position as soon as possible in order that it could respond proactively to any emerging dangers.

A Member asked whether the award of five year contracts could potentially mean that the Council would be bound to an audit firm which did not deliver the service it hoped to receive.

The Audit Manager said that the duration of contracts was ultimately a matter for the Audit Commission and DCLG. He outlined the process which would be undertaken in relation to the award of contracts, commenting that the Commission aimed to issue a Contract Notice in the Official Journal of the European Union in early September 2012.

He added that the audit firm would require to deliver a quality service irrespective of the size of the client, in addition to which professional standards had to be adhered to.

A Member sought clarification of the impact the transfer of the in-house audit practice to the private sector would have on the Council in financial terms.

In response, the Audit Manager explained that following the first three / five year contract period the Council could appoint its own Auditor and go through a bidding process, and it would be a matter for private firms to bid for that work.

The Legal Services Manager informed Members that the Contract Notice would set parameters and provide further detail.

A Member questioned whether provision existed within the process for an employee owned company to emerge.

The Audit Manager advised that the above scenario would be 'a mutual' in essence with senior audit practice staff taking leave of absence from the Commission and putting forward a bid on behalf of the mutual.

RESOLVED – (1) That the Audit Committee welcomed Report RD.34/11 and the verbal update provided by the Audit Manager concerning work on the future of local audit.

(2) That the Assistant Director (Resources) be requested to update the Committee on the national position / timescales at a future meeting.

(3) That the Audit Committee recommended that the Executive raise the matter at the Cumbria Leadership Board.