



TO: Audit Committee

FROM: Head of Audit & Assurance

DATE: 20 September 2011

PORTFOLIOS AFFECTED:

All

WARDS AFFECTED:

All

TITLE OF REPORT	New Arrangements for External Audit
------------------------	--

1. PURPOSE

This committee received a report on 28 June 2011 regarding the Council's response to the consultation paper on the future of external audit; this report provides a progress report on the future changes.

2. RECOMMENDATIONS

To note the timetable for the outsourcing of external audit work from 2012/13.

3. KEY ISSUES

Following the last Audit Committee the Chair sent a letter, on behalf of the Committee, to the Department for Communities and Local Government (CLG) outlining the support for the Audit Commission to remain in place, the concerns about the proposals to appoint independent members and the reminder for Central Government to honour their commitment to fund new burdens, including any additional financial cost to the provision of external audit and independent members.

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. A press release from DCLG is at appendix 1 to this report.

DCLG has asked the Audit Commission to seek bids for the work currently undertaken by the in-house audit practice. New contracts will be awarded for 3 to 5 years, commencing from the audit of accounts for 2012/13. Contracts will be awarded in spring 2012 to allow new auditor appointments to be in place by September 2012. After the end of these contracts, local audited bodies would be free to appoint their own auditors.

The Commission's audit practice staff will transfer to the successful bidders under Tupe regulations.

The current auditor, the Audit Commission, will continue to audit our accounts for 2011/12; the procurement exercise does not affect this. In addition the current auditor will continue to have a 'watching brief' role from April 2012 until the newly appointed auditor starts in September 2012.

The table below provides the key milestones currently planned for each of the procurements. This is intended as a guide and while the Commission does not intend to depart from the timetable it reserves the right to do so at any stage.

Key milestone	Principal bodies' procurement	Small bodies' procurement
Issue Contract Notices in the Official Journal of the European Union	5 September 2011	5 September 2011
Issue pre-qualification questionnaires (PQQ) on request	From 5 September 2011	From 5 September 2011
Deadline for return of PQQs	7 October 2011	7 October 2011
Issue invitations to tender and anonymised TUPE information to selected suppliers	w/c 24 October 2011	w/c 7 November 2011
Deadline for submission of tenders	16 December 2011	6 January 2012
Approval of contract awards	w/c 20 February 2012	w/c 19 March 2012
Consultation with audited bodies on appointments	23 April - 13 July 2012	7 May - 6 July 2012
Approval of auditor appointments	w/c 23 July 2012	w/c 9 July 2012
Appointments for 2012/13 commence	1 September 2012	1 September 2012
Staff transfer to firms awarded contracts	31 October 2012	31 October 2012

4. RATIONALE

In 2010 the Secretary of State announced plans to disband the Audit Commission and refocus the provision of external audit. Consultation with local authorities on the contracting process is now complete and the next steps outlined in a timetable. CLG still have to announce what the new audit framework will be which will have a bearing on the overall cost of external audit going forward.

5. POLICY IMPLICATIONS

There are no policy implications.

6. FINANCIAL IMPLICATIONS

There are no immediate financial implications.

7. LEGAL IMPLICATIONS

There are no legal implications.

8. RESOURCE IMPLICATIONS

There are no immediate resource implications.

9. CONSULTATIONS

Strategic Director, Resources and Shared Services and Director of Finance.

CONTACT OFFICER: Janet Hill, Head of Audit & Assurance

DATE: 2 September 2011

BACKGROUND PAPERS: CLG Consultation Paper "Future of Local Public Audit"

**Press release from the Department of Communities and Local Government on
28 July 2011**

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 of 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 2011. 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. *Press release ends.*