

Agenda Item No: -

Report to: Audit Committee

Date of Meeting: 19 March 2012

Report Title: Update on the Outsourcing of External Audit Services

Report By: Tom Davies
Chief Auditor

Purpose of Report

To update the Audit Committee on recent developments on the outsourcing of External Audit services subsequent to the announcement by Eric Pickles MP on 13 August 2010 concerning disbandment of the Audit Commission.

Recommendation(s)

- 1. That the Audit Committee notes the report.**

Reasons for Recommendations

This report is for information. On 5 March 2012 the award of contracts to 4 firms for 5 years for the provision of External Audit services for Local Government was announced. With regret, PKF were not one of the successful bids.

Introduction

Auditor Appointments Strategy

1. In August 2010 the Secretary of State for Communities and Local Government announced plans to disband the Audit Commission (the Commission). At the same time, he indicated his intention to transfer the Commission's in-house Audit Practice (the Audit Practice) to the private sector and, in due course, to abolish the residual element of the Commission.
2. The outsourcing arrangements have been detailed by the Commission in a document called 'Strategy for making Auditor Appointments for 2012/13 and future years' published January 2012. This strategy sets out the basis on which the process of developing, consulting on and formally making auditor appointments for 2012/13 and future years will be carried out (please see Appendix B).

Commission Announcement: Update on the Outsourcing of Auditor Appointments, 7 March 2012

3. An update on the outcome of the procurement exercise to outsource the work of the Commission's in-house audit practice and on the process for making auditor appointments for 2012/13 and subsequent years is shown at Appendix A.

Summary

4. The next steps in the procurement are that the Commission will consult with all Local Authorities on their appointments. The consultation will be undertaken between 23 April and 13 July. Audit appointments will then be approved on 23 July with the appointment commencing on 1 September.
5. PKF's contract with the commission runs to 31 March 2017.
6. The next milestone date when we should have more information will be 23 July 2012.

Wards Affected

None

Area(s) Affected

None

Policy Implications

Please identify if this report contains any implications for the following:

Equalities and Community Cohesiveness	No
Crime and Fear of Crime (Section 17)	No
Risk Management	Yes
Environmental Issues	No
Economic/Financial Implications	Yes
Human Rights Act	No
Organisational Consequences	Yes
Local People's Views	No

Background Information

Appendix A: Update on the Outsourcing of Auditor Appointments

Appendix B: Strategy for making Auditor Appointments for 2012/13 and future years

Officer to Contact

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Update on the outsourcing of audit services

I want to update you on the outcome of the procurement exercise to outsource the work of the Commission's in-house audit practice and on the process for making auditor appointments for 2012/13 and subsequent years.

The procurement process

The Commission has announced the award of contracts to four firms for five years, as follows:

Firm	Contract areas
DA Partnership	North East & North Yorkshire
Ernst & Young	Eastern
	South East
Grant Thornton	North West
	West Midlands
	London (South), Surrey & Kent
	South West
KPMG	Humberside & Yorkshire
	East Midlands
	London (North)

Through our bulk purchasing power, the Commission has been able to secure very competitive prices that will save local public bodies over £30 million a year for a minimum of five years.

We consulted the Department for Communities and Local Government (DCLG) on the length of contracts to be awarded. DCLG in turn consulted key stakeholders in the different sectors and across government. Ministers' preference, taking stakeholders' views into account, was for the Commission to award the contracts for five years, which the Board agreed at its February meeting.

The significant savings we have been able to secure through the procurement, together with the benefits of our own cost reduction programme, will be passed back to local public bodies through significant reductions in scale of audit fees. We have already consulted on draft scales of fees which provide for a ten per cent reduction. We are now confident that we can go significantly further. We will publish the final scales of audit fees for 2012/13 in April.

The auditor appointment process

We began the process for making auditor appointments for 2012/13 in December 2011, when we wrote to you to consult on 'interim' auditor appointments for the first five months of 2012/13. The deadline for comments on our proposed appointment was 17

February.

I am pleased to say that in all cases our proposed appointment was accepted and the interim appointments will now be confirmed by the Commission Board on 22 March. We will write to you to confirm the appointment as soon as possible after this date.

The next stage in the process is to develop and consult on our proposals for 'permanent' auditor appointments for 2012/13 and subsequent years. We will be writing to all audited bodies on or shortly after 23 April to set out our proposals.

Where a body is currently audited by an auditor from the Commission's in-house Audit Practice, we will propose as the appointed auditor the firm that was awarded the contract in each area, unless there are good reasons that to do so would be inappropriate. Where a body is currently audited by a firm, we propose to extend that appointment. In all cases we will be consulting on the appointment of the firm - which in law will be the appointed auditor - not the individual engagement lead.

To support the consultation process, we are arranging a series of introductory meetings in each contract area between 30 April and 16 May. The purpose of these meetings is to give audited bodies in each area an opportunity to meet the new firm proposed as their auditor and its senior partners, and hear how the firm plans to manage its new portfolio and its approach to the audits.

The schedule of these meetings is:

Contract area	Areas covered	Date
West Midlands	Herefordshire, Shropshire, Staffordshire, Warwickshire, West Midlands and Worcestershire	30 April
North West	Cheshire, Cumbria, Greater Manchester, Lancashire, Merseyside	1 May
South East	Berkshire, Buckinghamshire, East Sussex, Hampshire and Isle of Wight, Oxfordshire and West Sussex	2 May
London South, Surrey and Kent	London boroughs south of River Thames, Kent and Surrey	3 May
London North	London boroughs north of River Thames	9 May
East Midlands	Derbyshire, Leicestershire, Lincolnshire, Northamptonshire and Nottinghamshire	10 May
South West	Avon, Cornwall, Devon, Dorset, Gloucestershire, Somerset and Wiltshire	11 May
Eastern	Bedfordshire, Cambridgeshire, Essex, Hertfordshire, Norfolk and	14 May

	Suffolk	
Yorkshire and Humberside	Humberside, South Yorkshire and West Yorkshire	15 May
North East and North Yorkshire	Cleveland, Durham, Northumberland, North Yorkshire and Tyne and Wear	16 May

Our consultation letter will include the arrangements for each meeting.

In January, we published our [Auditor appointments strategy](#), which sets out the process we will follow in making auditor appointments. This provides bodies with two opportunities to object to our proposed appointment. A panel of Commissioners will ultimately consider unresolved objections to the proposed appointments. The panel includes three local government councillors and a member with NHS expertise, and will receive independent advice from a local authority Chief Executive and Finance Director.

If you wish to clarify any of the points in this email or ask other questions about its content, please email auditor-appointments@audit-commission.gov.uk or contact Marcine Waterman or Andrew Davies on 0844 798 2447.

Yours sincerely

Martin Evans
 Managing Director, Audit Policy