

AUDIT AND GOVERNANCE COMMITTEE

30th September 2011

UPDATE ON THE FUTURE OF LOCAL PUBLIC AUDIT

Report of the Executive Director of Commercial and Corporate Services

1. Purpose of Report

- 1.1 To provide an update on recent announcement regarding the provision of local public audit over the next three to five years.

2. Background

- 2.1 At the meeting of the committee on 30th June 2011, Members considered the proposed response to the consultation paper regarding the future of local public audit. The consultation paper set out the proposals to replace the Audit Commission with a decentralised audit regime where local audit is provided by the private sector and providers are appointed by local authorities.
- 2.2 On the 28th July 2011 the Department for Communities and Local Government (DCLG) wrote to the Chief Executive setting out the interim arrangements for the provision of local public audit from 2012/2013, which will enable a transition to the decentralised regime. Correspondence has also been received regarding the arrangements for auditing the authority's accounts during the interim period.

3. Interim Arrangements

- 3.1 The DCLG has confirmed that all of the audit work currently undertaken by the Audit Commission's in-house audit practice will be outsourced to the private sector. The Audit Commission has recently launched the procurement process through a notice in the Official Journal of the European Union. The contracts will cover all the audited bodies in a geographical area with 10 lots being grouped in four English 'regions'. The total anticipated value of the contracts is £89.4m. Contracts will be awarded in February 2012 with Audit Commission staff transferring to the successful bidders on 31st October 2012, for audits of the 2012/13 financial year. The Northern region will include lots for North West (£12.5m), North East and North Yorkshire (£5m) and Humberside and Yorkshire (£6.9M).
- 3.2 Within each region, lots will be awarded in order of size with the largest lot, in terms of value, awarded first. The successful supplier for the largest lot will then be removed from the evaluation of bids for other

lots in the same region, and the same process will apply where there are three lots in a region.

- 3.3 The contracts have been valued based on 'audited body notional value', which is being used as the basis for the proposed fee scales for 2012/13. Suppliers will be asked how much they would charge to provide the services specified, with any savings passed back to audited bodies in the form of lower audit fees.
- 3.4 The Audit Commission's in-house audit practice will be able to submit bids and it is expected that they will do so. If any bids were won employees of the audit practice would transfer to a stand-alone entity which could be employee owned.
- 3.5 It is still to be decided whether to award three or five year contracts. Value for money needs to be balanced against delaying the point at which local authorities can appoint their own auditors, therefore, consultation will take place with local authorities' in spring 2012, prior to the appointment of the firms, once the impact on audit fees is clearer.
- 3.6 As the contracts will not be awarded until February 2012 the auditor appointments will not be in place from the beginning of the financial year. As an auditor needs to be in place for the start of the financial year an interim appointment will need to be made to cover the period from 1st April 2012 to 31st August 2012. It is proposed that the current auditor's appointment will be extended with a 'watching brief' role. Any costs incurred by the interim auditors will be paid for by the Audit Commission. The interim position is summarised in the table below:

Period	Auditor Appointments	Comments
From 1 st April 2011	Current Auditor (in-house audit practice)	No Change for 2011/2012 accounts
1 st April 2012 to 31 st August 2012	Current Auditor (in-house audit practice)	Interim appointment for 2012/13: no change - subject to consultation by end of 2011. Role will be to keep a 'watching brief' only.
From 1 st September 2012 (for 3 to 5 years)	New Auditor (private firm)	<ul style="list-style-type: none"> • Change of auditor (to a private firm) - subject to consultation following award of contracts in spring 2012. • Auditor will audit the 2012/13 accounts (opinion on the financial statements and the annual VFM conclusion). • Full year's scale fee payable by audited body. • Auditor responsible for audit of future year's accounts.

4. Recommendations

4.1 Members are asked to note the report.

Background Papers

Consultation on Local Public Audit – Audit and Governance Committee 30 June 2011.

