

**REPORT TO:** Business Efficiency Board

**DATE:** 9 November 2011

**REPORTING OFFICER:** Operational Director – Finance

**SUBJECT:** Update on the procurement of external audit services

**WARD(S):** Borough-wide

## **1.0 PURPOSE OF REPORT**

1.1 The Board has previously been informed about the Department for Communities and Local Government (DCLG) ministerial decision to transfer the work of the Audit Commission's in-house Audit Practice to the private sector by outsourcing the work through a procurement exercise. This report provides the Board with an update on the progress with the procurement and provides further details of the timetable and the auditor appointments.

**2.0 RECOMMENDATIONS: That the Board notes the report and the implications for the Council's external audit arrangements.**

## **3.0 SUPPORTING INFORMATION**

### **Background**

3.1 In August 2010, the DCLG announced plans to put in place new arrangements for auditing England's local public bodies. In March 2011, DCLG issued a consultation document on the 'Future of Local Public Audit'. The Council contributed to a joint consultation response by the Liverpool City Region, which was reported to members at the Board's meeting on 29 June 2011. At the request of the Board, a further response was submitted solely on behalf of Halton (see Appendix 1).

3.2 The Government has not yet published a formal response to the consultation. However, DCLG has indicated that it intends to publish a draft Bill on the future arrangements for local public audit for further scrutiny and comment later this year. The Bill will outline how the current audit regime and the Audit Commission will be replaced.

3.3 The Audit Commission's in-house Audit Practice currently undertakes the majority of audits for local public bodies. In July 2011, DCLG Ministers confirmed their preference for transferring this work to the private sector by outsourcing contracts.

- 3.4 The Audit Commission's Board agreed this approach and is carrying out a procurement process to give private sector bidders the chance to compete for the Commission's audit work. This will mean all of the Audit Commission's in-house work will be outsourced in time for the audit of 2012/13 accounts. The Audit Commission will remain in place to oversee the contracts.

### **Progress on the Procurement**

- 3.5 The procurement process has now started with the publication, on 7 September, of the contract notice in the Official Journal of the European Union. A copy of the notice has also been published on the Audit Commission's website. Full details of the Audit Commission's procurement strategy are available on its website. It sets out the objectives of the procurement and how it will be carried out. The key points to note are that:

- The work is packaged into ten lots across four geographical regions. The lots range in size from £5 million to £12 million and cover the full range of local public bodies. Shortlisted firms may bid for all the lots, but will only be awarded one lot per region. This is to ensure that the Audit Commission is able to continue to meet its statutory functions in relation to auditor appointments, including managing any independence issues that may arise and consulting meaningfully with audited bodies on proposed appointments;
- The Audit Commission will decide, in consultation with DCLG, whether to award three or five year contracts, commencing from the audit of the 2012/13 accounts. Decisions about the length of the contracts will be taken before the contract award in February 2012 and will be linked to the government's timetable for the introduction of, and transition to, new local public audit arrangements, and for the disbandment of the Audit Commission. DCLG has indicated it will wish to seek views from audited bodies on the potential value for money benefits of having five-year rather than three-year contracts.

- 3.6 The contracts, which have been given indicative values, based on the proposed fee scales for 2012/13, are:

#### Northern region

North West £12.5m

North East and North Yorkshire £5m

Humberside and Yorkshire £6.9m

#### Central region

West Midlands £8.9m

East Midlands £7.8m

Eastern £8.6m

### London region

London (North) £8.4m

London (South), Surrey and Kent £11.7m

### Southern region

South East £11.4m

South West £8.2m

- 3.7 Senior Audit Commission staff have now formally launched a mutual company to bid for local authority audit contracts. The DA Partnership – the initials refer to the commission's district audit predecessor – will be majority owned by staff but international accountancy firm Mazars will also take a share. Mazars is providing office space and financing for the bid team.

### **Timetable**

- 3.8 The Audit Commission has also published the timetable for the outsourcing process on its website. The key milestones are set out in the following table:

<b>Key milestone</b>	<b>Date</b>
Deadline for return of pre-qualification questionnaires from interested firms	7 October 2011
Issue invitations to tender to shortlisted firms	by 28 October 2011
Deadline for submission of tenders	16 December 2011
Approval of contract awards by the Commission Board	w/c 20 February 2012
Consultation with audited bodies on auditor appointments for 2012/13	23 April - 13 July 2012
Appointments for 2012/13 commence	1 September 2012
Audit Practice staff transfer to firms awarded contracts	31 October 2012

- 3.9 Auditor appointments for 2012/13 will start on 1 September 2012. The Audit Commission will be consulting on these appointments in due course. It will also consult on extending current auditor appointments to allow any audit issues arising between 1 April 2012 and 31 August 2012 to be dealt with. The costs of this 'interim' audit role will be met by the Audit Commission.
- 3.10 It is envisaged that most existing Audit Practice staff in each lot area will transfer to the successful bidders under the TUPE regulations on 31 October 2012.

## **Next steps**

- 3.11 The Audit Commission is to keep authorities updated on the progress of the procurement and associated developments. A further update is expected in early November once the invitations to tender have been issued. The update is expected to provide more information on how the Audit Commission will manage the process of consultation on 2012/13 auditor appointments.

## **Implications for the Council**

- 3.12 As things currently stand:
- The Council's current external auditors, the Audit Commission, will complete the audit of the 2011/12 financial statements;
  - The Audit Commission will be responsible for appointing the Council's next external auditor (this will be the firm that is awarded the North West region lot);
  - There will be a consultation period on auditor appointments between 23 April and 13 July 2012;
  - The new appointments for the 2012/13 audit will commence on 1 September 2012;
  - The contract period will be between three and five years. However, it will contain a contingency option for the Audit Commission to extend for a further 3 years in either case;
  - The intention is that the Council would then appoint its own external auditor at the end of the contract.
- 3.13 The Government has not yet formally responded to the 'Future of Local Public Audit' consultation. No decisions have therefore been published regarding the potential for independent members to be elected to local authority Audit Committees.

## **4.0 POLICY, FINANCIAL AND OTHER IMPLICATIONS**

- 4.1 The 'Future of Local Public Audit' consultation document set out four design principles for the new framework for local public audit. One of those principles was to achieve a reduction in the overall cost of audit.

- 4.2 There are no policy implications.

## **5.0 IMPLICATIONS FOR THE COUNCIL'S PRIORITIES**

- 5.1 There are no direct implications.

## **6.0 RISK ANALYSIS**

- 6.1 This report is for information only. There are no risks arising from it.

**7.0 EQUALITY AND DIVERSITY ISSUES**

7.1 None.

**8.0 LIST OF BACKGROUND PAPERS UNDER SECTION 100D OF THE LOCAL GOVERNMENT ACT 1972**

Document	Place of Inspection	Contact
Future of Local Public Audit Consultation	Audit Commission website	Merv Murphy

**Halton Borough Council response to the 'Future of local public audit' consultation**

Halton Borough Council has contributed to the consultation response which has already been provided to you by the Liverpool City Region.

However, the Council's Business Efficiency Board, whose Members are responsible for Governance within the Council and also act as the Council's Audit Committee, also wish to submit the following additional responses to the Consultation specifically in respect of the proposal to appoint Independent Members to Audit Committees.

- Elected Council Members currently form the membership of Audit Committees and undertake this role, in accordance with guidance from CIPFA, in a very objective and robust manner. The operation of an Audit Committee is also regularly reviewed by each Council's external auditors.
- Part of an Elected Member's role on any Council Board or Committee is to scrutinise, challenge and be objective, which therefore lends itself to their role on an Audit Committee.
- The role of the Audit Committee in Halton is provided by the Business Efficiency Board, which provides very robust scrutiny of all matters. This is particularly aided by Elected Members' extensive knowledge of the Council's operations and the differing backgrounds of the individuals on that Board
- The Council's external auditors consider that the Business Efficiency Board in Halton operate as a very effective Audit Committee.
- The Board is not aware of any evidence nationally that Audit Committees are not currently undertaking their role effectively, or that having Independent Membership, with little background knowledge of the Council, will increase that effectiveness. The Board does not therefore see any reason to change the current arrangements.
- Given the potential additional costs involved in changing the arrangements for regulation of Local Public Audit and the cost of Independent Membership of Audit Committees, there is no evidence that the proposals outlined in the Consultation will achieve any savings to the public purse and will in fact result in extra costs.