

AUDIT COMMITTEE	AGENDA ITEM No. 8
26 MARCH 2012	PUBLIC REPORT

Cabinet Member(s) responsible:	Councillor Seaton, Cabinet Member for Resources	
Committee Member(s) responsible:	Councillor Lamb, Chair of Audit Committee	
Contact Officer(s):	Steve Crabtree, Chief Internal Auditor	☎ 384 557

AUDIT COMMISSION: APPOINTMENT OF EXTERNAL AUDITORS

R E C O M M E N D A T I O N S	
FROM : John Harrison, Executive Director (Strategic Resources)	Deadline date : N/A
To advise Members of changes from central government which will impact on the workings of the Council and in particular the Audit Committee.	

1. ORIGIN OF REPORT

This report is submitted to Audit Committee in line with the Work Programme for the Municipal Year 2011 / 2012.

2. PURPOSE AND REASON FOR REPORT

To present Members with an update regarding the Department for Communities and Local Government's Consultation Paper on the "Future of Local Public Audit".

This is in accordance with the Committees Terms of Reference: 2.2.9 *"To liaise with the Audit Commission over the appointment of the Councils external auditor"*.

3. TIMESCALE

Is this a Major Policy Item / Statutory Plan?	NO	If Yes, date for relevant Cabinet Meeting	N/A
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4. BACKGROUND

- 4.1 On the 13 August 2010 the Secretary of State for Communities and Local Government announced plans to disband the Audit Commission and refocus audit of local public bodies on helping local people hold those bodies to account for local spending decisions, the very essence of localism.
- 4.2 On 30th March 2011 the Government published a consultation document setting out the principles for the future of local audit. It proposes that all public bodies with a turnover exceeding £6.5m appoint their own independent auditor. This appointment would be made following advice from an independent audit panel.
- 4.3 The consultation included fifty questions, some of which applied only to smaller public bodies i.e. those under the £6.5m turnover threshold. Since then the Department for

Communities and Local Government (DCLG) has issued the 'Government response to the future of local audit consultation' (January 2012) available at:

<http://www.communities.gov.uk/publications/localgovernment/localauditgovresponse>

4.4 Principles

The design principles of the consultation remain i.e. a move away from centralised inspection and supervision, proposing instead a more locally focused regime that is overseen by the National Audit Office. The response to the consultation reinforces the following four design principles in developing the proposals for local audit:

- Localism and decentralisation – freeing up local public bodies, subject to appropriate safeguards, to appoint their own independent external auditors from a more competitive and open market.
- Transparency – ensuring that the results of audit work are easily accessible to the public, helping local people to hold councils and other public bodies to account for local spending decisions.
- Lower audit fees – achieving a reduction in the overall cost of audit.
- High standards of auditing – ensuring that there is effective and transparent regulation of public audit, and conformity to the principles of public audit.

4.5 Regulation of local public audit

Legislation will set out at a high level how the system operates. In summary, the approach to audit will be that the External Auditor will still be required to satisfy themselves that:

- The accounts have been prepared in accordance with the necessary directions or regulations and comply with relevant statutory requirements;
- Proper practices have been observed in the completion of the accounts; and
- The body has made proper arrangements for securing economy, efficiency and effectiveness (value for money) in its use of resources.

4.6 Transition period

The Audit Commission have been going through the procurement exercise to transfer to the private sector the work of the Commission's audit practice by:

- 'Securing the provision of high quality audit services at the best prices possible; and
- Minimising the costs to DCLG of redundancy by maximising transfer of audit practice staff under TUPE Regulations.'

Thirteen firms were invited to tender and bids received evaluated on the basis of a weighting of 60% of price and 40% quality. Following this exercise, a press release from the Audit Commission was issued on 5 March 2012 (extract attached at **Appendix 1**).

The Draft Bill is anticipated in spring 2012. It will set out key elements of the new framework and the powers to make regulations on detailed issues.

The introduction of the new regime is planned for April 2015 but this is dependent on whether the initial contracts (awarded by the Audit Commission) are for three or five years. The Audit Commission will consult with DCLG before deciding on the length of contract.

For Peterborough, our existing contract with PricewaterhouseCoopers continues.

5. ANTICIPATED OUTCOMES

Audit Committee to note the changes to be made.

6. REASONS FOR RECOMMENDATIONS

To update Members on central government changes which impact on local government.

7. ALTERNATIVE OPTIONS CONSIDERED

None

8. IMPLICATIONS

This cannot be quantified at present until further details are published.

9. BACKGROUND PAPERS

Used to prepare this report in accordance with the Local Government (Access to Information Act 1985)

- Communities and Local Government web site: www.communities.gov.uk

Press Release 5 March 2012: Audit Commission will reduce audit fees by 40 per cent

Today the Audit Commission announced the proposed award of five-year audit contracts to four private firms starting from 2012 / 2013 - contracts that will contribute to an up to 40 per cent cut in the audit fees paid by local public bodies.

The provisional results of the procurement to outsource the work of its Audit Practice show the extent of the Audit Commission's unique purchasing power. Public bodies are expected to save over £30 million a year for the length of the contracts. Together with additional savings of £19 million a year achieved through the Commission's own internal efficiencies, the result will be an expected £250 million (or 40 per cent) fall in audit fees for most local public bodies over five years.

The procurement will also create a more diverse audit market and safeguard the extensive public sector experience of over 700 auditors who will transfer to the private sector.

Following a process that began with a contract notice issued in September 2011, the Audit Commission is proposing to award the following contracts to:

- **Grant Thornton (UK) LLP**, a total notional value* of £41.3 million a year covering four contract areas in the North West, West Midlands, London (South) Surrey & Kent, and South West;
- **KPMG LLP** a total notional value of £23.1 million a year covering three contract areas in Humberside & Yorkshire, East Midlands, and London (North);
- **Ernst & Young LLP** a total notional value of £20 million a year covering two contract areas in Eastern and South East; and
- **DA Partnership Ltd**** a total notional value of £5 million a year covering one contract area in the North East & North Yorkshire.

The Commission expects to confirm the award of the contracts at noon on 6 March.

The procurement exercise has diversified the current marketplace by introducing two new suppliers. This will be the first time in the 28 year history of the Commission that all audits of the accounts of public bodies in England will be carried out by private firms.

October 2012 will mark an end to the Commission's own Audit Practice, (formerly known as the District Audit Service), which currently delivers around 70 per cent of the audits for England's local public services.

Auditors transferring to the four successful companies will do so in the autumn of 2012, after they have completed their work on accounts for the 2011 / 2012 financial year. When the Commission's Audit Practice closes, it will leave a much smaller organisation in place to manage the contracts, oversee the public audit market and deliver its other statutory functions.

Ministers have indicated that they intend to publish a draft Bill on the future arrangements for local public audit for legislative scrutiny and consultation in the spring.

Following the end of the procurement process, there will be a consultation period with audited bodies on the appointment of their new auditors. The appointments will be formally approved by the Commission's Board in July. Appointments for 2012 / 2013 will commence on 1 September, with Audit Commission staff transferring to the new suppliers on 31 October 2012.

The Commission's current contracts with Deloitte LLP, Grant Thornton UK LLP, KPMG LLP, PricewaterhouseCoopers LLP UK, and PKF (UK) LLP will remain in place.