

Future Arrangements for Audit

Purpose

For discussion and direction.

Summary

This report updates members about the results of the Audit Commission's (AC) process to procure local public audit.

The next LGA/AC Liaison meeting involving the LGA Chairman, Group Leaders and Cllr Peter Fleming takes place on 14 March and a verbal update will be made to the Improvement Board.

Recommendation

The Improvement Board is asked to note the results of the Audit Commission's process to procure local public audit.

Action

As agreed by members.

Contact officer: Nick Easton
Position: Senior Adviser
Phone no: 020 7664 3278
E-mail: nick.easton@local.gov.uk

Future Arrangements for Audit

Background

1. The Audit Commission has recently announced the results of its process to procure local public audit. Following a process that began with a contract notice issued in September 2011, the Audit Commission is proposing to award the following contracts to:
 - 1.1 **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;
 - 1.2 **KPMG LLP** a total notional value of £23.1 million a year covering three contract areas in Humberside & Yorkshire, East Midlands, and London (North);
 - 1.3 **Ernst & Young LLP** a total notional value of £20 million a year covering two contract areas in Eastern and South East; and
 - 1.4 **DA Partnership Ltd** (DA Partnership Ltd is a wholly-owned subsidiary of Mazars LLP) a total notional value of £5 million a year covering one contract area in the North East & North Yorkshire.

(*The contract notional value is based on the proposed scale fees for 2012/13 and an estimated value for certifying grant claims and other financial returns).

2. The results of the procurement exercise should save £250 million over five-years, leading to fee reductions of around 40 per cent for local bodies. This is made up of savings of 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.
3. Responding to the announcement Sir Merrick Cockell, Chairman of the Local Government Association, said:

"The Local Government Association would like to see councils themselves procuring their audit services and we have been working with Government to that end. In the current financial climate this next step towards that goal represents significant and guaranteed savings for five years and that is good news for local government. At a time when they are facing very hard decisions about budgets, this will be a tangible financial benefit to them."

Item 1(b)

4. The contracts awarded by the Audit Commission will begin on 1 September 2012 and last for five years with the option to extend for an additional 3 years. A decision as to whether to extend the contracts will be taken nearer the time of expiry.
5. As a result of the procurement exercise, the total number of suppliers of local public audit has been increased from five to seven.
6. In line with previous practice, the Commission has allowed for a period of consultation with local bodies prior to finalising appointments. This will begin imminently. The appointments will be formally approved by the Commission's Board in July. The timetable means that appointments are planned by the start of the Annual Audit Cycle on 1 September 2012. In the meantime, the existing auditor who will be on-site undertaking the 2011/12 audits will keep a watching brief for the first six months of the new financial year.
7. 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.
8. The Government is pressing ahead with its plans for disbanding the Audit Commission. A draft Bill will be published in the Spring for Parliamentary scrutiny. The legislation will be introduced as soon as Parliamentary time allows. It is the Government's current intention to transfer all rights and liabilities under the contracts in that proposed legislation, so that the contracts can run for their planned duration (even though the Commission will be disbanded in the meantime).
9. Following the last meeting of the Board, Cllr Fleming, Chairman, wrote to the Secretary of State to convey the Board's views about outsourcing and its view that the requirement for independent Audit Panels is an unnecessary layer of bureaucracy that sits at odds with the Government's agenda to devolve responsibility locally. The Secretary of State's reply confirms that he does not wish to impose any unnecessary bureaucracy and that the requirement for audit panels will be drafted to allow maximum flexibility for local authorities to adapt them to local circumstances. A copy of the reply is attached at **Appendix 1**.
10. The next LGA/AC Liaison meeting involving the Chairman, Group Leaders and Cllr Peter Fleming takes place on 14 March and a verbal update will be made to the Improvement Board.

Financial Implications

11. There are no additional financial implications arising from this report.