

From the Permanent Secretary

Local Authority Chief Executives

28 July 2011

UPDATE ON WORK ON THE FUTURE OF LOCAL AUDIT

I wrote to you on 2 June 2011 letting you know that we had asked the Audit Commission to begin preparatory work for outsourcing all local audits from 2012/13. As you will see from the attached press notice Ministers have now confirmed that they want to proceed with outsourcing.

The Commission timetable for running an outsourcing process means it is unlikely audit appointments would be made by the 1 April date they usually adopt, but they would nevertheless be made by the start of the Annual Audit Cycle on 1 September 2012. We are confident that the practical effects of this are manageable, but we are committed to working with you and with the Commission to ensure practical arrangements are in place to address any issues that do arise.

We have been considering carefully how long the outsourced contracts should be. Our initial proposal was for three years from 2012/13, after which, legislation permitting, local authorities would be free to appoint their own auditors. But it's possible that longer contracts (over five years) might achieve greater value for money. However, this would need to be balanced against delaying the point at which local public bodies can appoint their own auditor and the benefits of greater transparency and accountability in a new, decentralised local audit framework. This is clearly a trade-off in which local government has a very strong interest. We therefore plan to seek bids from audit firms on the basis of three and five years after which we want to talk to the sector about this trade off once we have a better sense of the difference this makes to audit fees. We will let you know how we plan to handle this discussion in the Autumn.

In addition, you will wish to note that the Commission's timetable to appoint auditors for 2012/12 envisages them consulting you on those appointments between April and June next year.

In the meantime we continue to make progress on what a new local audit framework will look like. The consultation on proposals for this framework closed on 30 June

and I wanted to take this opportunity to thank all those who responded to and contributed to the consultation. All these views are currently being analysed and we plan to refine our proposals further, respond in due course, and then to bring forward primary legislation as soon as Parliamentary time allows.

We continue to be committed to working closely with local government and the Commission to ensure a smooth transition through outsourcing and into a new local audit framework. I will keep you informed of developments accordingly.

A handwritten signature in black ink, consisting of a stylized 'B' followed by a horizontal line that extends to the right and then curves slightly downwards.

SIR BOB KERSLAKE

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PRESS NOTICE

AUDIT COMMISSION TO OUTSOURCE AUDIT PRACTICE NEXT YEAR

The Audit Commission will outsource all its in-house local public audit work to the private sector in the next financial year, Communities Secretary [Eric Pickles] announced today.

Ministers have determined this approach should offer the best value for money. This follows the decision to disband the Audit Commission last year which will refocus audit on helping local people hold their councils to account for local spending decisions.

The Commission has already been asked to begin substantive preparations for outsourcing. The contracts, which start from 2012-13 are expected to run for three or five years giving local councils and other public bodies the time to plan for appointing their own auditors.

A fair and competitive procurement process will be run that would give suitable private sector bidders the chance to compete for the Commission's audit work in a way that gives taxpayers best value for money.

This option would also allow for the possibility of a bid on behalf of the staff of the Audit Commission which could then form the basis for an employee owned company. Arrangements are in place to ensure such a bid does not have an unfair advantage.

The Commission will radically reduce in size by the end next year as a consequence of outsourcing its audit work. Prior to primary legislation being enacted a small residual body will remain to oversee the contracts and make audit appointments. The Commission's inspection work and Comprehensive Areas Assessments has already ended.

Mr Pickles said:

"We have set in train measures to save council taxpayers money by radically scaling back on the centrally imposed, bureaucratic and costly audit and inspections previously undertaken by the Audit Commission.

This Government is determined to refocus local audit on helping local people hold councils to account. We believe that the next step is to outsource the audit practice next year as a way to secure best value for money.

"We are working closely with the Audit Commission to design a fair procurement process that will allow a wide range of bidders, whether a mutual or private sector accountancy firm, to compete for the Commission's audit business.

“Outsourcing will also allow further progress to be made on the new audit framework that will give councils the power to appoint their own auditors.”

The consultation on proposals for a new audit framework closed on 30 June. Ministers are considering the proposals in light of the consultation responses received and the Government will bring forward primary legislation in due course. Once established the Audit Commission would be formally disbanded and local public bodies would appoint their own auditors.

Notes to Editors

1. Around 11,000 local public bodies are audited under the Audit Commission's regime, including local government, health and police bodies, national parks authorities and passenger transport executives.
2. The Audit Commission's Board met this morning and formally agreed the process for outsourcing the audit work from 2012/13 onwards.
3. The Audit Commission will be running two outsourcing processes in parallel, one for principal local public bodies and another for the smaller bodies which fall under the limited assurance regime following which private sector auditors (as opposed to Commission auditors) will be appointed to all local public bodies.
4. Outsourcing the Commission's in-house practice will mean that many of the Commission's audit staff would transfer with their work to the private sector under TUPE terms. In line with previous practice, the Commission plan to allow for a significant period of consultation with local authorities prior to finalising appointments. Their procurement and consultation timetable means that appointments are planned by the start of the Annual Audit Cycle on 1 September 2012, which will be manageable as the focus of auditors work in the first half of the financial year is generally on the previous year's accounts.
5. The Commission will seek bids from audit firms on the basis of three and five year outsourced contracts. Longer outsourced contracts, five years as opposed to three, have the potential to generate lower audit fees. The Department therefore plans to engage in a short discussion with local public bodies about the trade off between the potential for lower audit fees and delaying the point at which local public bodies can appoint their own auditor once there is a better sense of the difference this makes to audit fees.
6. The Department for Communities and Local Government's Permanent Secretary, Sir Bob Kerslake, wrote to local authorities on 2 June to advise Ministers' initial view was that outsourcing was likely to offer the quickest, most straightforward and value for money option for transferring the work to the private sector. Sir Bob Kerslake is writing again today to local authorities. The Department of Health and Home Office are communicating the same message to health bodies and police authorities respectively.