

Outsourcing the work of the Audit Commission's audit practice

A briefing note for Audit Committee members

Norwich City Council

Briefing note

1 This paper provides a short update for Audit Committee members on the Government's timetable for outsourcing the audit work currently done by the Audit Commission's audit practice.

2 Eugene Sullivan, the Commission's Chief Executive wrote to all audited bodies on 21 September with an update on the procurement process and the timetable. His letter is included at Appendix 1 to this briefing note, with the key points summarised below.

3 On 2 June 2011 Sir Bob Kerslake, the Permanent Secretary for the Department for Communities and Local Government (CLG), wrote an open letter to local authority chief executives, available on CLG's website at <http://www.communities.gov.uk/publications/localgovernment/bklocalauditletter?view=Standard>. This letter indicated CLG's preferred option for transferring the work done by the Audit Commission's in-house Audit Practice was to outsource it to private audit suppliers. On 28 July 2011 CLG confirmed that all audit work currently undertaken by the Audit Commission's in-house audit practice will be outsourced to the private sector from the 2012/13 financial year onwards.

4 The Audit Commission will run the outsourcing process and will seek bids from audit firms based on three- and five-year contracts. Five-year contracts have the potential for lower audit fees, but delay the point at which local public bodies can appoint their own auditor, the system CLG proposes to implement following the three- to five-year initial outsourcing.

5 On 6 September 2011 the Audit Commission announced the ten contract areas which will form the basis of the outsourcing, which includes the south-London, Surrey and Kent area. Details of all the contract areas are available on the Commission's website at <http://www.audit-commission.gov.uk/aboutus/procurement/contractopportunities/pages/default.aspx>. Audit Commission staff currently working on audits in each area would be transferred to the winning private sector bidder under Transfer of Undertakings (Protection of Employment) (TUPE) terms.

6 The Audit Commission's outsourcing timetable is set out in Table 1. The deadline for submission of tenders is 16 December 2011 and the approval of contract awards expected by 24 February 2012. Local public bodies will then be consulted on the proposed appointments between April and July 2012 with final approval of contract awards expected by 27 July 2012.

7 For more information, CLG's press release is available from its website at <http://www.communities.gov.uk/news/corporate/1954729>.

Table 1: **Timetable for outsourcing**

Milestone	Target date
Issue Contract Notices in the Official Journal of the European Union	5 September 2011
Issue pre-qualification questionnaires (PQQ) on request	From 5 September 2011
Deadline for return of PQQs	7 October 2011
Issue invitations to tender and anonymised TUPE information to selected suppliers	w/c 24 October 2011
Deadline for submission of tenders	16 December 2011
Approval of contract awards	w/c 20 February 2012
Consultation with audited bodies on appointments	23 April - 13 July 2012
Approval of auditor appointments	w/c 23 July 2012
Appointments for 2012/13 commence	1 September 2012
Staff transfer to firms awarded contracts	31 October 2012

Source: <http://www.audit-commission.gov.uk/aboutus/future/Pages/timetable-for-outsourcing-process.asp>

Appendix 1 - Eugene Sullivan's letter to all audited bodies, 21 September 2011

Dear Colleague

Update on the procurement of audit services

On 3 August, I wrote to you about the 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. I also outlined the implications for auditor appointments, which vary according to whether your current auditor is from the audit practice or from a private firm. I thought it would be helpful to update you with progress on the procurement, and provide further details of the timetable and the auditor appointments.

Progress on the procurement

The procurement 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 Commission's website. Our [procurement strategy](#) is also on our website. It sets out the objectives of the procurement and how it will be carried out. The key points 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 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; and
- the 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 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, if having five-year contracts would delay the point at which local bodies could begin to appoint their own auditors.

We expect there to be an employee-led bid, which two senior members of the Audit Practice's Leadership Team have been given leave of absence to prepare, at no cost to the public purse. To ensure propriety in the preparation of any employee-led bid, we have put in place a formal [protocol](#), to which all Commission staff have been required to sign up.

Timetable

We have published the [timetable](#) for the outsourcing process on the Commission's website. I have included the key milestones in the table at the end of this letter.

As I indicated in my letter of 3 August, auditor appointments for 2012/13 will start on 1 September 2012. We will consult on these appointments in due course. We 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 Commission.

We envisage that most Audit Practice staff in each lot area will transfer to the successful bidders under the TUPE regulations on 31 October 2012. Where your appointed auditor is a District Auditor from the Commission's Audit Practice, we are committed to ensuring so far as possible a smooth transition to your new audit provider.

Next steps

We will keep you updated on the progress of the procurement and associated developments. I will therefore write to you again in early November once we have issued the invitations to tender. I hope then to be able to say more about how we will manage the process of consultation on 2012/13 auditor appointments.

If you wish to clarify any of the points in this letter or ask other questions about the content, please email: auditor-appointments@audit-commission.gov.uk or contact Marcine Waterman or Andrew Davies on 0844 798 2447.

Yours sincerely

Eugene Sullivan, Chief Executive

Timetable Key milestone	Date
Deadline for return of pre-qualification questionnaires from interested firms	7 October
Issue invitations to tender to shortlisted firms	by 28 October
Deadline for submission of tenders	16 December
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
Appointments for 2012/13 commence	1 September
Audit Practice staff transfer to firms awarded contracts	31 October