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Audit Commission will reduce audit fees by 40 per cent

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Today the Audit Commission announced the proposed award of five-year audit contracts to four private firms starting from 2012/13 - 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.

In August 2010, the Department for Communities and Local Government (DCLG) announced plans to put new arrangements in place for auditing England's local public bodies. The following July, the Commission's Board agreed to a formal request from

Ministers to run a procurement to privatise the audits currently delivered by the in-house Audit Practice.

Chairman of the Audit Commission, Michael O'Higgins, says:

'This procurement has been the result of a rigorous assessment of each bidder against published cost and quality criteria, and will mean significant audit fee savings for local councils, NHS trusts and other local bodies. Its outcome will promote a skilled, well-resourced and diverse public audit market. Only the Audit Commission could have delivered this, given its statutory powers and unique audit procurement arrangements.'

'The procurement process has ensured that the specialised skills and experience of over 700 public sector auditors will be retained in an outsourced market.'

'I am glad to see the cost benefits of bulk-buying audit services and prices being locked in for at least five years - these £250 million savings will be passed on to local public bodies when we announce the detail of fee reductions in April. We will continue to spread the cost of audit across all local public bodies, ensuring that smaller and geographically remote public bodies enjoy the benefits of the low prices this procurement has secured.'

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 2011/12 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.

Chief Executive, Eugene Sullivan, adds: 'This has been a complex process delivered to a very challenging timetable, and we are pleased with the outcome.'

'But we should also acknowledge that this is a pivotal point in the history of public service. We will be losing a distinctive, and publicly-owned, local public audit service and its District Auditors who have helped to protect the public purse effectively for over a hundred and fifty years.'

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 2012/13 will commence on 1 September, with Audit Commission staff transferring to the new suppliers on 31 October 2012.

Notes to editors

- The procurement process will end at 23:59 on 5 March, following the standstill period required under EU Procurement Regulation.

- * 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.
- ** DA Partnership Ltd is a wholly-owned subsidiary of Mazars LLP.
- The 2012/13 audit fees will be approved by the Commission Board and announced in April 2012.
- The Audit Commission is a public corporation set up in 1983 to protect the public purse. The Commission appoints auditors to councils, NHS bodies (excluding NHS Foundation trusts), police authorities and other local public services in England, and oversees their work. We also help public bodies manage the financial challenges they face by providing authoritative, unbiased, evidence-based analysis and advice.
- The Commission's Audit Practice also audits NHS foundation trusts under separate arrangements, but this work will stop after the completion of the 2011/12 audits
- 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.

More information

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