

# RIBBLE VALLEY BOROUGH COUNCIL

## REPORT TO ACCOUNTS AND AUDIT COMMITTEE

Agenda Item No 8

meeting date: 30 NOVEMBER 2011  
title: UPDATE ON PROCUREMENT OF AUDIT SERVICES  
submitted by: DIRECTOR OF RESOURCES  
principal author: JANE PEARSON

### 1 PURPOSE

- 1.1 To inform members of the latest position regarding procurement of external audit services.

### 2 BACKGROUND

- 2.1 On 28 July 2011, the Audit Commission announced that it had agreed to transfer the work of its in-house audit practice to the private sector, by outsourcing through a procurement exercise. This follows the Department for Communities and Local Government (DCLG) announcement in August 2010 of the intention to disband the Audit Commission.
- 2.2 The DCLG asked the Audit Commission to seek bids for the work currently undertaken by the in-house audit practice. The Audit Commission wrote to all audited bodies on 3 August 2011 setting out the implications for auditor appointments and the intention that auditor appointments for 2012/13 will start on 1 September 2012. The Audit Commission have stated they will consult on these appointments in due course. They 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.
- 2.3 The Commission envisage that most Audit Practice staff in each lot area will transfer to the successful bidders under the TUPE regulations on 31 October 2012. They have stated that where an appointed auditor is a District Auditor from the Commission's Audit Practice, they are committed to ensuring so far as possible a smooth transition to a new audit provider.
- 2.4 The procurement process started on 7 September 2011 with the publication of the contract notice in the Official Journal of the European Union. The key points of the procurement 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.

### 3 TIMETABLE

<b>Key milestone</b>	<b>Date</b>
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

### 4 LATEST POSITION

4.1 The Audit Commission have written to us on 14 November setting out the latest position with the procurement exercise. Please see attached at Annex 1

4.2 The Commission have now issued Invitations to Tender for the principal bodies' procurement to 13 potential providers. Potential suppliers have until 16 December 2011 to submit tenders.

4.3 The bidders invited to submit tenders are shown below:

- ❖ BDO LLP
- ❖ DA Partnership Ltd
- ❖ Deloitte LLP
- ❖ Ernst & Young LLP
- ❖ Grant Thornton (UK) LLP
- ❖ consortium led by Haines Watts
- ❖ KPMG LLP
- ❖ Menzies LLP
- ❖ consortium led by MHA Audit LLP
- ❖ consortium led by Moore Stephens LLP
- ❖ PKF (UK) LLP
- ❖ pwc LLP
- ❖ RSM Tenon Audit Ltd

4.4 The process has three key stages:

- ❖ making decisions about the award of contracts;
- ❖ determining the length of contracts; and

❖ appointing auditors to individual bodies

4.5 More information regarding each of these stages can be found in the attached copy letter.

5 CONCLUSION

5.1 The procurement process has reached a significant milestone, however we will not know who our new appointed auditor will be until at least April next year. The appointment will take effect from 1 September 2012.

DIRECTOR OF RESOURCES

AA22-11/JP/AC  
15 NOVEMBER 2011



Local government

Health

Fraud

Audit regime

Audit Practice

## Update on the procurement of audit services

Dear Ms Pearson

On 21 September, I wrote to update you on the progress of the current procurement exercise to outsource the work of the Commission's in-house audit practice and to provide further details of the timetable.

We have now reached another significant milestone in the process, having issued Invitations to Tender (ITT) for the principal bodies' procurement to 13 potential providers.

We have published [a copy of the ITT](#) on our website. The bidders invited to submit tenders are:

- BDO LLP
- DA Partnership Ltd
- Deloitte LLP
- Ernst & Young LLP
- Grant Thornton (UK) LLP
- consortium led by Haines Watts
- KPMG LLP
- Menzies LLP
- consortium led by MHA Audit LLP
- consortium led by Moore Stephens LLP
- PKF (UK) LLP
- pwc LLP
- RSM Tenon Audit Ltd.

In accordance with the published timetable, potential suppliers have until 16 December to submit tenders.

The process has three key stages:

- making decisions about the award of contracts;
- determining the length of contracts; and
- appointing auditors to individual bodies.

The arrangements for each stage are set out below.

### Award of contracts

The Audit Commission is running the procurement process, and all key decisions relating to it are being taken by the Commission Board. The Board has appointed a Procurement Panel, a sub-committee of the Board, comprising Board members with a range of skills and experience of the different sectors, to oversee the procurement in more detail, and to make recommendations to the Board as to the award of contracts following the evaluation. This Procurement Panel includes an independent member, Mike More, the Chief Executive of Westminster City Council.

The outsourcing strategy is based on 10 contract lots covering local government, NHS, police and other local public bodies - over 650 in total - in different parts of the country. The bids for each lot will be assessed on the qualitative and financial criteria set out in the ITT. Those are the only factors that will determine a contract award.

As the Commission has determined that TUPE applies to the outsourcing process, the majority of the Commission's Audit Practice staff will transfer to the successful bidders in each area at the end of October 2012.

## Contract length

The decision whether to award contracts for three or five years is about value for money, but is also 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. The government has indicated that it wants to talk to the different sectors about the trade-off between the value for money of awarding three or five year contracts and the benefits of the proposed new public audit arrangements, once we have a better sense of the difference that the outcome of the procurement makes to audit fees from 2012/13.

## Auditor appointment

The Commission has a statutory duty to consult local government audited bodies on the appointment of the auditor. We will also consult NHS bodies. Consultation with all audited bodies on appointments from 2012/13 onwards will take place after the contracts have been awarded. We have allocated sufficient time within the process to allow for meaningful consultation.

Where a body is currently audited by the Commission's Audit Practice, we will propose the winning firm in each contract area as the appointed auditor, unless there are good reasons that prevent this. Our contract strategy ensures the Commission will have the option of appointing a different firm to an audited body should this be necessary.

Where a body is currently audited by a firm, we do not expect to have to change the appointment from 2012/13. However, we must wait until the procurement is completed before we can confirm the national picture on auditor appointments.

We plan to set out early in the new year how we will go about the consultation process and specify the grounds on which we will consider representations from audited bodies about proposed auditor appointments.

The new auditor appointments for 2012/13 will take effect from 1 September 2012. We are putting in arrangements to ensure a smooth handover to the incoming auditor.

## Next steps

We will keep you updated on the progress of the procurement and the associated developments. I will write to you again early in the new year, setting out the process we propose to follow in consulting 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: [audit-appointments@audit-commission.gov.uk](mailto:audit-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 submission of tenders	16 December 2011
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 2012
Appointments for 2012/13 commence	1 September 2012
Audit Practice staff transfer to firms awarded contracts	31 October 2012

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