

Update on the procurement of audit services

Dear Mr Keel

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 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