

*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 ends in a small upward tick.

**SIR BOB KERSLAKE**

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