

From the Permanent Secretary

Local Authority Chief
Executives

2 June 2011

Dear Local Authority Chief Executives,

UPDATE ON WORK ON THE FUTURE OF LOCAL AUDIT

In August last year the Secretary of State announced plans to disband the Audit Commission and refocus local public audit. Since then, the feedback from local government has been generally supportive of the decision. We have a shared goal of making progress on a robust new local audit framework, and on shutting down the Commission quickly and efficiently, so that local government can appoint auditors as soon as possible. I want to update you on what we are doing to secure this.

Since the announcement, we have been carefully considering how to deliver the changes as cost effectively and quickly as possible. We are out to consultation on proposals for the new audit framework, and keen to hear your views. The consultation runs until 30 June, and the document is at: <http://www.communities.gov.uk/publications/localgovernment/localpublicauditconsult> We plan to provide a response to the consultation in the autumn, and to publish draft legislation, and then to bring forward primary legislation as soon as Parliamentary time allows.

We have also been looking at how to transfer the audit work from the Commission's in-house audit practice to the private sector. We have taken external advice on how best to achieve this. We need to ensure the public purse is protected, and that you get high quality and value for money audit services until you can start appointing your own auditors.

There are two basic options, either to outsource all the audit work (30% of which is already done by the private sector), or to create an independent company which could be sold. Our initial view, drawing on the work of our external advisers, is that outsourcing could be the better option – potentially quicker, more straightforward and better value for money. We have, therefore, asked the Audit Commission to begin substantive preparatory work for outsourcing the 2012/13 audits. This means we will be able to move quickly if Ministers take a final decision to go down this route. The attached press notice provides more details.

We would ensure that local government is fully engaged in the process of outsourcing and the appointment of auditors. We will ensure that whichever option is chosen provides high quality and value for money. We expect local government to share in the benefit of any savings that are achieved. We are clear that outsourcing would not delay the point at which you are able to appoint your own auditors, compared with the sale option. My department is ready to work closely with local government and the Commission to ensure a smooth transition.

Once Ministers have made a final decision on how best to transfer the in house practice to the private sector, they will inform Parliament in the usual way. I will keep you informed of developments and the programme will be kept under review to ensure the best possible outcome.

Yours faithfully,

A handwritten signature in black ink, appearing to read 'Bob Kerlake'. The signature is written in a cursive style with a large initial 'B'.

SIR BOB KERSLAKE

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Government***

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