

## Scrapping audit body risks ‘independence’

Nicholas Timmins, Public Policy Editor, Financial Times, FEBRUARY 7 2011

Eric Pickles’ “brutal” abolition of the Audit Commission “on a whim”, and the decision to let councils appoint their own auditors, raises issues about the probity of financial oversight of councils’ activities, MPs have been warned.

The House of Commons communities and local government committee [is investigating](#) the local government secretary’s unexpected [decision to abolish the commission](#), announced in mid-August, after a row over [how much its chief executive should be paid](#).

It heard from its first witnesses on Monday, with many councils in written evidence supporting the idea they should appoint their own auditors.

However, David Heald, professor of accountancy at the University of Aberdeen Business School, an international authority on accountancy and a former Treasury adviser on the issue, told the committee “independence” was the “cornerstone of auditing”, but was even more complex in the public than the private sector.

The appointment of auditors needs to be independent not only of the local authority or health body being audited, but from government and politicians “who will pursue private interests as well as advance the public interest”.

The “liberation” of councils to appoint their own auditors, as Mr Pickles proposes, would breach principles of public sector audit, he said, as the Association of Chartered Certified Accountants told MPs the principle of independent appointment “has meant that auditors could go about their work without fear of favour”.

Without the Audit Commission or some form of similar oversight, the market power of the big four accountancy firms which wished to do public sector audit would increase, Prof Heald warned.

The “brutal” abolition of the commission, he told MPs, “creates suspicions of score-settling and lobbying”. As with other actions by government against independent agencies, he said, it conveyed a message “not to step out of line”, which would damage the ability of such organisations “to perform their public functions”.

David Walker, former communications director at the Audit Commission, said the decision to abolish it was “a classic example of government by ministerial whim”.

It did, however, provide an opportunity to rethink audit, inspection and the between private companies and their auditors”.