

## Warning over council audit plans

Nicholas Timmins, Public Policy Editor, Financial Times, SEPTEMBER 26 2010

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The coalition's decision to scrap the Audit Commission and allow councils to appoint their own auditors is "an extremely bad idea", according to a leading specialist in government accounting.

The warning from [David Heald](#), professor of accountancy at the University of Aberdeen Business School comes as the Audit Commission itself has warned that costs could rise and auditors could be deterred from exposing malpractice, unless a genuinely independent way to appoint them was maintained.

Eric Pickles, communities secretary, announced the abolition of the commission in August, later [telling MPs](#) he expected local authority audit to be "a lot cheaper" as councils were set free "to appoint their own independent external auditors from a more competitive and open market".

However, Professor Heald said "at a time when there are doubts about the private sector's role in appointing its own auditors" it did not seem sensible "that the public sector should move off in the opposite direction of choosing its own".

Public sector audit included probity, value for money and assurance that money had been spent in line with legislation, he said, and firms needed reassurance that they would not be dismissed if they challenged councils.

In an [issues paper](#) sent to Mr Pickles' department, the commission said "the most effective way of ensuring independence of auditors is for them to be appointed wholly independently of the audited body". It added that if parliament decided otherwise, safeguards would be needed.

Auditors' role in issuing public interest reports – which range from parish councils failing to report their finances to the Westminster "homes for votes" scandal – could prove "inoperable in practice" if a council can dismiss an auditor who challenges them.

Local authorities in the past "have made great efforts" to prevent public interest reports being issued. "Only the fact that the commission has stood behind auditors, and met their costs in investigating a particular issue, has enabled them to do so."

It also challenged the idea that audit would get cheaper. At present it bulk-buys 30 per cent of audit from the private sector, allocating auditors to a mix of councils while charging a set rate for similar bodies.

Under a decentralised system the bulk-buying discount would be lost. Procurement costs for both councils and the audit firms would rise. There is a risk that some authorities would find it hard to attract an auditor at a reasonable price.

In future there is a risk that “other than in the most extreme cases, the auditor may be unwilling to jeopardise the relationship with the body by reporting in public”. There are also questions over where the resources will come from for special investigations.

In addition more than 9,000 of the smallest bodies receive a basic audit for a minimal fee and are likely to face “a significant increase” in costs if fees are set at an economic level.