



Northern Ireland  
Assembly

# Research and Information Service Briefing Paper

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Paper 000/00

19<sup>th</sup> November 2020

NIAR 320-2020

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## Public Audit Governance

This briefing should not be relied on as legal or professional advice (or as a substitute for these) and a suitably qualified professional should be consulted if specific advice or information is required.

## Introduction

Against a background of devolution, controversy and changes in the process of public appointments,<sup>1</sup> steps were taken across the UK to strengthen the governance of the post of Auditor General and associated audit offices. These reforms have been primarily concerned with independence, good governance and the quality of public audits; and had different processes but similar outcomes.

The reforms included the creation of a board which would both scrutinise and support the activities of the Auditor General. In addition, the board would contain non-executive members, which would ensure it retained a degree of independence from the Comptroller and Auditor General him- or her- self. The Auditor General's office was reformed, going from a lifetime appointment to a non-renewable tenure of ten years or less.

This research paper has been drafted to respond to requests for specific information from the committee:

- the background to the reform of the governance and accountability arrangements for Comptroller and Auditor Generals/audit offices in the other UK jurisdictions, including the policy rationale and how the necessary legislative changes were taken forward (particularly in Scotland and Wales, given the comparable circumstances to Northern Ireland in terms of excepted matters);
- the background and rationale on the legislative reforms which have limited the tenure of the Comptroller and Auditor Generals in the other jurisdictions (i.e. 8 years in Scotland and Wales, 10 years in Westminster) and whether a default retirement age of 65 applies in respect of the Comptroller and Auditor General's in the other jurisdictions;
- how the additional governance arrangements for Comptroller and Auditor Generals/audit offices in the other jurisdictions operate in practice;
- the extent to which the statutory boards exercise a challenge function in relation to their respective Comptroller and Auditor Generals/audit offices and how/whether this differs from the role of the Northern Ireland Audit Office Advisory board;
- the comparative position in relation to Comptroller and Auditor Generals obtaining independent assurance on the accuracy and quality of audit outputs;
- the exercise of the additional functions of the audit committees/commissions (compared to the NI Audit Committee) in the other jurisdictions, including the extent to which this provides additional checks and balances in terms of the independence versus the accountability of the Comptroller and Auditor Generals/Audit Offices.

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<sup>1</sup> Committee on Standards in Public Life, First Report, May 1995 <https://www.gov.uk/government/publications/mps-ministers-and-civil-servants-executive-quangos>, last accessed on 9/11/20

## 1 Reform of the National Audit Office

### 1.1 Background

In July 2007, following media coverage of the Comptroller and Auditor General's travel and subsistence expenditure,<sup>2</sup> the Public Accounts Commission<sup>3</sup> introduced a new governance system for Comptroller and Auditor General's expenses<sup>4</sup> which would align the office-holder to the rules and practices of Permanent Secretaries.<sup>5</sup> At the same time, it announced a review of the corporate governance arrangements of the National Audit Office to ensure they conformed to best practice.<sup>6</sup> The "Review of the National Audit Office's Corporate Governance" was conducted by John Tiner and published in 2008.<sup>7</sup> At the same time, devolution meant that the responsibilities of the National Audit Office were changing.

### 1.2 Reform of the Corporate Governance of the Comptroller and Auditor General and National Audit Office

The Tiner report made recommendations on the reform of the corporate governance of the National Audit Office. The report described three objectives, which the Commission approved in its response:<sup>8</sup>

- The Comptroller and Auditor General must have the authority to form completely independent judgements about the audits and value for money and other studies conducted by the National Audit Office and the presentation of these to Parliament;
- The National Audit Office must maintain systems of governance and internal controls consistent with best practice, applied in ways which do not fetter its independence from Government, and to report publicly on these systems in its Annual Report;
- The National Audit Office must conduct its work according to relevant auditing and professional standards and prevailing best practice.<sup>9</sup>

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<sup>2</sup> Public Accounts Commission 13<sup>th</sup> Report (2007); Written Evidence from the Comptroller and Auditor General <https://publications.parliament.uk/pa/cm200607/cmpacomm/915/91504.htm> last accessed 9<sup>th</sup> November 2020

<sup>3</sup> The Public Accounts Commission acts as the commissioning body for National Audit Office, approves its finances and oversees its governance arrangements.

<sup>4</sup> Salary is paid from the Consolidated Fund as a standing service and, prior to reform, was linked to that of a High Court Judge.

<sup>5</sup> 13<sup>th</sup> Report of the Public Accounts Committee (2007) accessed 23<sup>rd</sup> October 2020 <https://publications.parliament.uk/pa/cm200607/cmpacomm/915/91503.htm>

<sup>6</sup> As above, fn5, para 3.10

<sup>7</sup> Published by the Public Accounts Commission as its 14<sup>th</sup> Report (6<sup>th</sup> February 2008)

<https://publications.parliament.uk/pa/cm200708/cmselect/cmpacomm/328/32802.htm> last accessed 16<sup>th</sup> November 2020.

<sup>8</sup> Public Accounts Commission "Corporate Governance of the National Audit Office: Response to John Tiner's Review" 15<sup>th</sup> Report; 4<sup>th</sup> March 2008. <https://publications.parliament.uk/pa/cm200708/cmselect/cmpacomm/402/402.pdf> last accessed 9<sup>th</sup> November 2020

<sup>9</sup> As above, fn8, pg 3.

The Commission noted that the arrangements which had been investigated by Tiner gave absolute priority to the first objective of the report at the expense of the second, so that checks and balances which should ensure good governance were absent.<sup>10</sup> It considered that the challenge lay in achieving the second objective without compromising the first.

These proposals were planned for enactment in the Constitutional Reform and Governance Act 2010, but were removed before the May 2010 election.<sup>11</sup> They were brought back as the Budget Responsibility and National Audit Act 2011.

The Budget Responsibility and National Audit Act 2011 reformed the governance arrangements around the office of the Comptroller and Auditor General:

- Established the National Audit Office as a corporate entity and a statutory board;<sup>12</sup>
- Determined that both the Comptroller and Auditor General and the Chair of the board be appointed by the Queen on recommendation of the Prime Minister; and,
- Limited the term of office to ten years, with no possibility for renewal.

## **Parliamentary Oversight**

The Public Accounts Commission has responsibility for oversight of the governance of the Comptroller and Auditor General and National Audit Office, and approves the code agreed between the two, which determines how they work together. Its principal duties are to examine the National Audit Office estimate, consider the reports from the National Audit Office's external auditor and appoint non-executive members of the National Audit Office board. Review or, more accurately, use of the work of the Comptroller and Auditor General and National Audit Office falls within the remit of the Public Accounts Committee. The Chairman of the Committee will also be a member of the Public Accounts Commission.

## **1.2 Reform in Wales**

### **1.2.1 Background**

The Government of Wales Act 1998 contained provisions which created the office of the Auditor General for Wales and assigned the National Audit Office to carry out the work of the office on a statutory basis. The Public Audit (Wales)

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<sup>10</sup> As above, fn 8, para 6.

<sup>11</sup> House of Commons Library "Remaining Stages of the Constitutional Reform and Governance Bill 2009-10" 14 April 2010 <https://commonslibrary.parliament.uk/research-briefings/sn05379/> last accessed 9<sup>th</sup> November 2020

<sup>12</sup> In common with other audit offices, the board is the legal entity known as the National Audit Office, and it employs the staff and provides the resources which allow the Comptroller and Auditor General to carry out his or her work.

Act 2004 extended the remit of the office to include NHS bodies and local government functions which were previously exercised by the Audit Commission. In 2006, the Government of Wales Act established the Auditor General for Wales along the same lines as the C&AG, although without a mandatory retirement age in the legislation.<sup>13</sup> Reform took place in 2013, following the 2008 Tiner Report and further changes to legislative competence.<sup>14</sup>

Three main areas of concern drove the reform – accounting issues, propriety issues and governance structures. Prior to reform, the advisory committees had no statutory basis and were appointed by the Auditor General for Wales, with input from a nominee of the Chair of the Public Accounts Committee. It was believed that separation of duties was the best way to deal with the flaws in the system.<sup>15</sup> Reform to legislative competence in the Budget Responsibility and National Audit Act 2011 allowed the Senedd to agree its own reforms around the governance of public audit, which ultimately took shape in the Public Audit (Wales) Act 2013.

### 1.2.2 Reform

The Public Audit (Wales) Act 2013 reformed the office, established Audit Wales as a body corporate and prescribed governance arrangements applicable to Audit Wales and the Auditor General for Wales.<sup>16</sup> The Act was introduced in July 2012 and was both a response to the reforms in England and to recent experience of controversies surrounding the Auditor General for Wales's office.<sup>17</sup> Its Explanatory Memorandum identified a need to “provide greater assurances to the Assembly and the public about the accountability of the Auditor General for Wales and Audit Wales”<sup>18</sup> The Memorandum also noted the challenge of balancing this against the need for the Auditor General for Wales to have independence and objectivity.

The Act's reforms were similar to those applied to the National Audit Office and Comptroller and Auditor General. The role could only be held once, for a maximum of eight years. The Auditor General for Wales would continue to be a corporation sole, independent of the Senedd and required to act as the statutory auditor of local government bodies, rather than appointing auditors to that role.

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<sup>13</sup> Government of Wales Act 2006, Sch 8 <https://www.legislation.gov.uk/ukpga/2006/32/schedule/8/enacted>

<sup>14</sup> Budget Responsibility and National Audit Act 2011, Sch 6 <https://www.legislation.gov.uk/ukpga/2011/4/schedule/6/enacted>

<sup>15</sup> National Assembly for Wales Finance committee “Consideration of proposals to amend the Public Audit (Wales) Act 2013” December 2019 para 7 <http://www.assembly.wales/laid%20documents/cr-ld12936/cr-ld12936%20-e.pdf> last accessed 9<sup>th</sup> November 2020

<sup>16</sup> National Assembly for Wales Finance Committee – Consideration of proposals to amend the Public Audit (Wales) Act 2013 <https://senedd.wales/laid%20documents/cr-ld12936/cr-ld12936%20-e.pdf>

<sup>17</sup> Public Accounts Committee National Assembly for Wales “Accounting, governance and propriety issues at the Wales Audit Office” [https://senedd.wales/NAFW%20Documents/report\\_on\\_governance\\_etc\\_at\\_the\\_wao\\_1.6\\_final-e.pdf%20%2028032011/report\\_on\\_governance\\_etc\\_at\\_the\\_wao\\_1.6\\_final-e-English.pdf](https://senedd.wales/NAFW%20Documents/report_on_governance_etc_at_the_wao_1.6_final-e.pdf%20%2028032011/report_on_governance_etc_at_the_wao_1.6_final-e-English.pdf) last accessed 9<sup>th</sup> November 2020

<sup>18</sup> Explanatory Memorandum Public Audit (Wales) Bill 2012, para 3.2, available at <https://business.senedd.wales/mglIssueHistoryHome.aspx?lId=4174>, last accessed 9<sup>th</sup> November 2020

The Welsh Audit Office (later known as Audit Wales) was formally separated from the Auditor General for Wales and established as a body corporate. It took on responsibility for “corporate” functions previously carried out by the Auditor General for Wales, in order to ensure that all the powers did not rest in the hands of one individual.<sup>19</sup>

Audit Wales was established as a body corporate in the form of a board<sup>20</sup> with the power to monitor and advise the Auditor General for Wales, employ staff, secure the provision of services and hold property for the purposes of carrying out its functions and those of the Auditor General for Wales. The Auditor General for Wales was the Chief Executive, but not an employee, and the two must agree an annual plan on how they will cooperate, although it is not strictly binding.<sup>21</sup>

### **Parliamentary Oversight**

The standing orders which deal with Public Accounts and Oversight of Audit Wales (Standing Order 18; 20.21) split the responsibility for oversight of Audit Wales and Auditor General for Wales. The Public Accounts Committee is responsible for functions in SO 18.2 and 18.3:

- presenting views on the exercise of the Auditor General’s powers;
- reporting to the Senedd on any use of resources in excess of what is authorised;
- reporting to the Senedd on the documents laid by the Auditor General;
- report to the Commons Public Accounts Committee when requested to do so).

The Finance Committee has responsibility for functions in SO 18.10 and 18.11, which are those laid out in the Public Audit (Wales) Act 2013 and include the resources of Audit Wales, appointment and removal of the Auditor General and appointment of an external auditor.

## **1.3 Scotland**

### **1.3.1 Background**

The Public Finance and Accountability (Scotland) Act 2000 followed devolution of power to the Scottish Parliament. As the National Audit Office was not a devolved body, legislation from Westminster was eventually required to transfer staff and resources from the National Audit Office to the newly created Audit

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<sup>19</sup> As above, fn17, para 3.3

<sup>20</sup> Letter from the Auditor General for Wales to the Chair of the Finance committee, 28<sup>th</sup> June 2018, <https://business.senedd.wales/documents/s86321/Letter%20from%20the%20Auditor%20General%20for%20Wales%20-%2021%20June%202018.pdf> last accessed 9<sup>th</sup> November 2020

<sup>21</sup> Public Audit (Wales) Act 2013 s25-27

Scotland,<sup>22</sup> which acquired responsibility for auditing local government and the activities of the devolved government.<sup>23</sup> Thereafter, changes to the governance of Audit Scotland or the Auditor General could be made under devolved competence, as they were with the 2010 Act.<sup>24</sup>

The reform of Audit Scotland and office of the Auditor General for Scotland was part of a wider reform agenda undertaken by the Scottish government and introduced by the Public Services Reform (Scotland) Act (2010) (the 2010 Act).

Audit Scotland had requested a review of the governance arrangements between itself and the Auditor General for Scotland, which was conducted by the Scottish Commission for Public Audit (SCPA). This review addressed the corporate governance arrangements of Audit Scotland and had been prompted by the review of the arrangements of the National Audit Office. It was noted that the SCPA was cognisant of the wider reform taking place and felt that “the time was right to reflect on the operation of the post-devolution public audit arrangements in Scotland”.<sup>25</sup> The report, published in 2008, made recommendations which were implemented in the 2010 Act which, in turn, reformed the Public Finance and Accountability (Scotland) Act 2000.

### 1.3.2 Reform

The effect of the 2010 Act was to bring in a number of reforms around tenure, accountability and simplify the structure of public audit in Scotland. The Auditor General for Scotland was appointed on nomination from the Scottish Parliament for a single period of eight years. Previously, retirement age had been 65 with no maximum limit on tenure. Remuneration had been tied to that of a High Court judge but was now to be set by Parliament (and delegated to the SCPB). Provision was put in place for the SCPA to appoint an interim Auditor General, should the position become vacant, for up to one year.

Under the terms of the 2010 Act, the non-executive board members were to be appointed by the SCPA. Although Audit Scotland is the name by which the organisation is known, it is also the legal identity of the board. This is a feature common to the reformed audit governance structures across the UK. The 2010 reform ensured that a majority of non-executive directors were appointed to the board, for three years, which could be renewed once. Prior to the reform, the board did not “exist as the principal means of accountability for Audit

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<sup>22</sup> This was done by statutory instrument in the Public Finance and Accountability (Scotland) Act 2000 (Transfer of National Audit Office Staff etc.) Order 2000

<sup>23</sup> Public Finance and Accountability (Scotland) Bill Policy Memorandum (1999)

[https://www.parliament.scot/S1\\_Bills/Public%20Finance%20and%20Accountability%20\(Scotland\)%20Bill/b2s1-pm.pdf](https://www.parliament.scot/S1_Bills/Public%20Finance%20and%20Accountability%20(Scotland)%20Bill/b2s1-pm.pdf) last accessed 9<sup>th</sup> November 2020.

<sup>24</sup> Public Services Reform (Scotland) Act 2010 s118

<sup>25</sup> Scottish Commission for Public Audit “Review of the Corporate Governance of Audit Scotland” 2008 SP Paper 160 <https://archive.parliament.scot/s3/committees/scpa/reports-08/scpar08-01.htm#1> last accessed 9<sup>th</sup> November 2020 para 1.

Scotland”<sup>26</sup>. It now sets and monitors the strategic direction of Audit Scotland and oversees Audit Scotland’s work.

Appointments to the board had previously consisted of the Auditor General, the Chair of the Accounts Commission and three other members appointed by the Auditor General and Chair on terms and conditions which were established by those two office-holders. The SCPA considered it to be an issue of good practice that the board should have a majority of non-executive, independent members. These were to be appointed by the SCPA and hold post for a period of three years, with the possibility of one further term. The SCPA also appoints the non-executive Chair of Audit Scotland. The changes brought forward in the Act also allowed the Auditor General to publish reports, previously these had been presented to the Parliament.

The board has the right to establish committees, one of which (Audit) provides advice and assurance to the board, and reports annually on its work throughout the year. The Chair and the Auditor General are not members of the committee, but are permitted to attend its meetings – which the Chair does.<sup>27</sup>

As in Westminster and the Senedd, parliamentary oversight is split between two committees. The Public Audit and Post-Legislative Scrutiny Committee considers the output of Audit Scotland, in terms of reviewing the reports laid before the Parliament. The governance of Audit Scotland is reviewed by the SCPA, which was established under the Public Finance and Accountability (Scotland) Act 2000.

### **Parliamentary Oversight**

The SCPA is responsible for examining Audit Scotland’s proposals for and use of resources, appointing external auditors, publishing reports and laying these before Parliament. The SCPA must also appoint members of the board and the Chairman. Two formal meetings are held annually, but there are a number of informal planning meetings which are seen as beneficial.<sup>28</sup> A recent review of governance arrangements, carried out by the Commission, found that:

The SCPA’s current scrutiny of the plans and performance of Audit Scotland was found to be robust and effective although the review recommends that the SCPA considers holding additional informal meetings on emerging priorities to enhance continuity of scrutiny between meetings.<sup>29</sup>

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<sup>26</sup> As above, fn 25, para 94.

<sup>27</sup> Scottish Commission for Public Audit “Report on the Review of Audit Scotland board and the Scottish Commission for Public Audit” 26<sup>th</sup> June 2019 [https://www.parliament.scot/ScottishCommissionforPublicAudit/20190619\\_Review\\_Report.pdf](https://www.parliament.scot/ScottishCommissionforPublicAudit/20190619_Review_Report.pdf) Last accessed 9<sup>th</sup> November 2020

<sup>28</sup> As above, fn 27, Para 52-54

<sup>29</sup> As above fn 27, para 62.



The SCPA review considered the challenge function of the board and found, in light of government guidance for members of statutory boards,<sup>30</sup> “a robust governance framework is in place which contributes to effective oversight, challenge and scrutiny”.<sup>31</sup>

## 2 Legislative Reform of Tenure

During discussion of legislative reforms which limited tenure, considerations common to all three Auditors General were identified. The first was the drive to comply with new EU legislation about age discrimination in terms of the mandatory retirement age.<sup>32</sup> The general preference was for a long single term to protect the independence of the office-holder. Too long a term could create risks around continuity, influence and complacency, whereas too short would mean that long term projects, reforms and innovations would be more difficult.

### 2.1 National Audit Office

Prior to reform, the Comptroller and Auditor General held office until he or she indicated a preference for retirement. The Tiner report recommended an eight-year term, which would be non-renewable. The Public Accounts Commission recommended the slightly longer term of ten years. The Government accepted Public Accounts Commission’s recommendations<sup>33</sup> and, ultimately, draft clauses which were published in the Commission’s 16<sup>th</sup> report in 2008.<sup>34</sup>

### 2.2 Wales

Before reform, the tenure of the Auditor General was governed by the 2006 Act, with no statutory limit on tenure or renewal.<sup>35</sup> This was expected to be set in the terms and conditions, which were agreed by the Assembly on appointment, and the Auditor General could only be removed by a vote of 2/3<sup>rds</sup> of the Assembly.

During the passage of the 2013 Bill, there was debate on the tenure of the Auditor General. Responses to consultation showed that a period of 7 years was considered, with some discussion of performance criteria and the possibility of re-appointment.<sup>36</sup>

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<sup>30</sup> Local Government and Communities Directorate “On board: a guide for members of statutory boards” <https://www.gov.scot/publications/board-guide-members-statutory-boards/> last accessed 9<sup>th</sup> November 2020

<sup>31</sup> As above, fn 27, para 13

<sup>32</sup> SPICE Briefing – Public Services Reform (Scotland) Bill: Finance committee Scrutiny 26<sup>th</sup> August 2009 (p.23) <http://www.parliament.scot/Research%20briefings%20and%20fact%20sheets/SB09-55.pdf> last accessed 9<sup>th</sup> November 2020

<sup>33</sup> House of Commons Library “Comptroller and Auditor General” 12<sup>th</sup> May 2009 <https://commonslibrary.parliament.uk/research-briefings/sn04595/> last accessed 9<sup>th</sup> November 2020

<sup>34</sup> Public Accounts Commission 16<sup>th</sup> Report “Draft Clauses on the Corporate Governance of the National Audit Office” <https://publications.parliament.uk/pa/cm200708/cmselect/cmpacomm/1027/102703.htm> last accessed 9<sup>th</sup> November 2020

<sup>35</sup> Government of Wales Act 2006 Sch. 8.

<sup>36</sup> Explanatory Memorandum for the Public Audit (Wales) Bill 2012 (para 42) [https://senedd.wales/Laid%20Documents/PRI-LD8977-EM%20-%20Public%20Audit%20\(Wales\)%20Bill%20-%20Explanatory%20Memorandum-09072012-236232/pri-ld8977-em-e-English.pdf](https://senedd.wales/Laid%20Documents/PRI-LD8977-EM%20-%20Public%20Audit%20(Wales)%20Bill%20-%20Explanatory%20Memorandum-09072012-236232/pri-ld8977-em-e-English.pdf)

Ultimately, tenure was set at eight years, with no possibility for renewal. This accorded with the recommendation of the Public Accounts Committee and allowed the incumbent Auditor General to serve out his term of office.<sup>37</sup>

### 2.3 Scotland

In Scotland, legislative reform was based around the 2008 SCPA report.<sup>38</sup> The report recommended that the appointment process itself did not require reform. The post-holder would be nominated by the Scottish Parliament and approved by the Queen. The nomination would be based on the recommendation of the SCPB. It was considered that the standing orders which regulated this process gave sufficient guidance. This retained the position that the SCPA had no role in the process of appointment, unless the appointment was made on an interim basis.

The issue of tenure was considered. The mandatory retirement age of 65 had already been removed to comply with an EU Directive on age discrimination.<sup>39</sup> A fixed term was considered appropriate as it would help ensure the independence of the post-holder. In reaching a decision about the length of the term, the SCPA considered the need to attract suitable candidates, to give the post-holder time to establish experience and generate impact, and for the term to transcend electoral cycles, avoiding association with any one administration. The SCPA determined that a single, non-renewable term of eight years balanced the considerations.

The outgoing Auditor General for Scotland gave evidence to committee on these two issues, which it is worth quoting in its entirety

*Members might know that, when the post of Auditor General was established back in 2000, the position was that the post-holder had to retire at 65—there was an age limit rather than a term limit. During the first decade of the Parliament, it became clear that that was not compliant with age discrimination legislation, and it ran the risk that somebody could be in post for 20 years without there being any change of perspective, which posed a risk to independence.*

*The Public Services Reform (Scotland) Act 2010 brought in a term limit of eight years. There was a fair amount of debate in Parliament and with the then Auditor General about whether it should be two five-year terms, a 10-year term or something in between. My view is that a period of eight or 10 years is about right. I think that a renewable term would be a bad idea, because there would be real pressure to not upset the Government and the majority party in Parliament in order to secure a second term of*

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<sup>37</sup> National Assembly for Wales; Public Accounts committee – Public Audit (Wales) Bill Stage 1 committee Report November 2012 <https://business.senedd.wales/documents/s11820/committee%20Stage%201%20Report.pdf> last accessed 9<sup>th</sup> November 2020

<sup>38</sup> As above, fn 25

<sup>39</sup> As above, fn 25, para.31

*appointment, which would be fatal for the Auditor General's independence.*

*A period of eight years feels about right to me. There are still things that I would like to do, but it has been good for me and the organisation to have a clear end point in sight. My counterpart in Westminster has a 10-year term. I am not sure that there is much between an eight-year term and a 10-year term.<sup>40</sup>*

## **Conclusion**

It is clear that a mandatory retirement age was considered contrary to anti-discrimination legislation. Similarly, a non-renewable term is universally viewed as essential to protect the independence of the office. Provision for the removal of office-holders outside of the non-renewable term is laid down in the statutory arrangements, and requires a vote of the relevant legislature. Normally, however, the office is held for a period of 8-10 years, with a general consensus that a period of office longer than a decade could allow one person to have too much influence over the institution.

### **3. Independent Assurance on the Accuracy and Quality of Audit Outputs.**

In order to obtain independent review of audit quality the boards use a combination of established governance structures and independent review. The processes for internal review are delegated by the board, with the agreement of the Comptroller and Auditor General or as part of their Standing Orders, to the Audit Committee or its equivalent. Audits themselves are conducted against industry standards and internal review is usually carried out by a team with some degree of independence from the rest of the organisation. The board can and does appoint auditors to review a sample of files, whether from other public audit bodies, the Institute of Chartered Accountants or private firms. More detail on these arrangements has been provided in Appendix 1.

It should also be noted that in the case of the National Audit Office, Wales and Scotland, one member of the parliamentary committee which has responsibility for governance is also a member/chairperson of the committee which has responsibility for public audit. This provides a clear line of communication where problems arise in the quality of audits. Under the terms of the Northern Ireland Act 1998, a maximum of one member of the Public Audit Committee can be a member of the Audit Committee.<sup>41</sup>

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<sup>40</sup> Evidence of Caroline Gardner to the Public Audit and Post Legislative Scrutiny committee, 25<sup>th</sup> June 2020 <https://www.parliament.scot/parliamentarybusiness/report.aspx?r=12723> last accessed on 9<sup>th</sup> November 2020

<sup>41</sup> Northern Ireland Act 1998 s66 (2).

Additionally, compliance with international standards, clear whistleblowing procedures and external scrutiny and supervision by the Financial Reporting Committee<sup>42</sup> provide further assurance.

For example, the NAO's financial audit work is regulated by the Financial Reporting Council (FRC). It has a statutory requirement to review a sample of NAO's Companies Act audits, which also includes a review of NAO's firm-wide procedures to support NAO's audit work. The NAO has asked the FRC to review a sample of the rest of its audit portfolio, including Government Departments.

These reviews are undertaken annually under an engagement letter between the C&AG and the FRC's Audit Quality Review team. The results of these reviews are summarised in NAO's Transparency Report which is published annually.<sup>43</sup>

The NAO Board considers matters of audit quality through examination of the NAO's risk register and receiving papers on developments, such as the NAO's recent Financial Audit Quality Plan. The Board exercises its remit by challenging the adequacy of the controls in place which aim to mitigate the risks identified.<sup>44</sup>

The position in Northern Ireland is similar. Northern Ireland Audit Office external quality assurance is carried out by other UK public audit agencies, which review a sample of post-certified audit files.<sup>45</sup> The Annual Report also suggests that the Institute of Chartered Accountants in England and Wales have or will be appointed to carry out more external quality reviews in future.<sup>46</sup>

#### **4. How additional governance arrangements operate in practice.**

The new governance arrangements for Comptrollers and Auditors General and audit offices across the UK included the creation of a statutory board. These were created as bodies corporate and are composed of independent members and/or employee members, the Chair and the Auditor. The functions and practice of individual boards are explained in more detail in Appendix 2.

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<sup>42</sup> The FRC supervises the activities of the Comptroller and Auditor General as a statutory auditor and may impose fines <https://www.legislation.gov.uk/ukpga/2006/46/section/1229>. The FRC was designated the Competent Authority for audit regulation in the UK on 17 June 2016 by the Statutory Audit and Third Country Auditor Regulations 2016 (2016 Regulations) For more details please see <https://www.frc.org.uk/auditors/audit-quality-review> last accessed 11th November 2020

<sup>43</sup> [National Audit Office: Transparency Report 2019-20 \(nao.org.uk\)](https://www.nao.org.uk/transparency-report-2019-20)

<sup>44</sup> These details were provided by the NAO following an evidence session with the Committee on 2nd June 2021, and have been included here to correct the impression given in the paper that the Board has a role in external quality assessments.

<sup>45</sup> Northern Ireland Audit Office Quality Standards and Independence, para 6 <https://www.niauditoffice.gov.uk/publications/niao-quality-standards-and-independence> last accessed 9th November 2020

<sup>46</sup> Northern Ireland Audit Office Annual Report 2019-20 (pg 51) [http://www.niauditoffice.gov.uk/sites/niao/files/media-files/Northern Ireland Audit Office%20Annual%20Report%202019-20%20Accounts%202019-20%20%28Final%20-%20updated%2024-09-20%29.pdf](http://www.niauditoffice.gov.uk/sites/niao/files/media-files/Northern%20Ireland%20Audit%20Office%20Annual%20Report%202019-20%20Accounts%202019-20%20%28Final%20-%20updated%2024-09-20%29.pdf) at page 51

The board's support includes some activities which could be regarded as scrutiny of the Auditor, but it has no powers over the Auditor General as such. The Code of Practice is agreed between the two and, ultimately, reports of activities are to be presented to the relevant parliamentary committee. The reformed, board-based structure also allows for the designation of an independent member as a formal contact point for whistle-blowers, as has been seen in the National Audit Office and Audit Wales.

Following reform, the boards have created a sub-committee, generally known as the Audit Committee, which carries out some scrutiny functions. In this way, the responsibilities are split between the board and its sub-committee. Further details are provided in Appendix 2 to this paper. The Audit Committee sits alongside other committees which deal with issues like remuneration and human resources concerns. This delegation is regulated by a code of practice or terms of reference of the relevant board.

#### 4.1 Current structures of advisory boards across the UK

Auditor/Office	Board	Composition	# meetings annually	Non Exec term (years)	Quorum	Chair appointed by?
<b>Auditor General for Scotland/ Audit Scotland</b> <sup>47</sup>	Audit Scotland	5, 3 non-exec, Auditor General for Scotland, Chairman	Open	3 (renewable once)	3 members, including Auditor General for Scotland and Chair. <sup>48</sup>	SCPA
<b>Auditor General for Wales/ Audit Wales</b>	Audit Wales board	9 (5 non-executive Dirs, 3 employees-1 appointed, 2 elected- and Auditor General for Wales)	6 <sup>49</sup>	4 (renewable once)	Own rules but must be a majority of non-exec members	National Assembly (Finance C'ee)
<b>Comptroller and Auditor General NI / Northern Ireland Audit Office</b> <sup>50</sup>	Advisory board	5, Comptroller and Auditor General, Chief Operating Officer, and non-executive members	4	3 (renewable once)	2 non executive, one executive	Comptroller and Auditor General (Audit C'ee endorse)

<sup>47</sup> Standing Orders of Audit Scotland [https://www.audit-scotland.gov.uk/uploads/docs/um/as\\_standing\\_orders\\_2019.pdf](https://www.audit-scotland.gov.uk/uploads/docs/um/as_standing_orders_2019.pdf) last accessed 9th November 2020

<sup>48</sup> If either the Auditor General for Scotland or the Chair of the Accounts Commission are absent, meetings take place if the absent party has given consent, the business covered only relates to the circulated agenda and a draft of minutes must be sent within five working days. NB the Policy Memorandum to the 2010 Act states that there should be a majority of non-executive members on the board. As above, fn 47, SO 14 and 15.

<sup>49</sup> As above, fn 42.

<sup>50</sup> Northern Ireland Audit Office Advisory board Terms of Reference – available at <https://www.niauditoffice.gov.uk/advisory-board> last accessed 9th November 2020

<b>Comptroller and Auditor General / National Audit Office<sup>51</sup></b>	National Audit Office board	9 Comptroller and Auditor General, Chairman 4 non exec, 3 employee members.	–	7	3 (renewable once)	5 non-executive majority	Nominated by PAC/PM,
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The boards' interaction with their respective audit offices and Auditors General are laid out in the code of practice, which is approved by the relevant parliamentary committee. Challenge functions are not specifically identified in these codes as a separate category, but can be seen in the specifications of the codes and metrics included in the Annual Report, or other publications such as the Transparency Report. In Wales, for example, emphasis is placed on the monitoring and scrutiny function.<sup>52</sup> This is carried out by reviewing the annual plan, review of output against budgets and approving additional funds. The Code is clear, however, that the audit office must not seek to direct the Auditor General's activities. In Scotland,<sup>53</sup> the board's standing orders describe its primary function as to support the Auditor General, but also details the role of the Audit Committee in scrutinising internal financial controls, audit quality and governance.

The NIAO Advisory Board's Terms of Reference identify its functions as including the provision of strategic advice to the C&AG on the exercise of his or her functions, the use of resources and delivering objectives. The terms of reference are approved every year by the C&AG. The Audit Risk and Assurance Committee has responsibility for reviewing the comprehensiveness of assurances on systems of internal control, risk management and corporate governance. Its terms of reference show it is established by the board and its remit approved annually.<sup>54</sup>

## 5 The additional functions of the committees following reform

The Audit Committee's work is focused on the NI Public Services Ombudsman and the Northern Ireland Audit Office. As set out in the Northern Ireland Act 1998, its function is to agree, with the Comptroller and Auditor General for Northern Ireland, the estimate of the expenses of the Northern Ireland Audit Office and to lay these estimates before the Assembly. The committee does not appoint the Northern Ireland Audit Office auditor, this is done by the Department for Finance.<sup>55</sup>

### 5.1 National Audit Office - the Public Accounts Commission

The Public Accounts Commission was established under section 2 of the National Audit Act 1983, and the 2011 Act put the arrangements for the governance of the

<sup>51</sup> National Audit Office board Terms of Reference <https://www.nao.org.uk/about-us/wp-content/uploads/sites/12/2019/05/board-Terms-of-Reference-approved-January-2015-and-updated-March-2018.pdf> last accessed 9th November 2020.

<sup>52</sup> Code of Practice between the Auditor General and Audit Wales [https://www.audit.wales/system/files/publications/code\\_relationship\\_between\\_agw\\_wales\\_audit\\_office\\_2018\\_english.pdf](https://www.audit.wales/system/files/publications/code_relationship_between_agw_wales_audit_office_2018_english.pdf)

<sup>53</sup> As above, fn 47.

<sup>54</sup> As above fn 50.

<sup>55</sup> Audit (Northern Ireland) Order 1987 Art 6 (4).

National Audit Office on a statutory basis. It established the National Audit Office (National Audit Office) as a body corporate and revised the Commission's statutory responsibilities.

- The Commission reviews the Estimate of the National Audit Office's resources and lays it before the House of Commons – modified where it considers appropriate – and in doing so must have regard to any advice provided by the Public Accounts Committee or the Treasury.
- The Commission also appoints non-executive members of the National Audit Office board (other than the chair), on the recommendation of the chair of the National Audit Office. In the event of the Commission not appointing, the chair of the National Audit Office must make another recommendation.
- The Commission must appoint the Comptroller and Auditor General (or some other appropriate person) as the National Audit Office's accounting officer.
- The Commission must approve the appointment of an auditor for the National Audit Office for each year and lay the National Audit Office's Report and Accounts before the House of Commons
- The Commission also approves the strategy of the National Audit Office, and may modify it
- The Commission must also approve any revision to the Scheme of Audit Fees and approve a Code of Practice dealing with the relationship between the National Audit Office and the Comptroller and Auditor General.

## 5.2 Wales –Finance Committee<sup>56</sup>

The Finance Committee has responsibilities under SO 18.10 &18.11, which deal with the Audit Office and Auditor General for Wales, SO18a.2(iii), which gives the committee functions in relation to the Public Services Ombudsman.

The Finance Committee has other responsibilities under SO 19, which charges it with reviewing any report or document laid before the Senedd which contains proposals for financing or the use of resources, either from the block grant or the Consolidated Fund. This gives it a role in scrutinising the budget and making limited amendments. The Finance Committee's remit also includes scrutinising the draft budget of the Commission, the Electoral Commission, the PSOW and that of Audit Wales.<sup>57</sup>

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<sup>56</sup> Finance Committee profile - <https://senedd.wales/en/bus-home/committees/Pages/committee-Profile.aspx?cid=440> last accessed 11<sup>th</sup> November 2020

<sup>57</sup> Standing Orders of the Senedd [https://senedd.wales/NAfW%20Documents/Assembly%20Business%20section%20documents/Standing\\_Orders/Clean\\_SOs.eng.pdf](https://senedd.wales/NAfW%20Documents/Assembly%20Business%20section%20documents/Standing_Orders/Clean_SOs.eng.pdf) last accessed 11<sup>th</sup> November 2020

The committee will consider proposals for, and progress of, the devolution of fiscal powers to Wales, and may also scrutinise legislation which is introduced to the Senedd.

The Finance Committee's functions include the oversight of Audit Wales, specifically it is required to:

- Consider Audit Wales' use of resources and planned expenditure, and lay the estimate before the Senedd, together with any supplementary motions;
- Report to the Senedd in the event of excess expenditure that requires approval;
- Appoint non-executive members and, where necessary, a temporary Auditor General;
- Appoint the auditor for Audit Wales;
- Set salary and remuneration of the Auditor General and non-executive members;
- Approve the Code of Practice between Audit Wales and Auditor General;
- Set out those with whom an Auditor General must consult before taking on a further role after his/her term ends;
- Consider and report on annual plan and any other documents;
- Advise the auditor of Audit Wales on the examinations to be carried out;
- Determine dates for interim reports and specifying any additional responsibilities for the Accounting Officer.

### **5.3 Scottish Commission for Public Audit<sup>58</sup>**

The role of the Commission, following reform, is to:

- examine Audit Scotland's proposals for the use of resources and expenditure and report on them to the Parliament, together with any other reports or documents laid by Auditor General for Scotland;
- appoint a qualified person to audit the accounts of Audit Scotland;
- lay before the Parliament and publish a copy of Audit Scotland's accounts and the auditor's report on them;
- appoint three of the five members of Audit Scotland on such terms and conditions as the SCPA determines;
- appoint one of these three members to preside at meetings of Audit Scotland.

## **6. Conclusion**

The arrangements for the governance of Audit Offices across the UK have numerous points of similarity. The differences between the institutions that have gone through more recent reform are minor, and there are more obvious differences between these offices and the Northern Ireland Audit Office / Comptroller and Auditor General NI. It is beyond the scope of this paper to consider whether one governance structure is

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<sup>58</sup> SCPA Profile <https://www.parliament.scot/parliamentarybusiness/101154.aspx> last accessed 11th November 2020



more effective than the other; it can, however, be stated that recent reforms to the Office elsewhere in the UK have been focused on governance, and were intended to improve quality, accountability and transparency in public audit.

The difference between the NI Audit Committee and others elsewhere in the UK centres around the appointment of members of the board (at present the Committee approves the C&AG's choice) and the auditors of the relevant office, as well as the breadth of papers which are submitted by the Auditor General on behalf of the office. The governance structure has some points of similarity, but fundamental differences, such as the legal personality of the Board, remain.

It is difficult to gauge the impact of these additional arrangements on governance *vis-a-vis* the independence of the office. What is clear is that the committees elsewhere in the UK have more input than the Audit Committee in Northern Ireland, and these reforms were designed to improve governance without impinging on accountability. To the extent that they provide more opportunities for scrutiny, governance can be said to be improved. Similarly, the appointment powers of the committees help ensure the independence of those who are appointed to the board or perform external audit roles.

It is also worthy of note that there are plans for further reform, which are already under consideration. For example, Audit Wales has found the requirements on quorum for the board to be onerous,<sup>59</sup> whereas the Scottish Office is considering imposing requirements of its own.<sup>60</sup> The proposed reform to the Welsh office has considered allowing Audit Wales to appoint its own external auditors, to avoid issues with tripartite contracting.<sup>61</sup> Although this does not lend itself to certainty, it does reflect a desire for constant improvement in governance and increasing transparency in public audit.

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<sup>59</sup> The Finance Committee have recently completed work in this area, the results of which are available at <https://business.senedd.wales/mgIssueHistoryHome.aspx?IId=22432> (last accessed 17<sup>th</sup> November 2020). Consultation on a draft Bill closed in February 2020, but no official response has been issued yet.

<sup>60</sup> Scottish Commission for Public Audit "Report on the Review of the Audit Scotland Board and the Scottish Commission for Public Audit" 26<sup>th</sup> June 2019 [https://www.parliament.scot/ScottishCommissionforPublicAudit/20190619\\_Review\\_Report.pdf](https://www.parliament.scot/ScottishCommissionforPublicAudit/20190619_Review_Report.pdf) last accessed 12<sup>th</sup> November 2020

<sup>61</sup> National Assembly for Wales Finance Committee "Consideration of Proposals to Amend Public Audit (Wales) Act 2013" December 2019. <http://www.assembly.wales/laid%20documents/cr-ld12936/cr-ld12936%20-e.pdf>

## Appendix 1 – Detailed Summary of Audit Quality Assurance Arrangements across the UK.

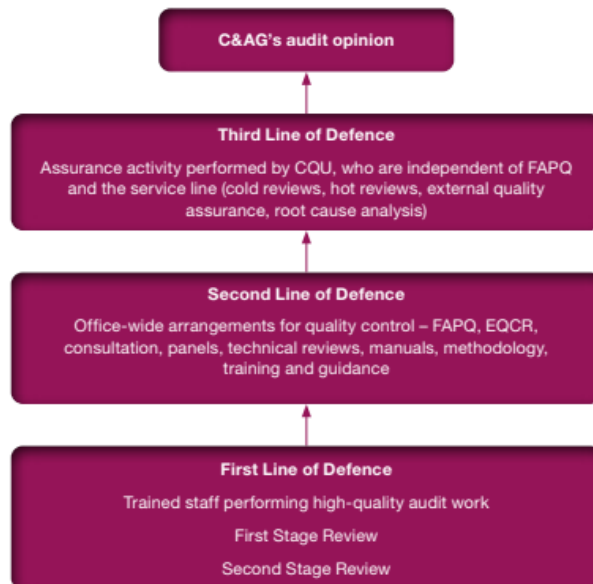
### 1.1 National Audit Office

The board commissions its external auditors to undertake a value-for-money study annually on an area of National Audit Office’s operation to establish whether resources have been used economically, efficiently and effectively.<sup>62</sup> The external auditors follow up every year on the progress the National Audit Office has made in implementing the recommendations for improvement and report their findings to the board. The external reviews are published on the Public Accounts Commission’s external website.

The illustration below shows the internal process of obtaining assurance on the quality of audits. A Compliance and Quality Unit reports directly to the Executive Team and Comptroller and Auditor General. The Financial Reporting Council reviews a sample of these audits in accordance with its duties as a regulator. A summary of the findings is included in the Transparency Report and gives reasonably granular detail on the quality of reports.<sup>63</sup> For example, the report includes information on the National Audit Office’s approach to defining and staying within scope, methodology, graphics and statistics, and the relevance of included content.

**Figure 5**

National Audit Office (NAO) Financial Audit: the quality control framework



**Note**

<sup>1</sup> C&AG = Comptroller and Auditor General, FAPQ = Financial Audit Practice Quality, EQCR = Engagement Quality Control Reviewer, CQU = Compliance and Quality Unit

Source: National Audit Office

<sup>62</sup> National Audit Office Transparency Report 2019-20

<https://www.nao.org.uk/wp-content/uploads/2020/07/National-Audit-Office-Transparency-Report-2019-20.pdf> at pg 46.

<sup>63</sup> As above, fn 61.

<sup>64</sup> As above, fn 61 at pg 57.

## 1.2 Wales

The external auditor for Audit Wales is appointed by the Senedd Finance Committee. In addition to their work to form an opinion on the financial statements and regularity, the auditor may carry out examinations into the economy, efficiency and effectiveness with which the Auditor General or Audit Wales has used resources in discharging their functions, and lay a report of the results of any such examinations before the Senedd.

The Audit Office describes audit quality as a key performance indicator and, as such, it is reported on in the Annual Report (which is submitted to the Finance Committee as well as being published). This gives information on the “proportion of audits that are delivered in accordance with required quality standards”.

In the accounts for 2019/20 it is noted that £41,000 was paid to a consultancy firm for audit quality assurance work. The same report identifies that for 2020-21 the Auditor General will establish a formal Audit Committee, “responsible for providing the Auditor General with assurance that appropriate resources are in place to support management, monitoring and improvement of audit quality”.<sup>65</sup>

The Transparency Report states that the quality control system is designed to comply with the standards of the Financial Reporting Council. It lays out various measures the Office takes to ensure quality of audits, for example through training, staff rotation and codes of conduct. Monitoring is carried out in-house, with each engagement reviewed at least every two years, and each audit manager reviewed at least every four. Some of these reviews are carried out by Northern Ireland Audit Office or Audit Scotland. The Quality Assurance Department (QAD) of the Institute of Chartered Accountants in England and Wales independently review the Office’s quality arrangements for the audit of accounts. A summary of the QAD’s findings is published on the website of Audit Wales.<sup>66</sup>

The Transparency Report<sup>67</sup> for 2019/20 states that the Assistant Auditor General is currently responsible to the Auditor General for the quality of Audit Wales’ work.

## 1.3 Scotland

Audit Scotland have developed a Code of Audit Practice<sup>68</sup> and an Audit Quality framework<sup>69</sup> which, between them, lay down standards for the assessment of the

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<sup>65</sup> Audit Wales “Annual Reports and Accounts 2019-20”

<sup>66</sup> Auditor General for Wales – Transparency Statement January 2020

[https://www.audit.wales/sites/default/files/download\\_documents/transparency\\_statement.pdf](https://www.audit.wales/sites/default/files/download_documents/transparency_statement.pdf) last accessed 11th November 2020. More information can be found at <https://audit.wales/publications> - it must be noted that this site is currently in beta.

<sup>67</sup> As above, fn 65.

<sup>68</sup> Audit Scotland - Code of Audit Practice <https://www.audit-scotland.gov.uk/report/code-of-audit-practice-2016> last accessed 11th November 2020

<sup>69</sup> Audit Scotland - Audit Quality Framework <https://www.audit-scotland.gov.uk/report/audit-quality-framework-2019> last accessed 11th November 2020

quality of audits, procedures for their conduct and arrangements for internal and external quality reviews.<sup>70</sup>

Audit Scotland also has an independent unit within the organization, the Audit Quality and Appointments (AQA) team, which provides quality assurance across Audit Scotland's work. Independence is maintained by keeping this team separate from other audit teams. External quality reviews are then commissioned from the Institute of Chartered Accountants of Scotland, which carries out independent reviews covering all aspects of Audit Scotland's work and providers, including financial audit, best value audit, and performance audit.

In 2019/20<sup>71</sup> ICAS found compliance with expected standards and continuous improvement, with most audits only needing minor improvement and auditors using recommendations to improve the quality of work. Audit Scotland complies with international audit standards and the Code of Audit Practice 2016.<sup>72</sup>

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<sup>70</sup> External quality reviews are commissioned by Audit Scotland and the results are included in the Annual Report. The report for 2019/20 can be found here <https://www.audit-scotland.gov.uk/report/quality-of-public-audit-in-scotland-annual-report-201920> last accessed 11th November 2020.

<sup>71</sup> As above, fn 69.

<sup>72</sup> As above, fn67.

## Appendix 2 – How additional governance arrangements operate in practice

### 2.1 The National Audit Office

#### 2.1.1 The board - Terms of Reference and Code of Practice

Among the general responsibilities of the National Audit Office board is the duty to

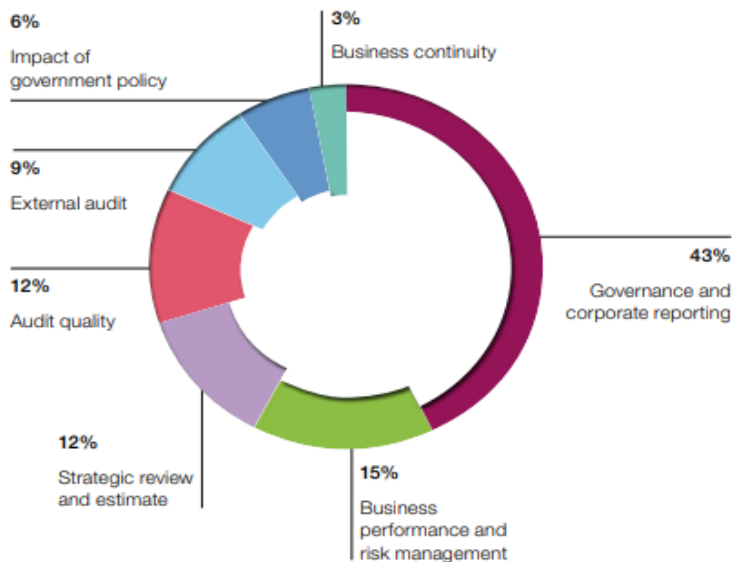
Maintain transparent systems of governance and internal controls consistent with best practice, and monitor and report on their effective operation in the National Audit Office Annual Report<sup>73</sup>

The National Audit Office Annual reports include a review of the activities for the board. The 2019/20 review<sup>74</sup> included the graphic below, which illustrates the breakdown of the board’s use of time. The board had held eight formal meetings during the year, together with two strategy days.

The Code of Practice makes detailed arrangements for how the National Audit Office and Comptroller and Auditor General work together. It covers agreeing strategy and a programme of work, resource estimates and accounts, how National Audit Office will monitor the Comptroller and Auditor General, maintain standards of corporate governance and making public comment. According to the Code, the Comptroller and Auditor General must report to the National Audit Office board regularly throughout the year. Arrangements are also made to deal with authorising additional funds where necessary.<sup>75</sup>

**Figure 7**

Where the Board spent its time



Source: National Audit Office

<sup>73</sup> National Audit Office Terms of Reference for the Board para 92 <https://www.nao.org.uk/freedom-of-information/wp-content/uploads/sites/13/2019/04/Board-Terms-of-Reference-2018.pdf> last accessed 11th November 2020

<sup>74</sup> National Audit Office Annual Report and Accounts 2019-20 <https://www.nao.org.uk/wp-content/uploads/2020/06/nao-annual-report-accounts-2019-20.pdf> last accessed 9th November 2020.

<sup>75</sup> Code of Practice Dealing with the relationship between the National Audit Office and the Comptroller and Auditor General [https://www.nao.org.uk/freedom-of-information/wp-content/uploads/sites/13/2013/03/Code\\_of\\_Practice\\_Spring\\_2012.pdf#:~:text=The%20Act%20requires%20a%20Code%20of%20Practice%20to%20oversight%20of%20the%20operations%20of%20the%20NAO.%201](https://www.nao.org.uk/freedom-of-information/wp-content/uploads/sites/13/2013/03/Code_of_Practice_Spring_2012.pdf#:~:text=The%20Act%20requires%20a%20Code%20of%20Practice%20to%20oversight%20of%20the%20operations%20of%20the%20NAO.%201). Last accessed 11<sup>th</sup> November 2020.

The board receives a written report from the Comptroller and Auditor General at each of its meetings, and takes feedback from the Public Accounts Commission. Its responsibilities are listed in the Code of Practice, which describes general, sole and joint responsibilities.

The general responsibilities are, with the agreement of the Comptroller and Auditor General, to provide leadership for the National Audit Office, take forward aims and objectives, manage risk and resources and set standards and values. As mentioned above, there is also the responsibility of oversight of the office itself.

The specific, sole responsibilities of the board give more detail around how those aims are to be achieved, and are summarised below.

- Estimate of National Audit Office's use of resources, including the resources required by the Comptroller and Auditor General and the appointment of an external auditor, as well as providing resources to the Comptroller and Auditor General;
- Making rules for the purpose of regulating its own procedures;
- Approving proposals for any National Audit Office approved services that the Comptroller and Auditor General wishes to provide, and determining fees;
- Employing staff and procuring services for the purposes of Comptroller and Auditor General's functions
- Holding documents or information and keeping records acquired in the course of, or otherwise for the purposes of, Comptroller and Auditor General functions<sup>76</sup>

The board also has a number of responsibilities arising directly from the Code of Practice, which are detailed below -

- To consider the Comptroller and Auditor General's draft programme of statutory work and approving additional resources;
- Consider and approve the Comptroller and Auditor General's proposals for a fees charging scheme;
- Submit the fees charging scheme to the Public Accounts Commission for consideration and approval;
- Charge fees, in accordance with the fees charging scheme, for audits carried out by the Comptroller and Auditor General, and
- To comment in public on the work of the National Audit Office only in general terms and not to make comments on matters of audit opinion and judgement which are reserved to the Comptroller and Auditor General.<sup>77</sup>

### **2.1.2 The Audit Committee**

The Schedule of Reserved Matters to the board list numerous functions which cannot be delegated to committee, including oversight of the National Audit Office's operations, approval of budget and reports to PAC.<sup>78</sup> Some 'challenge' functions are

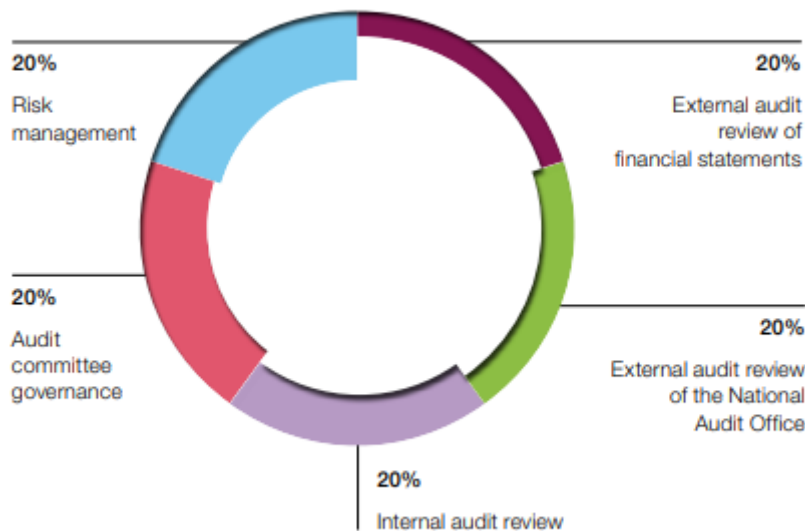
<sup>76</sup> As above, fn74 at para 94.

<sup>77</sup> As above fn 74.

<sup>78</sup> National Audit Office Schedule of Reserved Matters

delegated to the Audit Committee, which “is responsible for reviewing and providing assurance to the board on the effectiveness of the National Audit Office’s internal controls, risk management framework, the integrity of the financial statements, including the statement that relates to the National Audit Office’s financial impact, and overseeing the external audit process.”<sup>79</sup> The committee is established by Standing Orders of the board, which was agreed in the Code of Practice between the National Audit Office and Auditor General.<sup>80</sup>

Where the Audit Committee spent its time



Source: National Audit Office

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The committee’s activities included agreeing the audit plan, reviewing internal reports and monitoring progress, scrutinising legal compliance framework and commissioning a review of the National Audit Office’s risk management framework. The committee also advises the board on the appointment of an external auditor. This appointment requires the approval of the Public Accounts Commission. It also reviewed recommendations from value for money audit of the National Audit Office’s reporting impact.

The Terms of Reference have also appointed a Senior Independent Board Member, who is a non-executive member, to meet annually with the non-executive members, in the absence of the Chair, for evaluation of the Chair’s performance. He or she will also receive reports from whistleblowers outside the normal line management chain.<sup>82</sup>

<https://www.nao.org.uk/freedom-of-information/wp-content/uploads/sites/13/2013/03/National-Audit-Office-board-Schedule-of-reserved-matters-2012.pdf> last accessed 11<sup>th</sup> November 2020

<sup>79</sup> As above fn 73 pg 83.

<sup>80</sup> As above, fn 74

<sup>81</sup> As above, fn 73 at pg 82

<sup>82</sup> National Audit Office Terms of Reference at para 85 <https://www.nao.org.uk/freedom-of-information/wp-content/uploads/sites/13/2019/04/board-Terms-of-Reference-2018.pdf> last accessed 6<sup>th</sup> November 2020

## 2.2 Audit Wales

### 2.2.1 The Board – Terms of Reference and Code of Practice

The board receives assurance that its objectives are being met through:

- internal management reports, performance reports and topical briefings;
- independent internal reports, including internal audit reports and the reports of the Audit and Risk Assurance committee and the Remuneration and HR committee; and
- external audit reports.<sup>83</sup>

The board operates a Code of Conduct,<sup>84</sup> and the Chair of the board, or of any board committee, can report any matters of concern directly to the Chair of the Senedd Finance Committee. The board may advise the Auditor General and must monitor the exercise of his functions. The Auditor General must have regard to any advice given. The nature and scope of Audit Wales's activities "must not risk compromising" the Auditor General's independence. It does not seek to direct individual components of his work programme but needs sufficient information to ensure that he has the necessary staff and other resources to fulfil his functions efficiently and effectively.

The formal processes are as follows:

- (a) In jointly preparing the annual plan, Audit Wales has an opportunity to understand the nature and scope of the Auditor General's work programme and the financial and other resources required to deliver it (which it needs to provide);
- (b) Alongside the annual plan, Audit Wales reviews its workforce strategy which governs more detailed plans for recruiting, retaining and deploying staff and for their learning and development;
- (c) During the year, Audit Wales receives regular reports that allow it to scrutinise and monitor spending and progress against the annual plan;
- (d) Periodically, Audit Wales receives reports of the arrangements in place for monitoring and assuring the quality of the Auditor General's work and their effectiveness;
- (e) The Auditor General provides updates on any matters that have a significant effect on the functions of the Office or requests additional funding as the need arises.<sup>85</sup>

The Auditor General and Audit Wales are not bound by the annual plan but must have regard to it in the exercise of their functions.

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<sup>83</sup> Audit Wales Terms of Reference (July 2020)

[https://www.audit.wales/system/files/publications/code\\_relationship\\_between\\_agw\\_wales\\_audit\\_office\\_2018\\_english.pdf](https://www.audit.wales/system/files/publications/code_relationship_between_agw_wales_audit_office_2018_english.pdf) last accessed 9th November 2020

<sup>84</sup> As above fn 82

<sup>85</sup> As above fn 82 at pg 6



## 2.2.2 The Audit and Risk Assurance Committee

As in the case of the National Audit Office, the board is supported by the Audit and Risk Assurance Committee, which carries out a number of governance functions, including giving views on the annual accounts provided by the Auditor General for Wales. It gives advice on request, or as it feels is appropriate. The Head of Internal Audit and the External Auditor have open and confidential access to the Chair of the Audit and Risk Assurance committee. In addition, the committee holds a private session with the internal and external auditors before each committee meeting.

The committee advises the board and the Accounting Officer on risk management arrangements, including the internal control environment and governance arrangements.<sup>86</sup>

The governance arrangements include whistleblowing and fraud detection, as well as the prevention of bribery and anti-money laundering systems. The committee also advises on the internal audit arrangements, in particular effectiveness; the appointment of the head of the internal audit function, its remit, plans, resources and reports. As with the National Audit Office, the committee advises on the appointment of external auditors, and the conduct, scope and results of that audit.

The board will make a recommendation as to the appointment of the external auditor to the Senedd's Finance Committee based on the Audit and Risk Assurance Committee's recommendation. Similarly, the board considers the annual accounts prepared by the Auditor General, taking account of the view of the Audit and Risk Assurance Committee, but it is ultimately the board which recommends to the Auditor General whether he should sign the accounts.<sup>87</sup>

The committee meets four times a year, and its terms of reference provide a summary of the cycle of business.

- Meeting 1 considers the scheduling of tasks such as the draft annual report and accounts, external audit, internal audit strategy. Also on the agenda are counter-fraud arrangements, operational risk and an outline of the annual report to the board, including the arrangements for evaluating the committee's performance.
- Meeting 2 covers the internal audit report for the previous year and a review of its implementation. Whistleblowing arrangements and independence declarations are also reviewed. At this meeting, the committee will consider its annual report to the board, the final accounts and the external auditor's report.
- Meeting 3 considers risk, outcomes from the annual report, money laundering, tender proposals and the timetabling of the annual accounts.
- Meeting 4 considers risk and internal audit recommendations.<sup>88</sup>

## 2.3 Scotland

### 2.3.1 The Board of Audit Scotland – Terms of Reference and Code of Practice

The board's principal responsibility is to provide assistance and support to the Auditor General for Scotland, and it carries this out by:

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<sup>86</sup> Audit Wales - Audit Risk and Assurance Committee Terms of Reference

<sup>87</sup> As above, fn 85.

<sup>88</sup> As above, fn 85.

- setting Audit Scotland's strategic direction (by approving corporate plans and annual estimates of expenditure and income);
- determining and approving strategic policies relating to governance (including, standing orders, financial regulations and schemes of delegation);
- approving annual reports and accounts and internal audit arrangements; and
- establishing arrangements to enable robust challenge and scrutiny of Audit Scotland's performance while holding to account those that to whom it delegates authority.

The SCPA has recently<sup>89</sup> carried out a review of governance arrangements and scrutiny between itself and the Audit Scotland board. It reviewed the board's key documents, attended meetings and had one-to-one discussions with key personnel. The review considered operational issues (for example, expanding the board to deal with additional workload, and compliance with quorum requirements). Other issues, such as whether the board should continue to have a professionally qualified accountant included in its appointees, were considered. The SCPA has also considered its own role in scrutinising the board, and determined that although scrutiny proceedings are robust and effective, the Commission's engagement should be increased above the two formal meetings a year, and that additional, informal meetings might be helpful. It was also noted that scrutiny would be improved if the SCPA were given a copy of the annual report from the Audit Committee, which it agreed to seek from the board in the future

### 2.3.3 The Audit Committee

The board also appoints the Audit Committee which, like its Westminster and Cardiff counterparts, has responsibility for review of internal governance, controls, audit quality and risk management. The Audit Committee submits an Annual Statement of Assurance to the board, appoints the internal auditors and approves the internal audit plan. Although the Accounting Officer and Chair can observe meetings of the audit committee, they are not permitted to participate in proceedings.<sup>90</sup> This corresponds with best practice.

The Audit Committee advises the board and Auditor General on risk, control and governance. The committee also advises on accounting policies, including the process for review of the accounts prior to submission for audit, levels of error identified, and management's letter of representation to the external auditors. It also advises on the appointment of the internal auditors, their activity and results, ensuring there is effective co-ordination between internal and external audit, and the effectiveness of the response to internal audit.

The committee reviews issues like its own funding and the appointment of advisors. It periodically evaluates its own effectiveness and reports the results of that review to the board and Accountable Officer.

<sup>89</sup> Scottish Commission for Public Audit "Report on the Review of the Audit Scotland Board and the Scottish Commission for Public Audit" 26<sup>th</sup> June 2019 [https://www.parliament.scot/ScottishCommissionforPublicAudit/20190619\\_Review\\_Report.pdf](https://www.parliament.scot/ScottishCommissionforPublicAudit/20190619_Review_Report.pdf) last accessed 12th November 2020

<sup>90</sup> Annual Report pg. 29 [https://www.audit-scotland.gov.uk/uploads/docs/report/2020/as\\_annual\\_report\\_1920.pdf#page=27&zoom=100,74,106](https://www.audit-scotland.gov.uk/uploads/docs/report/2020/as_annual_report_1920.pdf#page=27&zoom=100,74,106)

The Audit Committee obtains assurance that external audit recommendations are acted upon and reports on this to the board. It reviews and monitors the external auditor's independence and objectivity. It also has developed and monitored a policy for on the engagement of the auditor to provide non-audit services. It manages internal audit, and ensures that recommendations are implemented. Meetings of the Audit Committee are convened with certain information provided by the management of Audit Scotland, for example the internal audit strategy, the auditor's opinion and report.

A Transparency Report is published by Audit Scotland and covers some of the matters which are the responsibility of the Audit Committee. For example, it reports on common themes from internal and external quality control reviews, ways in which Audit Scotland has added value and summarises its outputs and activities for the year. Similarly, a report on the quality of public audit is published every year, together with the Annual Report and Accounts, reports on international work and a report on correspondence and whistle-blowing.