



Our ref: ICAEW Rep 136/12

Sarah Sargent,  
Deputy Clerk  
Public Accounts Committee  
National Assembly for Wales  
Cardiff Bay, CF99 1NA.

By Email: [PublicAccounts.Committee@Wales.gov.uk](mailto:PublicAccounts.Committee@Wales.gov.uk)

Dear Sarah,

**PUBLIC AUDIT (WALES) BILL**

ICAEW is pleased to respond to your request for written evidence on the Public Audit (Wales) Bill. Our submission is attached.

Please contact me should you wish to discuss any of the points raised in the attached response.

Yours sincerely

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## ICAEW REPRESENTATION

### **PUBLIC AUDIT (WALES) BILL**

**The Welsh Government's Public Accounts Committee's scrutiny of the Public Audit (Wales) Bill published in July 2012**

*Written evidence submitted on 17 September 2012 by ICAEW to the Welsh Government's Public Accounts Committee*

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## INTRODUCTION

1. We are writing to provide evidence to the Public Accounts Committee in response to its inquiry on the *Public Audit (Wales) Bill* published by the Welsh Government in July 2012, a copy of which is available from this [link](#).

## WHO WE ARE

2. ICAEW is a world-leading professional accountancy body. We operate under a Royal Charter, working in the public interest. ICAEW's regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the UK Financial Reporting Council. We provide leadership and practical support to over 138,000 member chartered accountants in more than 160 countries, working with governments, regulators and industry in order to ensure that the highest standards are maintained.
3. ICAEW members operate across a wide range of areas in business, practice and the public sector. They provide financial expertise and guidance based on the highest professional, technical and ethical standards. They are trained to provide clarity and apply rigour, and so help create long-term sustainable economic value.
4. ICAEW is recognised internationally as a leading authority on audit and assurance. It is responsible for formulating ICAEW policy on audit and assurance issues, and makes submissions to standard setters and other external bodies. It provides an extensive range of services to its members, providing practical assistance in dealing with common audit and assurance problems.
5. ICAEW is an active member of Business Wales and the Council for Economic Renewal, and most of our 3,000 members in Wales either advise or run small or medium sized businesses; in fact, evidence suggests that over 80% of businesses in Wales use the services of a chartered accountant. By drawing on their collective experience, ICAEW is well placed to act as a barometer for the views of the private sector. ICAEW members in Wales have actively engaged with the Welsh Government on all business issues and have responded to relevant consultations in this regard. In addition, ICAEW has a number of member firms who carry out audit within the public sector in Wales, either on a sub-contract basis to the Wales Audit Office (WAO) or as appointed auditors to public bodies. A number of our members also work within the public sector or have public sector clients.
6. The Wales Audit Office (WAO) is currently considering augmenting its existing quality assurance processes with a further level of independent review sourced externally from ICAEW. This further level of independent review by ICAEW would consist of an annual quality assurance review of a sample of financial audits undertaken by WAO staff, together with a review of relevant whole of office procedures.

## MAJOR POINTS

7. ICAEW provided comments on the draft bill. We note that there has been an attempt to take on board some of our comments, for example, we note that the bill now provides for oversight of the Auditor General for Wales (AGW) and WAO to be undertaken by the National Assembly rather than being prescribed to the Assembly's Public Accounts Committee as previously proposed under the draft bill. This is a welcome development.
8. However, ICAEW is of the view that the amendments from the draft bill to the Bill do not go far enough to meet our concerns. The revised proposals do not maintain auditor independence which is vital to the role of the AGW. The model proposed by the Welsh Government is not reflected anywhere else within the UK. Indeed, ICAEW's view is that it undermines the foundation of independent public audit. We are concerned that the previous experiences could

unintentionally be leading to creation of legislation which will reduce the AGW's direct accountability to the National Assembly. Our recommendation, therefore, is that the Board's role needs to be one of oversight rather than one of management to allow the AGW to determine the scope of work and how it should be carried out. This is explained further in our response (paragraphs 10 to 19).

9. ICAEW is of the view that the Bill misses an opportunity to streamline and strengthen the Welsh public audit regime (paragraphs 20 to 21).

#### **Maintaining auditor independence**

10. In paragraph 20 of the Explanatory Memorandum, we note that the objectives of the Bill are *'to strengthen and improve the accountability and governance arrangements relating to the Auditor General for Wales (AGW)'* and *'the need to preserve and protect the independence and objectivity of the AGW'*. ICAEW's view is that the Bill does not actually improve accountability and governance and does not protect the independence and objectivity of the AGW.

11. The Bill, like the draft Bill, continues to provide for a WAO Board with functions for managing the audit office, while at the same time it has a composition of almost entirely non-executive members (parts 1 to 4 of Schedule 1) , which is more appropriate for a supervisory board (which is focused on oversight). However, much of the Board's prescribed role is in relation to the management of the organisation (clauses 20 to 26 and part 5 of Schedule 1).

12. The functions assigned to the Board in the Bill are a little less extensive than those assigned in the draft Bill, but the WAO board is in the driving seat in the following key respects which may then compromise the AGW's independence:

- 12.1. Clauses 25 and 26 require the AGW's work programme and estimate of the maximum resources that may be required, to be agreed by the Board.

- 12.2. Clause 26 appears to try to set parameters for the agreement of the AGW's work programme. This may be intended to limit the Board's ability to intervene in the AGW's judgement about the work programme by saying that the WAO board may only reject a statement if it, or part of it, is 'unreasonable'. This is not, in our view, adequate protection of the AGW's independence as it allows the WAO board to reject the AGW's judgement on what merits examination. It is also not clear how the WAO board's intervention set out in clause 26 is intended to relate to the AGW's and WAO's joint preparation of an estimate of income and expenses, which is laid before and considered by the Assembly under clause 20.

- 12.3. Clause 18 (2) requires any scheme of delegation of the AGW to be approved by the WAO board, potentially limiting his ability to require staff to undertake work that he considers necessary.

- 12.4. Clause 19 enables the WAO board to require the AGW to provide professional services to public bodies but without requiring the AGW's agreement. This may cause the AGW to be put in the position of auditing a professional service that he has provided, which would compromise his independence.

13. In ICAEW's view, both accountability and independence are compromised as the Board is effectively ultimately:

- 13.1. in control of AGW's work programme;

- 13.2. in control of AGW's ability to delegate functions; and

- 13.3. in some important respects (eg, provision of services) can make decisions without the AGW's agreement.
14. This model proposed by the Government reduces direct accountability to Government as the decision-making of the AGW is diluted if the Board is required to agree and approve the programme and resources.
  15. In the private sector, accountancy firms (who would carry out audits of companies) would not have this level of intervention in their work-programmes or resources. If the WAO adopted the proposed supervisory board structure, the AGW, who has the power to carry out audits of public sector companies, would not satisfy the requirements of the Companies Act. And indeed, the Financial Reporting Council, which carries out an oversight role over firms' audit work of companies under the Companies Act and would therefore have an independent supervisory role over the AGW, were he to carry out audits of public sector companies, would have objections to an auditor's independence being compromised in this way.
  16. In the public sector, in relation to the UK, and in Scotland and Northern Ireland, the Auditors General do not have this level of corporate intervention in their work-programmes.
  17. We agree that there needs to be oversight of the running of the WAO and its operational aspects, but it does not make sense to dilute the AGW's accountability to the Assembly by introducing a corporate body that is able to limit his ability to meet his responsibilities in the way that is being proposed.
  18. Maintaining auditor independence is vital and because of that, and given our concerns about the reduced accountability, our recommendation is that the Board's role should be one of overseeing what the AGW does, providing advice and, if necessary, reporting concerns to the National Assembly. It should not have any role in determining the scope of work or how it should be carried out, as such roles will undermine the AGW's accountability to the National Assembly.
  19. We would also highlight that a corporate body with decision-making abilities on the procurement of services as set out in the Bill may compromise the AGW's ability to engage independent monitoring and review function of the activities of the WAO (see paragraph 6). Such monitoring is a key measure to help ensure that the WAO meets professional standards. We would hope that any WAO board would agree with the AGW that such monitoring was appropriate and would secure the services accordingly, but it is not satisfactory that the corporate body board should be put in a position to intervene on the matter.

#### **Streamlining of audit provisions**

20. Our understanding of the proposals in the draft bill was that it intended to streamline and strengthen the audit provisions for much of the Welsh public sector. We are disappointed to note that this proposal has not been pursued. This would have been an opportunity to bring greater consistency in public audit, for example, by specifying the same requirements across the Welsh Government and its sponsored and related bodies for the consideration of:
  - 20.1. whether bodies have made appropriate arrangements for securing economy, efficiency and effectiveness; and
  - 20.2. the regularity (lawfulness) of expenditure.
21. The explanatory memorandum indicates that these proposals have been omitted due to legislative competence issues. We are unclear, however, as to why this is the case, as such rationalisation does not seem to impinge on devolution issues in any way that could not be addressed by restating UK (eg, Treasury) functions. It may be helpful for the Welsh Government to explore these issues further with the UK Government before finalising the drafting of this legislation.

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