



PUBLIC AUDIT FORUM

***Central Government Audit
in the UK after Devolution***

January 2002

A Welsh language version of this report is available on the Public Audit Forum website at www.public-audit-forum.gov.uk. For printed copies, please contact the Public Audit Forum Secretariat at the National Audit Office, 157-197 Buckingham Palace Road, London, SW1W 9SP. Telephone 020 7798 7529



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THE PUBLIC AUDIT FORUM

Public sector audit has a key part to play in safeguarding public money, ensuring proper accountability, upholding proper standards of conduct in public services and helping public services achieve value for money.

The Public Audit Forum was established in 1998 by the then national audit agencies: the National Audit Office, the Northern Ireland Audit Office, the Audit Commission for Local Authorities and the National Health Service in England and Wales, and the Accounts Commission for Scotland. It was set up to provide a focus for developmental thinking about public audit.

The Public Audit Forum has a specific remit to build on the existing co-operation between the national audit agencies to enhance the efficiency and effectiveness of public audit, to provide a strategic focus on issues cutting across their work and to develop broadly consistent approaches to public audit.

The Public Audit Forum has published the following reports to date:

The Principles of Public Audit: a statement by the Public Audit Forum (October 1998)

The Service which Auditees can Expect from Public Auditors: a consultation document (October 1998)

Implications for Audit of the Modernising Government Agenda: a paper by the Public Audit Forum (April 1999)

What Public Sector Bodies can expect from their Auditors: a consultation paper (June 1999)

What Public Sector Bodies can expect from their Auditors (final paper March 2000)

Propriety and Audit in the Public Sector: a consultation paper (May 2000)

Data Matching and the Role of the Public Sector Auditors: a consultation paper (August 2000)

Audit Implications of Electronic Service Delivery in the Public Sector (April 2001)

Propriety and Audit in the Public Sector (August 2001)

This report, past publications and other information about the Public Audit Forum are available on its web site at www.public-audit-forum.gov.uk.

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Foreword

Devolution has changed the way central government money is spent in the United Kingdom. Responsibility for well over £30 billion a year now lies with the devolved administrations in Scotland, Wales and Northern Ireland. These changes in accountability for public money have also meant changes in the audit arrangements.

Throughout the world, the audit of central government finance is undertaken by national audit bodies established to examine use of public funds. In the United Kingdom the Comptroller and Auditor General has performed this role for more than 130 years. Following devolution there is now an Auditor General for Scotland and an Auditor General for Wales. Northern Ireland has had a separate Comptroller and Auditor General since 1921.

The constitutional changes are not uniform, but reflect the different histories and current circumstances of the constituent parts of the United Kingdom. Creation of the devolved administrations now allows greater flexibility in policy making to address local needs and priorities, and sits within a broader objective to make government more accessible, open and accountable. In turn, the audit arrangements now established in England, Wales, Scotland and Northern Ireland strengthen the ability of public auditors to plan and undertake their work in the way best suited to local circumstances.

This paper explains the new audit arrangements and what is being done to maintain consistent standards among the audit agencies. A theme running through the paper is the work being done by the national audit agencies to share knowledge and promote best practice. The Public Audit Forum is at the heart of these efforts, and has published a series of reports (listed at the front of this report) on issues of common interest.

The paper focuses primarily on the auditors of central government. The constitutional changes have impacted less on the auditors of local government. In Scotland the newly-created Audit Scotland brings together in one agency the auditors of central and local government bodies. Devolution has not changed the formal role or responsibilities of the Audit Commission for England and Wales, which has responsibility for audit of local government and National Health Service bodies in England and Wales, but it has had to develop a new relationship with the National Assembly for Wales. However, it is important that all public auditors continue to collaborate so that consistent and high standards of public audit are maintained, they learn from each other and avoid duplication of effort. This paper shows how the auditors of local government and central government are working closely together in areas of common interest.

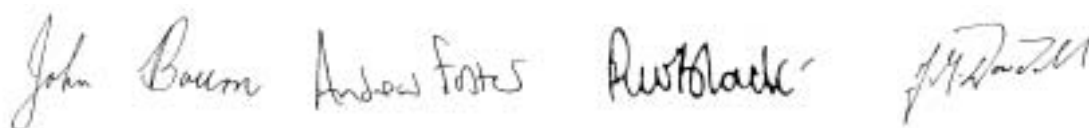
"Auditors ... should continue to seek to co-ordinate work where possible in the interests of maximising the benefit of their work and minimising duplication of effort"

Holding to Account, Lord Sharman February 2001

The key messages

- ◆ Following the changes to audit and accountability arrangements consequential to devolution, all the audit agencies are building on existing collaboration to share knowledge and co-ordinate their work.
- ◆ The agencies work to professional standards shared by all auditors of financial statements, and within established frameworks for co-operation between auditors.
- ◆ Public auditors have a shared understanding of the importance and key features of value for money examinations.
- ◆ Developments such as the Modernising Government Agenda and introduction of resource accounting and budgeting, corporate governance and public service agreements have led to new ways of working and increased the need for co-operation between auditors.
- ◆ Co-operation between auditors can yield good practice lessons on issues of common interest in England, Scotland, Wales and Northern Ireland, and between central and local government.
- ◆ Joint audits have proved successful, but there are statutory and organisational constraints on joined-up audit that are outside the control of the audit agencies. Some flexibility may be required in granting the audit agencies access to publicly-funded bodies when there is a joint examination of programmes funded from different sources.

This paper confirms that in the period following devolution robust audit and accountability arrangements have been in place to support the new constitutional environment. It also emphasises the importance attached by public auditors to joint working, and demonstrates our joint commitment to continue to develop it in future. In doing so, all the audit agencies will be building on a common audit framework and a tradition of collaboration and co-operation that is already firm.



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The new UK audit arrangements after devolution

1. Devolution has led to changes in the way public money is managed, accounted for and audited. In Scotland and Wales two new public auditors have been established, with the Auditor General for Scotland reporting directly to the Scottish Parliament and the Auditor General for Wales reporting directly to the National Assembly for Wales. While the powers and responsibilities of the Audit Commission in Wales have not been directly affected by devolution, the Commission has developed a new relationship with the National Assembly for Wales. The responsibilities of the Comptroller and Auditor General for Northern Ireland are unchanged, but under the devolution arrangements he reports to the Northern Ireland Assembly. The Comptroller and Auditor General of the United Kingdom, with some changes to his responsibilities, continues to report to Parliament at Westminster.

Box 1: The purpose of this paper

The purpose of this paper is to explain how the new audit and accountability arrangements for central government work and what the national audit agencies are doing to maintain high standards of public audit following devolution, with examples showing how the agencies are co-operating to share knowledge and promote best practices.

Specifically, the paper:

- ◆ shows the way funds flow to the devolved administrations and who audits what;
- ◆ shows there is a common core to the audit approaches adopted by the national audit agencies;
- ◆ sets out in detail the audit responsibilities and approaches of the national audit agencies.

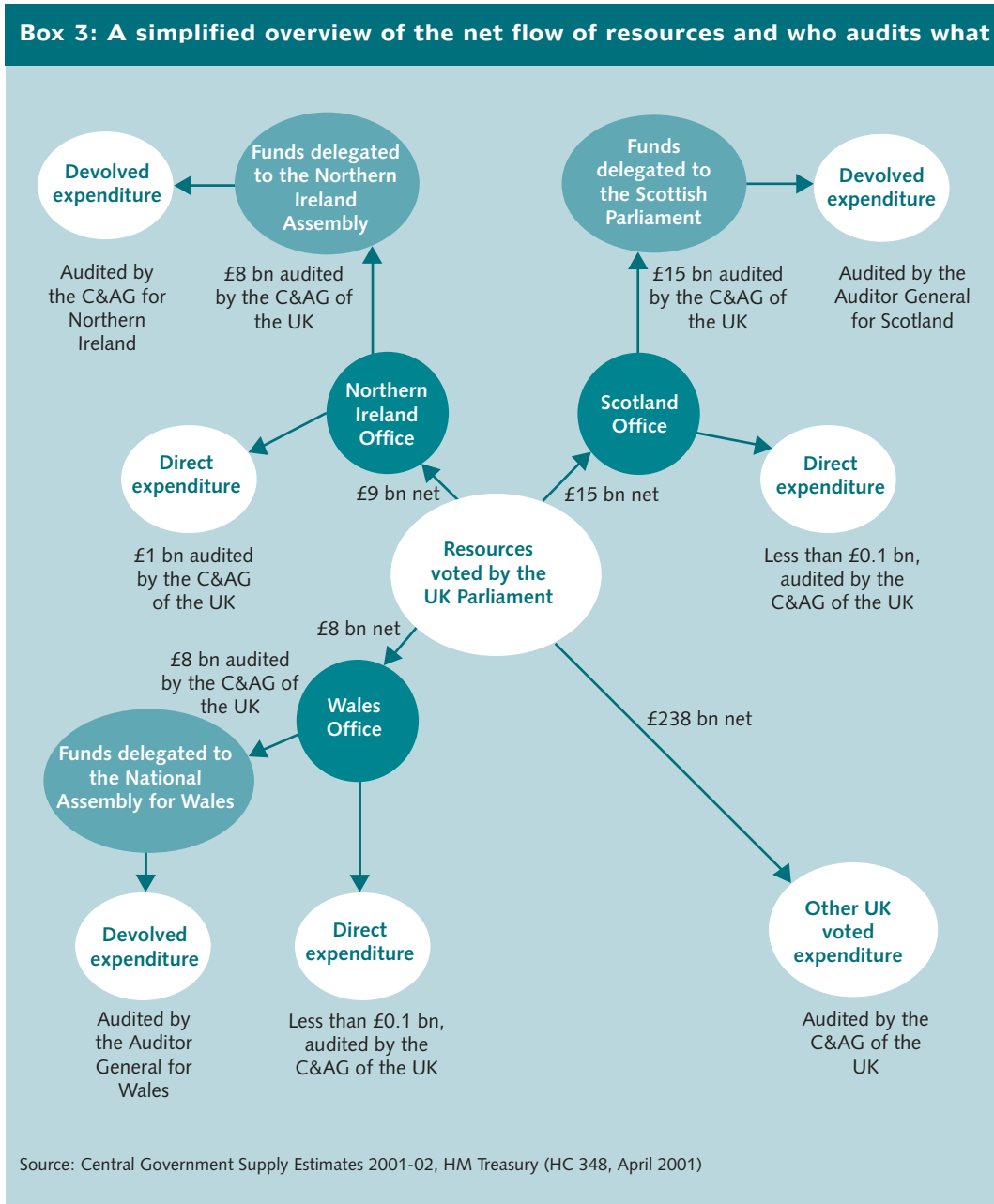
The flow of funds and who audits what

2. The main source of funding for the devolved administrations is government revenues held in the Consolidated Fund. The United Kingdom Parliament votes the necessary provision to the Secretaries of State for Scotland, Wales and Northern Ireland. They in turn make block grants to the devolved administrations. A small proportion of the voted money finances expenditure by the Scotland Office, Wales Office and Northern Ireland Office rather than being passed to the devolved administrations. This 'direct expenditure' is highest in Northern Ireland where it relates mostly to law and order functions.

3. Each administration's budget is also part funded locally. This funding includes non-domestic rates and borrowing by public bodies to fund capital spending. In Northern Ireland this also includes domestic rates. The Scottish Parliament also has the power to raise or lower tax through the Scottish Variable Rate of Income Tax.
4. The overall budget for each administration is decided within the framework of public expenditure controls for the whole of the United Kingdom. Each administration is free to make its own spending decisions within the overall totals: the block grants are not hypothecated.
5. The responsibilities of the central government auditors are summarised in Box 2 below. A detailed description of their work is provided in the later sections describing the work of each of the central government audit agencies.

Box 2: The responsibilities of the central government auditors following devolution	
<p>The Comptroller and Auditor General of the United Kingdom audits matters "reserved" to the UK Government including defence, foreign affairs, social security and central government taxation, and all other expenditure by central government departments in England. The Comptroller and Auditor General is also responsible for auditing the payment of the block grants to the devolved administrations and direct expenditure by the Scotland Office, Wales Office and Northern Ireland Office. The audit of direct expenditure by the Northern Ireland Office is carried out by the Northern Ireland Audit Office on behalf of the UK Comptroller and Auditor General. The Comptroller and Auditor General is supported by the staff of the National Audit Office.</p> <p>The Comptroller and Auditor General reports to Parliament. His work is considered by the Committee of Public Accounts.</p>	<p>The Comptroller and Auditor General for Northern Ireland is responsible for the audit of Northern Ireland Departments and a wide range of public sector bodies including the cross border authorities created by the Northern Ireland Act 1998. The Comptroller and Auditor General for Northern Ireland is supported by the staff of the Northern Ireland Audit Office.</p> <p>The Comptroller and Auditor General for Northern Ireland reports to the Northern Ireland Assembly.</p>
<p>The Auditor General for Scotland is a new office created by the Scotland Act 1998. The Auditor General for Scotland audits or appoints the auditor to those bodies funded by the Scottish Parliament. A new body - Audit Scotland - provides services to the Auditor General and the Accounts Commission, which is responsible for the audit of local authorities, fire and police boards.</p> <p>The Auditor General for Scotland may report to the Scottish Parliament, principally the Audit Committee.</p>	<p>The Auditor General for Wales is a new office created by the Government of Wales Act 1998 to audit the accounts of the National Assembly for Wales and those organisations funded by the Assembly; and, in respect of value for money audit, also the National Health Service in Wales. The financial statements of the National Health Service and local government bodies are audited by appointees of the Audit Commission. The Auditor General for Wales is currently supported by the staff of the National Audit Office.</p> <p>The Auditor General for Wales reports to the National Assembly and his reports form the basis for the Audit Committee's programme of work.</p>

6. Box 3 shows in simplified form how resources voted by the United Kingdom Parliament are spent directly or flow through the Northern Ireland Office, Scotland Office and Wales Office to the three devolved administrations. It also shows the auditor with relevant responsibility.



7. A number of public bodies deal with matters that are not reserved by Westminster and operate across the United Kingdom. For example, the Forestry Commission operates in England, Scotland and Wales; and the Food Standards Agency operates across England, Scotland, Wales and Northern Ireland. The Scotland Act 1998 requires any reports on Scottish cross-border public authorities that are required to be laid before Parliament to be also laid before the Scottish Parliament. In Wales, the Transfer of Functions Order 1999 makes provisions for accounts and audit reports on cross-border bodies to be laid before the National Assembly.

8. In Northern Ireland, the arrangements for devolution included the establishment of North/South bodies to administer certain public functions common to Northern Ireland and the Republic of Ireland. The audited accounts of those bodies are presented separately to the Northern Ireland Assembly and the Oireachtas.
9. The Government of Wales Act 1998 gives the Comptroller and Auditor General of the United Kingdom access to the National Assembly for Wales and its sponsored bodies for the purposes of reporting to Parliament. The Comptroller and Auditor General may only exercise these rights of access after consulting the Auditor General for Wales and taking account of the work done or being done by him. The 1998 Act explicitly empowers the Comptroller and Auditor General and the Auditor General for Wales to co-operate with each other in discharge of their respective duties.

The importance of common approaches to public audit in the United Kingdom

"Public sector bodies and their auditors need to understand thoroughly each others' roles, and work together to facilitate effective audit arrangements."

Public Audit Forum (March 2000).

10. Changes in audit responsibilities and clients following devolution, and the creation of new national audit agencies, have underlined the importance of common auditing standards throughout the public sector. These changes have placed a premium on close working relationships between auditors so that they share knowledge and co-ordinate their activities.
11. Promoting and extending existing co-operation between the audit agencies is a key strand of the Public Audit Forum's work. The Forum is led by the Heads of Audit Agencies group. Reporting to this group is a Consultative Forum consisting of representatives of the national audit agencies, the Treasury and the Cabinet Office, other departments of state, local authorities and the National Health Service, the accountancy profession and other stakeholders (Box 4). The Consultative Forum normally meets three times a year, in addition to which most members participate in working groups reporting on specific issues of current concern. The Public Audit Forum has an explicit remit to help develop broadly consistent approaches to public audit.

Box 4: Membership of the Consultative Forum of the Public Audit Forum

Tim Burr	(Chairman)	Deputy Comptroller and Auditor General of the United Kingdom
Julie Barnaby		Department of Health
Robert Black		Auditor General for Scotland
Dr Peter Collings		Scottish Executive
John Dowdall		Comptroller and Auditor General for Northern Ireland
Janet Eilbeck		PricewaterhouseCoopers
Martin Evans		The Audit Commission for Local Authorities and the National Health Service in England and Wales
Brian Glicksman		HM Treasury
Ronnie Hinds		Deputy Auditor General for Scotland and Controller of Audit
Lew Hughes		Auditing Practices Board
Neil Kingham		Local Government Association
Gilbert Lloyd		KPMG
Peter Makeham		Department for Education and Skills
Caroline Mawhood		National Audit Office
Andrew McCormick		Northern Ireland Department of Finance and Personnel
Alan Meekings		District Audit
David Richards		National Assembly for Wales
Vernon Soare		Chartered Institute of Public Finance and Accountancy
Eugene Sullivan		RSM Robson Rhodes
John Sweetman		Cabinet Office
Stephen Thornton		NHS Confederation
Phillip Ward		Department of Transport, Local Government and the Regions
Norie Williamson		Convention of Scottish Local Authorities
Penny Young		Consumers Association
David Corner	(Secretary)	National Audit Office

12. The Forum encourages co-operation and consistency of approach with a view to enabling auditors to make greater use of each other's work, in the interests of efficiency and to reduce the overall burden of audit, so far as this is consistent with the obligations placed on individual auditors by statute and professional standards. A paper published by the Consultative Forum in March 2000, *What Public Bodies can expect from their Auditors*, sets out in detail a framework for co-operation and application of common standards by public auditors (Box 5).
13. The National Health Service, for example, is one area where reliance on the work of others is important, and where auditors are able to collaborate in order to conduct their work efficiently. In England and Wales the National Audit Office audits the accounts of the Department of Health and the summarised accounts of the National Health Service and the Audit Commission audits the accounts of local health entities. The Audit Commission and the National Audit Office have established working arrangements in England and Wales whereby each year, in accordance with auditing standards, the National Audit Office uses the work that the Commission's appointed auditors have undertaken. The National Audit

Office's work, therefore, concentrates on a review of the opinions, reports and main findings of the Commission's auditors, and an assessment of the Audit Commission's quality reviews. A number of sessions of the Committee of Public Accounts have been based on the National Audit Office's review of the findings of the auditors appointed by the Audit Commission. The Committee reported in January 2000, for example, on the *NHS (England) Summarised Accounts 1997-98* (5th Report of Session 1999-2000), following a report by the Comptroller and Auditor General that commented on the work of the appointed auditors on the accounts underlying the summarised accounts.

Box 5: The Public Audit Forum: co-operation between auditors

"It is common for the audit of some public bodies, for example government departments, to need to draw on evidence from other bodies in the public, private or voluntary sectors which have received public grants or which undertake functions on behalf of the body being audited. In such circumstances, efficiency requires that public sector auditors seek to maximise, both in their audit of financial statements and their value for money work, the use they make of the work of others such as internal auditors, regulators and external auditors of related bodies. In using the work of others, public sector auditors must nevertheless ensure that what they do continues to be consistent with the duties placed on them by professional auditing standards. And sometimes public sector auditors will require direct access to entities funded by the bodies they are auditing so as to perform audit procedures, in line with the Auditing Practices Board's guidance in Practice Note 10."

Public Audit Forum, *What Public Bodies can expect from their Auditors* (March 2000), paragraph 19.

14. Developments such as the Modernising Government Agenda have already increased the need for co-operation between auditors of different bodies involved in delivery of government programmes. The Public Audit Forum examined the consequences of these developments in its paper *Implications for Audit of the Modernising Government Agenda* (April 1999). The Forum recognised that public auditors may sometimes require direct access to bodies receiving public funding, but emphasised that they will seek to use each other's work with a view to minimising any overlap of audit examinations, for example by exchanging evidence or by conducting joint audits.
15. Other developments such as the introduction of resource accounting and budgeting, corporate governance and public service agreements have increased the focus on performance measurement, risk management and new ways of working. Public sector auditors are sharing research in these areas (Box 6).

Box 6: Working group on external validation of Public Service Agreement targets

In response to Lord Sharman's report *Holding to Account*, the Treasury established an External Validation Working Group to provide the Chief Secretary with proposals for the practical implementation of a system for external validation of the data systems underlying Public Service Agreement targets. The group includes Treasury, the Cabinet Office, other government departments, National Statistics, the Audit Commission and the National Audit Office. The working group will draw on the experience of the different parties before reporting to the Chief Secretary.

16. There are, however, statutory and organisational constraints on joined-up audit outside the control of the national audit agencies. One key constraint is that the agencies are granted access to information held by individual bodies, rather than rights to follow funding flows through different organisations. Some flexibility may be required in granting rights of access to the audit agencies when there is a joint examination of programmes funded from different sources so as to permit joined-up audit. As the Public Audit Forum stated in its report *Implications for Audit of the Modernising Government Agenda* (April 1999), this is an issue the government will need to address, in some cases through legislation.

Audit of financial statements

17. The annual audit of organisations' financial statements (commonly referred to as 'financial audit') is designed to enable the auditor to form an opinion on whether those statements are free from material error, whether they comply with relevant professional standards for presentation of financial information, and whether the transactions comply with relevant authorities. The national audit agencies, in common with other auditors working in the public and private sectors, carry out their work in accordance with the Auditing Standards issued by the Auditing Practices Board. All the agencies have put in place comparable arrangements for quality assurance in their work to ensure maintenance of consistent professional standards.
18. The audit agencies actively contribute to the development of new professional guidance. Recent projects include:
- ◆ assisting the Auditing Practices Board to develop guidance on corporate governance for public sector auditors;
 - ◆ participating in the development of British Standards for information systems management which will have a beneficial impact on the reliability of IT operations in both public and private sectors;
 - ◆ participating in an Accounting Standards Board working group developing a public sector version of its Statement of Principles for Financial Reporting; and
 - ◆ participating in a Chartered Institute of Public Finance and Accountancy working group considering the implications of the new pensions accounting standard, Financial Reporting Standard FRS17, for the public sector.

19. The Auditing Practices Board has issued two standards specific to reliance on the work of other auditors: Statement of Auditing Standards SAS 500 *Considering the work of internal audit*; and Statement of Auditing Standards SAS 510 *The relationship between principal auditors and other auditors*. Auditing Practices Board Practice Note 10 (revised) gives additional guidance on the application of SAS 510 in the public sector (Box 7). The new Practice Note is an example of the national audit agencies working together to provide guidance to public sector auditors.

Box 7: Auditing Practices Board Practice Note 10 (revised)

The national audit agencies worked closely through the Auditing Practices Board Public Sector Sub-Committee to prepare a revised version of Practice Note 10 *The audit of financial statements of public sector entities in the United Kingdom* in April 2001. This Practice Note provides guidance to auditors on the application and interpretation of auditing standards in a public sector context. The new Practice Note extends the guidance contained in the previous Practice Notes beyond the central government sector into the local government and NHS sectors, as well as the devolved administrations in Scotland, Wales and Northern Ireland.

20. An example of auditors working together on the audit of financial statements is the audit of the Scotland Office and the payment of the block grant to the Scottish Executive. Audit Scotland, the National Audit Office and the internal auditors of the Scotland Office are carrying out this work in co-operation with each other to avoid unnecessary duplication of work and give mutual audit assurance on the money flowing between the United Kingdom and Scottish consolidated funds. The audits of the Forestry Commission and its related agencies, described in Box 8, provide another illustration of how public auditors are combining to deliver an efficient co-ordinated audit that avoids 'reinvention of the wheel'.

Box 8: Joint working arrangements between the audit agencies

The Forestry Commission is a cross-border body which, together with its agencies Forest Enterprise and the Forest Research Agency, prepared a total of ten separate accounts for 2000-01 - five certified by the Comptroller and Auditor General of the United Kingdom, three by the Auditor General for Scotland and two by the Auditor General for Wales. All the Forestry Commission's financial records are maintained by the Commission's headquarters staff based in Edinburgh. The National Audit Office and Audit Scotland formed a joint team to undertake audit work, and National Audit Office staff undertook audit work on the Welsh accounts on behalf of the Auditor General for Wales. These arrangements preserved the statutory requirement for each auditor to reach an independent audit opinion, avoided unnecessary duplication of work, and respected the Forestry Commission's wish to deal with a single audit team.

21. In Ireland, the Comptroller and Auditor General for Northern Ireland and his Irish counterpart carry out the audit of the North/South bodies created under Section 55 of the Northern Ireland Act 1998 in co-operation, and both certify the accounts. Audit work is undertaken jointly by staff from the Northern Ireland Audit Office and the Office of the Irish Comptroller and Auditor General.

22. Another example, in Box 9 below, shows how external auditors are also able to rely, where possible, on the work of internal auditors. This case study illustrates how the National Audit Office has worked with other auditors in the higher education sector in England and Wales. The importance of working with internal auditors is promoted by the joint National Audit Office and HM Treasury document *Co-operation between Internal and External Auditors : A Good Practice Guide*, published in early 2001.

Box 9: Reliance by external auditors on the work of internal auditors

When investigating the use of public money within a higher education institution the National Audit Office works closely with the Higher Education Funding Council to draw on its knowledge and ensure that concerns raised with the National Audit Office are not already being investigated. In turn the Funding Council might consult with internal auditors within universities who may agree to investigate particular issues on behalf of the National Audit Office as part of their programme of work. In this way the National Audit Office ensures that there is no duplication of effort in collecting the evidence needed to complete its work. The National Audit Office is also an active member of a forum set up by the Funding Council with universities and other stakeholders to reduce the burden on the sector whilst ensuring public accountability.

Value for money examinations

23. Each of the national audit agencies conducts performance audits, often known as value for money examinations, of publicly funded programmes and activities to assess performance, identify good practice and suggest how services can be improved. The audit agencies have put in place arrangements for external review and quality assurance of their own value for money work.
24. Public auditors share an understanding of the importance and key components of value for money work.

“Those who use or pay for public services, either through taxation or charges, have a reasonable expectation that public bodies make the best use of the resources at their disposal. Public audit must therefore include examinations of the economy, efficiency and effectiveness (which can be defined in the ways shown below) in the use of public resources, including the evaluation of service quality and the measurement of performance.

- ◆ **Economy** means minimising the cost of resources acquired or used, bearing in mind the quality;
- ◆ **Efficiency** covers the relationship between the output of goods or services and the resources used to produce them;

- ◆ **Effectiveness** covers the relationship between the intended and actual results of projects and programmes."

Public Audit Forum (October 1998)

25. The audit agencies are building links to co-operate and learn from each other in developing their performance audit approaches and methodology. For example, following a visit to the National Audit Office by the Deputy Auditor General responsible for performance audit at Audit Scotland a seminar was organised to discuss practical ways in which the two bodies can work together in developing study methodology and by collaborating on future studies.
26. Public auditors share experience gained as a result of their work. For example, the National Audit Office has responded to requests for advice on Private Finance Initiative issues arising in Scotland, Wales and Northern Ireland, and regular discussions have been held with Audit Commission colleagues to assist in the development of their Private Finance Initiative work. The National Audit Office was represented on an advisory panel overseeing a management paper by the Audit Commission on Private Finance Initiative issues, and a member of the Commission's audit staff participated in the Office's examination of the Private Finance Initiative contract for the new Dartford and Gravesham hospital. The National Audit Office was also asked to give evidence in 2001 to an inquiry into the use of the Private Finance Initiative being conducted by the Northern Ireland Assembly.
27. Public auditors liaise on their forward programmes to identify areas of common interest with possibilities for joint working, both to add value and to avoid duplication of effort. The value of these contacts is illustrated by the following examples:
 - ◆ In 1997 the Audit Commission and the National Audit Office published the results of a joint review of housing benefit - an issue relevant to central and local government. In 1999 the Audit Commission's follow up report on *Fraud and Lodging* and the National Audit Office's on *Progress on measures to combat housing benefit fraud* (HC 319 1998-99) provided an update on progress made in tackling fraud and error. This joint work found that important progress had been made, but that councils and government must work effectively together to continue the fight against fraud and abuse.
 - ◆ On a similar collaborative project public sector auditors recently carried out a joint review of training for health professionals in England and Wales (Box 10).

Box 10: Training health professionals in England and Wales

In March 2001 the National Audit Office, Auditor General for Wales and Audit Commission each published the results of their joint review of education and training for existing and trainee nurses, midwives and other healthcare staff. The Audit Commission's report *Hidden Talents* focuses on the existing healthcare workforce. The Auditor General for Wales' report to the National Assembly for Wales, *Educating and Training the Future Health Professional Workforce for Wales* and the National Audit Office's report to Parliament, *Educating and Training the Future Health Professional Workforce for England*, review the effectiveness of arrangements between the NHS and higher education institutions for educating and training pre-registration health professional students. Taken together, the three reports provide a comprehensive picture of education, training and staff development, and make significant practical recommendations for improvement.

- ◆ Co-operation and sharing information between auditors also provides valuable comparisons and good practice lessons on matters of common interest in England, Scotland, Wales and Northern Ireland - for example, clinical negligence in the National Health Services (Box 11).

Box 11: Reporting on clinical negligence

In February 2001 the Auditor General for Wales published his report *Clinical Negligence in the NHS in Wales* which, for the first time, provides information on the time and cost of settling claims in Wales. The National Audit Office used this comparative information in its report, *Handling Clinical Negligence Claims in England* (HC 403 2000-01), published in May 2001. The Northern Ireland Audit Office is also working on a study of clinical negligence in Northern Ireland. The Auditor General for Scotland set out the rising trend of financial provisions to meet clinical negligence claims in an overview report on the NHS in Scotland.

Following up work

28. Formal arrangements are in place for scrutiny of public auditors' findings by Members of Parliament at Westminster, Members of the Scottish Parliament, Members of the National Assembly for Wales and Members of the Northern Ireland Assembly. Reports are published, made available (in full or summary) on agencies' websites, and often widely reported in the press. The agencies may also make available Good Practice Guides or Self-assessment packs, and host conferences and seminars, as the most effective way to communicate their findings to audited bodies and help to ensure that appropriate lessons are learned. The example in Box 12 below illustrates how auditors have collaborated to promote best practice lessons in the most effective way to a wide audience across central and local government. The agencies measure the impact of their work, and monitor action taken by audited bodies on the undertakings made in response to audit recommendations.

Box 12: Auditors collaborating to promote best practice

The Northern Ireland Audit Office makes a particular effort to support public sector bodies in combating fraud. In partnership with the Audit Commission, it has encouraged a number of Northern Ireland central and local government bodies to participate in the National Fraud Initiative which has been operating in England and Wales since 1993. This included organising a seminar to raise awareness about the initiative.

The Comptroller and Auditor General of the United Kingdom

29. The Comptroller and Auditor General of the United Kingdom is an Officer of the House of Commons. He is appointed by the Queen on an address proposed by the Prime Minister with the agreement of the Chairman of the Committee of Public Accounts and approved by the House of Commons. The Comptroller and Auditor General's rights and responsibilities are established in statute and he can only be removed from office on an address from both Houses of Parliament. The staff of the National Audit Office are appointed by the Comptroller and Auditor General and are not civil servants.
30. The public audit function in the United Kingdom dates back to the fourteenth century but was established in its present form in the mid nineteenth century, as part of a reform of central administration. There are five key pieces of legislation:
- ◆ *The Exchequer and Audit Departments Act 1866* created the position of Comptroller and Auditor General and created an Exchequer and Audit Department to provide supporting staff from within the civil service. The Comptroller and Auditor General was given two main functions - to authorise the issue of public money to government from the Bank of England, having satisfied himself that this was within the limits Parliament had voted - and to audit the accounts of all government departments and report to Parliament accordingly.
 - ◆ *The Exchequer and Audit Departments Act 1921* amended the 1866 Act, and required the Comptroller and Auditor General to report whether money had been spent for the purposes intended by Parliament.
 - ◆ *The National Audit Act 1983* made the Comptroller and Auditor General an Officer of the House of Commons, and gave him express power to report to Parliament at his own discretion on the economy, efficiency and effectiveness with which government bodies have used public funds. He may not question the merits of the policy objectives of any body in respect of which an examination is carried out. The Act also established the National Audit Office as an independent body to replace the Exchequer and Audit Department in support of the Comptroller and Auditor General.
 - ◆ *The Finance Act 1998* provided for the Comptroller and Auditor General to examine and report on any conventions and assumptions underlying the Treasury's fiscal projections that are submitted to him by the Treasury for examination.

- ◆ *The Government Resources and Accounts Act 2000* enabled the introduction of resource accounting and budgeting, to replace cash-based departmental accounting and parliamentary control. It left intact the position and overall role of the Comptroller and Auditor General. However, it requires him to examine departments' use of resources as well as cash, to establish whether they have been for the purposes intended by Parliament, and to form an opinion as to whether departments' accounts are true and fair. It also introduced a new responsibility for the Comptroller and Auditor General, as auditor of 'Whole of Government Accounts' currently under development by HM Treasury.

31. The National Audit Office is held to account for the way in which it spends public money by the Public Accounts Commission, a Select Committee of the House of Commons. The Commission sets the Office's budget, appoints independent external auditors to audit the Office's accounts and examine the value for money it provides, and scrutinises the Office's performance.

The audit field

32. The Comptroller and Auditor General of the United Kingdom audits matters "reserved" to the UK Government including defence, foreign affairs, social security and central government taxation, and all other expenditure by central government departments in England. The Comptroller and Auditor General is also responsible for auditing the payment of the block grants to the devolved administrations and direct expenditure by the Scotland Office, Wales Office and Northern Ireland Office. The audit of direct expenditure by the Northern Ireland Office is carried out by the Northern Ireland Audit Office on behalf of the UK Comptroller and Auditor General. The Comptroller and Auditor General is supported by the staff of the National Audit Office.

33. The National Audit Office's responsibilities cover all government departments and a wide range of other public bodies. The National Audit Office:

- ◆ completed in 2000-01 the annual audit of 90 departmental Appropriation Accounts and around 550 other accounts. Audited expenditure and revenue together totalled around £650 billion, and assets of much greater value were audited;
- ◆ has the right to inspect the records of almost 3,000 other public bodies including a wide range of Health Service bodies and Further and Higher Education Institutions;
- ◆ can carry out value for money examinations of organisations it audits or for which it has inspection rights. The National Audit Office plans to produce about 50 value for money reports a year.

- 34.** Following devolution, the National Audit Office's staff who were based in Edinburgh joined with Accounts Commission staff to form the new Audit Scotland. The Office has strengthened its resources in Cardiff to support the wide range of work now carried out on behalf of the Auditor General for Wales.

Audit of financial statements

- 35.** The prime aim of the National Audit Office's financial audit is to provide independent assurance, information and advice to Parliament on the proper accounting and use of public resources. In addition to reporting the results of this work to Parliament, the National Audit Office also aims to assist audited bodies to improve their financial management.
- 36.** Specifically, the National Audit Office's financial audit includes:
- ◆ work carried out to provide an opinion on financial statements;
 - ◆ work to examine regularity, propriety and financial control.

In addition the Office:

- ◆ gives advice to audited bodies on developing robust performance measurement systems and on validating their progress against key targets; and
 - ◆ helps departments improve their resource accounting and implement resource budgeting.
- 37.** Financial audit work is carried out in accordance with Auditing Standards issued by the Auditing Practices Board. The audit approach is under continual review to ensure that it continues to meet best professional practice through involvement with the standard setting bodies in the profession, contact with the leading accounting firms and a programme of subcontracting audits to the private sector.
- 38.** The National Audit Office has adopted a 'risk-based' approach to financial audit. This approach starts from a top-down analysis of each audit client's business risks. The auditor then considers these risks in the context of the body's financial statements, identifies the management controls which address those risks and tests their effectiveness. Detailed audit testing can then be focused on those areas where reliance on controls would not provide the necessary assurance.
- 39.** The audit of the Meteorological Office provides a good example of how this 'risk-based' approach, which complements current developments in corporate governance and risk management in audited bodies, can benefit the audited body.

Case study: Financial audit of the Meteorological Office

The National Audit Office has worked closely with the Meteorological Office to develop the audit approach. The Meteorological Office was one of the first public bodies to produce a Statement on Internal Control in line with Treasury guidance. As well as auditing this and their accounts, the National Audit Office also provides them with an annual opinion on whether their performance against key Ministerial targets is fairly stated.

The risk-based audit approach enabled the audit of the 2000-01 accounts to be completed within six weeks of the end of the financial year. The audit approach complements the Meteorological Office Board's desire to establish a risk management culture that helps it deliver solutions and services to meet the needs of its stakeholders.

40. Financial audit is not restricted to providing an opinion on financial statements. The National Audit Office's audit work also encompasses a review of each central government body's Statement on the System of Internal Financial Control, to be replaced from 2001-02 onwards by more comprehensive Statements on Internal Control. A programme of periodic reviews of audited bodies' activities is undertaken to identify areas where there are potentially significant risks of irregularity, impropriety or failures in financial control.
41. The quality of financial audit is assessed through a systematic process of internal peer review. Outsourcing is also used to bring in specific external expertise and to enable the Office to compare its methods to the private sector. The National Audit Office has additionally put in place arrangements that will allow for regular and routine external scrutiny by the Joint Monitoring Unit of the accountancy institutes.

Value for money examinations

42. The National Audit Office's value for money work provides Parliament with independent information and advice about the economy, efficiency and effectiveness of publicly funded programmes and activities. It ranges across government and the Office produces reports on topics as diverse as the Millennium Dome and hospital acquired infection. The Office also aims to encourage audited bodies to improve their own performance in achieving value for money. For example it has produced a series of value for money reports focusing on better public service delivery, for example *Hip Replacements* (HC 417, 1999-2000), *Tackling Obesity in England* (HC 220, 2000-01) and *Education Action Zones* (HC 130, 2000-01). Another recent report, *The Sale of Part of the UK Gold Reserves* (HC 86, 2000-01), identified ways in which future sales might be improved.
43. The National Audit Office undertakes monitoring and analytical work to identify topics for examination. The Comptroller and Auditor General decides, in consultation with the Committee of Public Accounts, the topics to be examined. The size and nature of the value for money audit field provides a wide range of topics worthy of examination. Studies selected are designed to:

- ◆ identify the scope for improving economy, efficiency and effectiveness through analysis of inputs, processes and programme outputs;
 - ◆ lead to reports on ways of achieving better service to the public by focusing on the results achieved;
 - ◆ support well thought through risk-taking and innovation and identify and promote good practice so that experience can be shared and risks minimised;
 - ◆ examine the acquisition of assets and services, joint ventures and other forms of commercialisation, and the redeployment and disposal of assets so that best value is promoted and achieved;
 - ◆ follow up previous National Audit Office and Committee of Public Accounts reports to ensure that action promised by departments and agencies has been taken;
 - ◆ deliver beneficial impacts, including financial savings. The savings achieved over the past three years total over £1.4 billion, more than £8 for each £1 that the National Audit Office costs to run.
44. In selecting and carrying out studies, the National Audit Office consults extensively with audited bodies, and other audit and regulatory bodies to ensure that, where appropriate, audit and inspection programmes complement one another. For example:
- ◆ in a joint initiative the Audit Commission and the National Audit Office produced parallel reports on trading standards and consumer protection. The Audit Commission report is entitled *Measure for Measure: the best value agenda for trading standards services* (December 1999). The National Audit Office report is entitled *The Office of Fair Trading: Protecting the Customer from Unfair Trading Practices* (HC 57, 1999-2000).
 - ◆ The National Audit Office report on *The Implementation of the National Probation Service Information Systems Strategy* (HC 401, 2000-01) in April 2001, involved working closely with HM Inspectorate of Probation, undertaking joint visits to probation services and liaising with District Audit and the Home Office's Audit and Assurance Unit.
 - ◆ The Office consults widely with many other organisations and individuals including the customers and beneficiaries of services and other interested parties. For example the report on *Giving Domestic Customers a Choice of Electricity Supplier* (HC 85, 2000-01) involved a survey of a representative sample of 4,600 electricity customers in Great Britain, that was carried out jointly with the Office of Gas and Electricity Markets (OFGEM), the industry regulator.

Responding to the changing environment

45. The National Audit Office continues to adapt its value for money programme to match the ways in which public services are being delivered, and the ways in which public assets are procured and disposed of and utilised. The Office has undertaken a series of thematic studies in procurement including *Modernising Construction* (HC 87, 2000-01), *Modernising Procurement* (HC 808, 1998-99) and *Purchasing Professional Services* (HC 400, 2000-01) and currently underway are series of studies focusing on fraud, and on services to the elderly.
46. Existing areas of work which are still developing include the Private Finance Initiative and the increased commercialisation and disposal of state assets. An example of 'real time' audit is the National Audit Office report on the *Financial Analysis for the London Underground Public Private Partnerships* (HC 54, 2000-01) which examined London Underground's methodology for evaluating bids for the funding and management of the infrastructure of the Tube. Current studies are examining policy making, the provision of services in a joined-up way and the use of modern electronic technology to deliver high quality services and improve efficiency.
47. Performance measurement is an increasingly important feature in the management and accountability of public services. Departments are now working to achieve both Public Service Agreements, which set out the high-level targets for improvements in services and the impact of those services, and Service Delivery Agreements which explain how departments will improve their performance. Building on work done with other agencies, the National Audit Office has developed a programme of work to reflect the growing importance of performance measurement in government.

Case study: Performance measurement in government

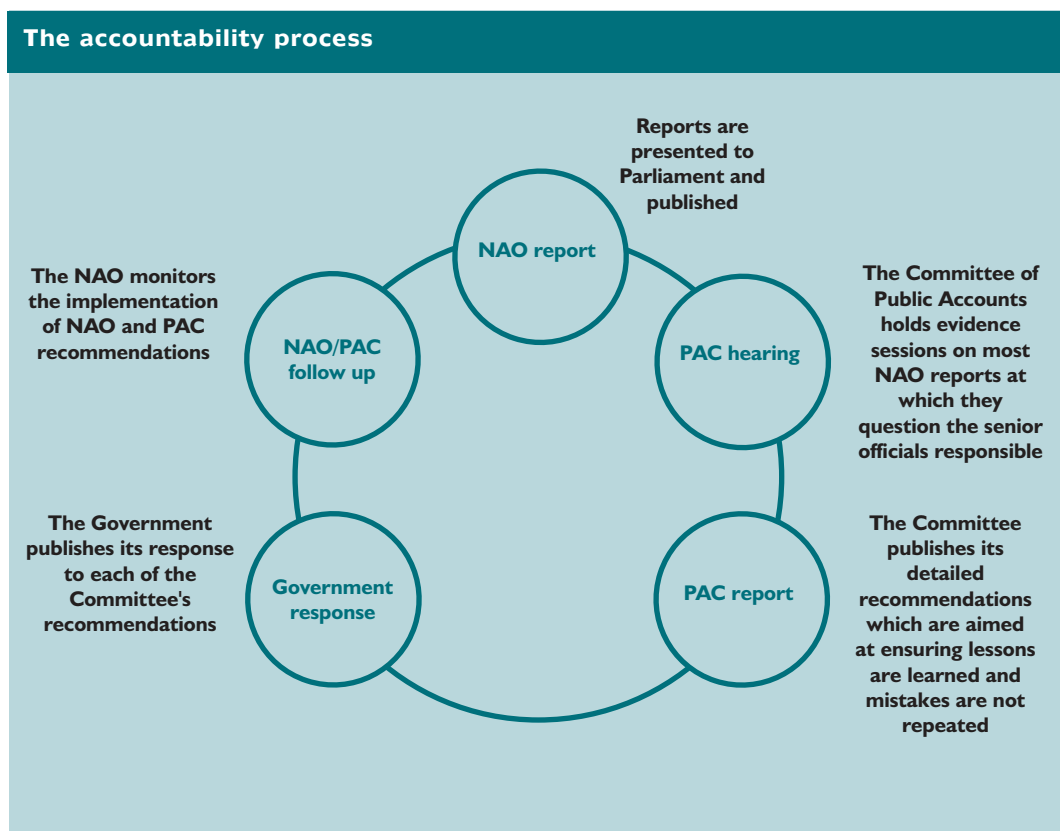
A Framework for Performance Information - Choosing the Right Fabric was published in March 2001 after joint work by the Treasury, Cabinet Office, National Audit Office, Audit Commission and Office for National Statistics. The framework sets out the general principles behind producing high quality performance information - that is information used to measure an organisation's progress towards its objectives. It looks at what sort of information is worth collecting as performance information, and the principles behind pulling together a set of performance measures.

In March 2001 the National Audit Office report *Measuring the Performance of Government Departments* (HC 301, 2000-01) identified methodologies that departments can use to develop, implement and measure their progress against the new outcome focused targets required under Public Service Agreements. The report included a paper contributed by the Audit Commission summarising experiences of performance measurement in local government - so helping to spread good practice based on lessons drawn from across the public sector. The Office is now working on studies which will look in greater depth at performance measurement in context. For example, the current study of the Department for International Development is examining the role of performance measurement in driving organisational performance in the aid field.

48. The National Audit Office has established a range of initiatives aimed at improving the quality of its work, including internal and external quality reviews of ongoing and completed work. Quality review plays an important part in ensuring that the National Audit Office makes the best use of its resources. All the Office's value for money work is assessed by an external panel of academics, currently from the London School of Economics. Their review includes evaluation of the validity of the Office's methods and the soundness of its conclusions. The Office also asks the bodies that have been the subject of its examinations to comment in detail on the process and the outcome, inviting suggestions for how this work could be improved.

Reporting and following up work

49. Reports arising from the National Audit Office's financial audits and value for money examinations are presented to Parliament, published and often widely reported in the press. The reports are sent to audited bodies and other organisations with a clear interest in the subject. Reports may be obtained by the public from the Stationery Office, or in electronic form on the National Audit Office website (www.nao.gov.uk). Many of the reports are considered in Parliament by the Select Committee of Public Accounts. The parliamentary accountability process is summarised diagrammatically below.



50. In 2000 the Government's published responses to the reports by the Committee of Public Accounts accepted 91 per cent of the Committee's recommendations. Action to implement these changes led to identifiable savings or economies in 2000 of nearly £340 million.

How financial audit work is followed up

51. Whether or not there is a formal report to Parliament by the Comptroller and Auditor General, the National Audit Office writes to the audited body at the end of the audit to outline the significant issues and findings from the audit, together with recommendations for improvements in controls or systems. The National Audit Office then monitors the audited body's follow-up action. Other issues and recommendations for improvements in accounting and financial control systems which arise during the audit are passed on in day-to-day contact with the management of the audited bodies. The Office also passes on wider lessons of interest to managers of other programmes.

Case study: Education Action Zones

Education Action Zones are small, local partnerships of schools, parents and other representatives of the local community and private sector, set up by the Department for Education and Employment (now the Department for Education and Skills) to raise local education standards. The examples of good practice the National Audit Office found during the financial audit, and problems which had arisen, suggested wider lessons applicable to other government programmes involving the setting up of innovative new bodies.

How value for money reports are followed up

52. The impact and added value of reports may be gauged in a variety of ways - not purely in quantitative terms. There is a general stimulus to provide value for money that comes from departments' awareness of the programme of studies covering all areas of expenditure and the likely follow-up examination by the Committee of Public Accounts.
53. Publishing a report is not always enough to get the message across to those with a direct interest and who are best placed to bring about beneficial change in the delivery of public services. The National Audit Office highlights key good management practice lessons in a periodic pamphlet, 'NAO Focus', issued to senior finance officers throughout the public sector. The National Audit Office also seeks to pass on its experience, for example to departments engaged in Private Finance Initiative projects, through regular meetings with departmental Private Finance Units. And the Office increasingly uses conferences and seminars to highlight where value for money can be improved and spread good practice. For example the report on the *Management and Control of Hospital Acquired Infection* (HC 230, 1999-2000) led to a good practice conference attended by around 500 people from the National Health Service. Another example is the recent conference on supporting innovation, an aspect of the Modernising Government Agenda.

Case study: The National Audit Office conference on Supporting Innovation

In August 2000 the National Audit Office published a report *Supporting Innovation: Managing Risk in Government Departments* (HC 864, 1999-00), one aspect of the Modernising Government Agenda. The report drew on a survey of all government departments, case studies in the public sector and comparisons with private sector organisations. The report aimed to stimulate and encourage good practice in risk management. To promote improvements in risk management across all departments the National Audit Office organised a conference in March 2001 at which 100 Accounting Officers and senior officials attended. The seminar was addressed by the Chairman of the Committee of Public Accounts and the Comptroller and Auditor General.

The Auditor General for Wales

- 54.** The Government of Wales Act 1998 established the office of Auditor General for Wales. The Auditor General is a Crown appointment made on the advice of the Secretary of State for Wales. The legislation does not provide for the appointment to be made or recommended by the Assembly in recognition of the Public Audit Forum's advice that no public sector body responsible for the exercise of executive functions should appoint its own auditor. However, the Secretary of State can be expected to consult key Assembly Members before advising Her Majesty. Her Majesty may remove the Auditor General from office on the grounds of misbehaviour if the Secretary of State so recommends. Before making such a recommendation, the Secretary of State must consult the Assembly.
- 55.** The Assembly must pay the Auditor General's personal remuneration as provided under the terms of his appointment. The expenses of running the Auditor General's office are considered by the Assembly's Audit Committee. The Committee can only modify the estimate after consulting the Secretary of State and having regard to his advice.
- 56.** The Auditor General reports the results of his financial and value for money work to the Assembly. These reports are published and are absolutely privileged under Section 77 of the 1998 Act. Section 102 of the Act provides for the Audit Committee to use the Auditor General's reports as the basis for its own programme of work. The Committee may take evidence from officials and publish its own reports.
- 57.** In undertaking his financial and value for money audit work the Auditor General has, under the 1998 Act, the right of access to records and information. Those rights mirror those enjoyed by the Comptroller and Auditor General of the United Kingdom.
- 58.** Section 92 of the 1998 Act provides for the Auditor General for Wales to make arrangements for the provision of administrative, professional and technical services by the National Audit Office. The Auditor General may appoint his own staff or secure the provision of services from elsewhere but must first have regard to any arrangements made or capable of being made with the National Audit Office. At present the National Audit Office provides a comprehensive service for the Auditor General who has employed one member of his own staff to look after his interests as purchaser of those services.
- 59.** Given the constitution of the Assembly, the 1998 Act provides for the Comptroller and Auditor General of the United Kingdom to have access to the Assembly and its sponsored public bodies for the purposes of reporting to Parliament. The Comptroller and Auditor General may only exercise these rights of access after consulting the Auditor General for

Wales and taking account of work done or being done by him. The Act also allows the two auditors general to co-operate with each other in the discharge of their respective functions. In June 1999, Her Majesty the Queen appointed Sir John Bourn as the first Auditor General for Wales. This appointment was recently extended for a further three years to May 2004. The appointment of Sir John Bourn, who is also Comptroller and Auditor General of the United Kingdom, as the first Auditor General for Wales has considerably assisted the transition to devolution and the development of new audit arrangements for Wales, whilst fully respecting and supporting the revised constitution for the government of Wales.

The audit field

60. The National Assembly for Wales receives a block grant from the Secretary of State for Wales. The Assembly also receives advances from the National Loans Fund and specific ring-fenced grants from other departments. In addition, the Assembly receives money from European Union structural funds. A large element of the Assembly's programme expenditure takes the form of grants to local authorities, the National Health Service, Assembly-sponsored public bodies and other organisations. The Assembly's cash budget for 2001-02 is £8.8 billion, of which:

- ◆ £3.5 billion (40 per cent) will be spent by local authorities;
- ◆ £3.1 billion (35 per cent) will be spent by NHS Wales;
- ◆ £1.2 billion (14 per cent) will be spent by the Assembly; and
- ◆ £1 billion (11 per cent) will be spent by Assembly-sponsored public bodies.

The assets held by the Assembly, NHS Wales and Assembly-sponsored public bodies are valued at nearly £10 billion.

61. The Auditor General for Wales is responsible for the audit of some 23 accounts prepared by the Assembly and related public bodies. These include:

- ◆ the Assembly's resource account;
- ◆ National Health Service Wales summarised accounts;
- ◆ Assembly-sponsored public bodies; and
- ◆ regulatory bodies such as the Welsh Administration Ombudsman and Children's Commissioner for Wales.

These accounts include two pension funds and four charities. In due course the Auditor General for Wales will, under the Government Resources and Accounts Act 2000, audit a Whole of Government of Wales account to be prepared by the Assembly. This will eventually incorporate the financial results of all public bodies in Wales, including National Health Service bodies and local authorities, and will itself be incorporated into the United Kingdom Whole of Government account to be prepared by the Treasury.

62. The Auditor General for Wales may undertake value for money examinations of organisations he audits, or for which he has inspection rights which include such bodies as National Health Service bodies and further and higher education institutions. At present, the Auditor General plans to produce about eight major value for money reports a year.
63. Local authorities and National Health Service bodies in Wales spend around 75 per cent of the money distributed and controlled by the National Assembly. Whilst the Audit Commission has the same statutory responsibilities to appoint and regulate the external auditors of these bodies in Wales as it does in England, the Commission has responded to the changed framework for public services in Wales by setting up an office to help co-ordinate its work in Wales and to ensure it reflects the changing agenda in the country.
64. Operating independently of the National Assembly for Wales, the Audit Commission in Wales is largely self-financing, with income deriving mainly from fees charged to local authorities and National Health Service bodies for audit work. The Commission also receives a grant from the National Assembly to support the delivery of best value inspections. The Commission consults closely with the National Assembly and other stakeholders in determining the focus of its work in Wales, and is increasingly reporting its findings to policy committees of the Assembly. While the majority of its national studies cover Wales, the Commission has published others specifically addressing issues in Wales. Some examples are illustrated here:
 - ◆ Following reports on its first audits of Best Value Performance Plans in Wales, the Commission published *Best Value Inspection in Wales* (July 2000) on behalf of the Wales Inspectorates Forum, which represents all the inspectorates in Wales with best value responsibilities. The report provides a clear view of how best value inspection will be conducted and sets out specific arrangements for co-ordination between the various inspectorates and between inspectors and auditors.
 - ◆ Findings from the first joint reviews of Social Services in Wales carried out by the Social Services Inspectorate for Wales and the Audit Commission were reported in *Learning the Lessons from Joint Reviews of Social Services in Wales 1999/2000* (October 2000).

- ◆ *A Picture of Health*, published in March 2001, summarises findings from a range of value for money studies in National Health Service bodies in Wales, on issues including critical care, district nursing and care for patients with diabetes. Good practice was identified but so were significant variations in performance across Wales, with facilities, staffing levels and the way in which staff are deployed differing widely.

Audit of financial statements

65. At present, the financial audit work of the Auditor General for Wales is undertaken on his behalf by National Audit Office staff based in Wales. These staff use the National Audit Office's audit methodology and are subject to its quality assurance arrangements (paragraphs 36-41).
66. The Audit Commission and its appointed auditors work closely with the National Audit Office to collaborate on work programmes and to undertake some joint working. Findings arising from audit of individual National Health Service bodies, for which the Audit Commission is responsible, are also provided to the Auditor General for Wales. This work underpins an annual report on the consolidated accounts for the National Health Service in Wales presented by the Auditor General for Wales to the National Assembly for Wales.

Value for money examinations

67. The value for money work of the Auditor General for Wales examines the economy, efficiency and effectiveness with which publicly funded resources are used in Wales by the Assembly, its sponsored bodies and other public organisations such as the health service and higher and further education institutions. The Auditor General aims to provide sufficient value for money reports for the Audit Committee to consider on at least seven of its ten meetings each year. These reports are also intended to help the audited bodies improve their performance and achieve better value for money. In 2000-01, his first full year of funding, the Auditor General spent some £1 million, around half his total budget, on his value for money work.
68. The Auditor General plans his forward programme of value for money examinations on an annual basis. Before finalising his forward programme the Auditor General formally presents his proposals to the Audit Committee in the autumn each year, along with his annual estimate of income and expenditure for the financial year beginning the following April. This programme takes account of the Assembly's objectives and spending priorities set out in the Assembly's strategic plan. The programme also aims to ensure that the Audit Committee is able to take evidence on each main category of expenditure for which the Assembly is responsible over a two-year period.

- 69.** In support of this forward planning work, the National Audit Office Wales identifies potential topics for examination by the Auditor General for Wales through a continuous process of monitoring the audit field. As part of this process the National Audit Office Wales and the Audit Commission in Wales meet on a regular and routine basis to keep each other informed of developments in their respective areas and of the scope for co-operation. The National Audit Office Wales also monitors closely initiatives in the rest of the United Kingdom, such as the development of the Modernising Government Agenda, to identify any aspects that are of particular relevance to Wales and the Assembly. Over the summer each year the merits of the potential topics identified by the National Audit Office Wales are discussed with senior officials at the Assembly and other audited bodies. The final choice of topics for the forward programme of examinations rests with the Auditor General for Wales.
- 70.** After the Auditor General's forward programme has been finalised, individual value for money examinations can be planned in detail. The outcome of this project planning process is a scoping paper for each intended study that sets out the main issues, detailed methodology, planned resources and anticipated impacts of that examination. The scope and methodology of each study are agreed with the audited bodies before fieldwork begins. The scoping and fieldwork for individual examinations is phased throughout the year and studies take between six and twelve months from the start of fieldwork to publication, depending on the subject matter and complexity. Thus, for example, studies proposed for the 2001-02 financial year have resulted in reports for the Audit Committee's consideration from the autumn of 2001 onwards.
- 71.** The Auditor General aims to produce value for money reports on as wide a range of topics as possible that focus on performance and outcomes, seek to identify examples of the effective use and management of resources, and show how performance can be improved. To this end, the scope and methodology of the Auditor General's reports are tailored to have audit impacts in the form of improvements in systems and procedures, improvements in the quality of services to the public, and financial savings. In carrying out his value for money audits, the Auditor General has the right to obtain all the documents, information and explanations that he reasonably thinks necessary for his purposes. Before publication, all value for money reports issued by the Auditor General are agreed for factual accuracy with the organisations concerned. However, the conclusions and recommendations of these reports are those of the Auditor General.

Examples of financial impacts from the Auditor General's value for money examinations

In his examination of *Maximising Income from Prescription Charges*, the Auditor General found that around £15 million a year may be being lost as a result of allowing exemption from prescription charges to individuals who do not meet the relevant criteria for exemption. NHS Wales is now taking action to tighten up compliance with control procedures to reduce the level of losses.

In his report on *Clinical Negligence in the NHS in Wales*, the Auditor General noted that a good proportion of negligence was caused by administrative, communications and wider systems errors, rather than those resulting from technical clinical mistakes, and that such errors had an estimated cost of £4.2 million in 1999-2000. At the subsequent Audit Committee hearing, the Director of NHS Wales accepted that reducing such errors by a third - equivalent to around £1.4 million in 1999-2000 - was a reasonable goal, although it would take at least two years before the benefits of any action taken now would be seen.

72. In 2000-01 the Auditor General for Wales delivered seven value for money reports. These reports examined such wide-ranging matters as clinical negligence in the NHS in Wales, the Assembly's accommodation arrangements and support for indigenous businesses in Wales. In addition to his main programme of examinations, the Auditor General also produces other value for money outputs. In 2000-01 these included a number of briefing papers for the Audit Committee on such matters as sickness absence in the police services, police disciplinary arrangements and the Best Value Initiative.
73. The staff of the National Audit Office Wales, in undertaking value for money work on behalf of the Auditor General for Wales, work closely with the staff of the Audit Commission based in Wales where possible, having regard to their respective and distinct statutory remits. The main areas where working in consultation or conjunction is possible in Wales are health and social services, local government and housing. Specific examples of co-operation include the published National Audit Office value for money study on *Educating and Training the Future Health Professional Workforce for Wales* and ongoing investigations into catering and cleaning in the National Health Service in Wales. In this way the Auditor General for Wales is seeking to explore the scope for joined-up audit of public bodies in Wales where appropriate.

Case study: Educating and training the future health professional workforce for Wales

This study examined the value for money of current education and training arrangements in Wales for health professional staff. The Auditor General for Wales worked jointly with the Audit Commission and the Comptroller and Auditor General of the United Kingdom in doing this work. Each of these parties produced a separate report covering their areas of responsibility that together provided a comprehensive picture of education and training for the NHS health professional workforce. The work involved the establishment of a joint advisory group comprised of representatives from the three investigating parties, to provide advice and guidance on the scope and methodology for the study and its emerging findings.

Case study: Catering and cleaning in the NHS in Wales

The National Audit Office Wales is now carrying out investigations into catering and cleaning in the NHS in Wales on behalf of the Auditor General for Wales. It has consulted closely with staff of the Audit Commission and District Audit in Wales in refining the scope of these two exercises and in designing appropriate study methodologies. Such co-operation is particularly welcomed by audited bodies in the health sector in Wales, where public audit and inspection arrangements mean that NHS Trusts and health authorities are subject to audit by different statutory bodies.

74. The Auditor General for Wales also works collaboratively with the Comptroller and Auditor General of the United Kingdom in undertaking and reporting value for money examinations. Examples are the work on:

- ◆ *Educating and Training the Future Health Professional Workforce*, which involved a joint National Audit Office study team producing reports for the two auditors general;
- ◆ *Clinical Negligence in the NHS in Wales*, where parallel studies were undertaken in England and Wales on this topic; and
- ◆ *Disposal of Surplus NHS Property*, where parallel investigations were undertaken by the two auditors general.

The Auditor General for Wales plans to continue working collaboratively with the Comptroller and Auditor General in future.

75. Selected reports produced by the National Audit Office Wales for the Auditor General have been put forward for quality assurance review under standard arrangements in place at the National Audit Office, and this process of benchmarking will continue. The reports for the Auditor General that have been reviewed to date have compared well with those reports produced by the National Audit Office for the Comptroller and Auditor General of the United Kingdom to present to Parliament. In addition the National Audit Office Wales is developing local quality assurance arrangements for the Auditor General's reports that will assess the quality of these reports within the Welsh context.

Reporting and following up work

76. The 1998 Act requires the Assembly to publish (in Welsh and English) all financial and value for money reports laid by the Auditor General for Wales. This is done by placing copies of those reports in the Assembly's Library and on its website (www.wales.gov.uk). The National Audit Office Wales also provides press office facilities for the Auditor General for Wales. It distributes the reports with covering press notices to the media and arranges for press and broadcast interviews as appropriate with the relevant National Audit Office Wales

director. The press arrangements mirror those for the National Audit Office but with particular attention being given to the Welsh media. The Auditor General's reports and press notices are published on his own website in English and Welsh (www.agw.wales.gov.uk).

- 77.** Section 102 of the 1998 Act empowers the Audit Committee to take evidence on the basis of the Auditor General's reports, and to report its own findings to the Assembly. The Auditor General and National Audit Office Wales staff work closely with the Committee by briefing Members on the key issues for evidence sessions and by providing advice and assistance to the Committee in the drafting of its own reports.
- 78.** The Assembly's Standing Orders require the Cabinet to respond formally and promptly to each Audit Committee report. These responses are placed on the Assembly's website. The Committee may take further evidence if it is not satisfied with a response.
- 79.** The financial and non-financial impacts identified by the Auditor General and the resulting actions by the management of the bodies concerned are monitored by the National Audit Office and reported - for example in the Auditor General's Annual Report published with his accounts.

The Auditor General for Scotland

- 80.** The post of Auditor General for Scotland was established by the Scotland Act 1998 as part of the arrangements for devolution in Scotland. Audit Scotland was incorporated under the Public Finance and Accountability (Scotland) Act 2000, one of the first Acts of the Scottish Parliament, to provide such assistance and support as the Auditor General and the Accounts Commission require in the exercise of their functions.
- 81.** Audit Scotland, acting on behalf of the Auditor General and the Accounts Commission, is responsible for carrying out or procuring the audit of the Scottish Parliament, the Scottish Consolidated Fund and many of the bodies funded by it including National Health Service bodies, Further Education Colleges and local authorities. As Audit Scotland provides audit services across such a wide range of bodies it is uniquely placed to promote consistent standards of performance and accounting throughout the public sector in Scotland.
- 82.** The Auditor General for Scotland is a Crown appointment on the nomination of the Scottish Parliament. The Auditor General may not be removed from office unless the Scottish Parliament so resolves on a vote where at least two-thirds of all members vote in favour. The Scotland Act also provides that the Auditor General for Scotland shall not, in the exercise of any of his functions, be subject to the direction or control of any member of the Scottish Executive or of the Scottish Parliament.
- 83.** The Accounts Commission was incorporated under the Local Government (Scotland) Act 1973 and consists of members appointed by the Scottish Ministers. The Commission is responsible for securing the audit of local government entities. Ministers may give directions of a general nature to the Commission about the exercise of their functions but no such direction has ever been made.
- 84.** Audit Scotland's membership comprises the Auditor General for Scotland, the Chairman of the Accounts Commission and three other members appointed jointly by them. Currently two of these are the Deputy Auditors General and the third is an independent member. Directions may be given to Audit Scotland by both the Auditor General and the Accounts Commission in connection with the exercise of their functions.
- 85.** Audits are carried out by in-house staff (64 per cent) or by private sector firms (36 per cent). Value for money studies and other performance audits are carried out by a combination of specialist Audit Scotland staff and the appointed auditors. This approach is used extensively in the National Health Service and in local government sectors where the appointed auditors carry out work locally using their knowledge of the audited body and produce both locally focused reports and input to national reports.

86. Audit Scotland raises about 75 per cent of its income from fees charged to audited bodies with the remainder being provided by the Scottish Parliament. Scrutiny of Audit Scotland's budget and the appointment of its external auditors are matters for the Scottish Commission for Public Audit, a committee of the Scottish Parliament.

The audit field

87. Audit Scotland, acting on behalf of the Auditor General and the Accounts Commission, is responsible for carrying out or procuring the audit of the Scottish Parliament, the Scottish Consolidated Fund and many of the bodies funded by it.
88. The total budget within the remit of the Scottish Parliament is some £19.8 billion for 2001-02. This is analysed by area of spending as:

	£m
Local Government	6,587
Health	6,113
Development, Environment and Transport	1,605
Enterprise and Lifelong Learning, Education and Culture	2,635
Justice	722
Rural Affairs	625
Social Justice including Housing	715
NHS and Teachers' Pensions	279
Administration, Reserves and Other	335
Parliament	100
Forestry	82
	19,798

89. The National Asset Register (HM Treasury July 2001) shows the total value of assets under the stewardship of the Scottish Executive as around £15.5 billion excluding heritage assets and the collections of the National Museums, Galleries and Library.
90. Virtually all of this expenditure and assets are subject to audit by auditors appointed by the Auditor General or the Accounts Commission. These auditors carry out the audits of:
- ◆ 6 Resource accounts including the Scottish Executive;
 - ◆ 10 Executive Agencies;

- ◆ 29 Non Departmental Public Bodies and other accounts;
- ◆ 52 National Health Service bodies;
- ◆ 42 Further Education Colleges;
- ◆ 32 Local authorities;
- ◆ 34 Other local government bodies.

Audit of financial statements

- 91.** In conducting their audit work auditors are required to comply with the Code of Practice approved by the Auditor General and the Accounts Commission in July 2001. For the audit of financial statements the Code requires auditors "to comply with Statements of Auditing Standards and to have regard to any relevant Practice Notes and other guidance and advice issued by the Auditing Practices Board".
- 92.** In Scotland there is a requirement for auditors to give an opinion on the regularity of income and expenditure for all audits where the auditor is appointed by the Auditor General. The specific requirements are set out in Section 22 of the Public Finance and Accountability (Scotland) Act 2000. These include a requirement for auditors to report whether the income and expenditure shown in the accounts have been incurred or applied in accordance with applicable enactments and guidance (whether as to propriety or otherwise) issued by the Scottish Ministers. Auditors are expected to utilise the guidance provided by Practice Note 10 (Revised) on the audit of regularity taking account of the different statutory wording used in Scotland.
- 93.** Auditors' reports on central government, National Health Service bodies, further education colleges and water authorities also cover the results of their review of corporate governance statements or Statements on the Systems of Internal Control.
- 94.** All auditors are required to assess the audit risks for each part of the audit taking into account the risks facing the audited body and the management's approach to controlling and managing those risks. Auditors are encouraged to assess and where possible take assurance from the systems and controls put in place by management.

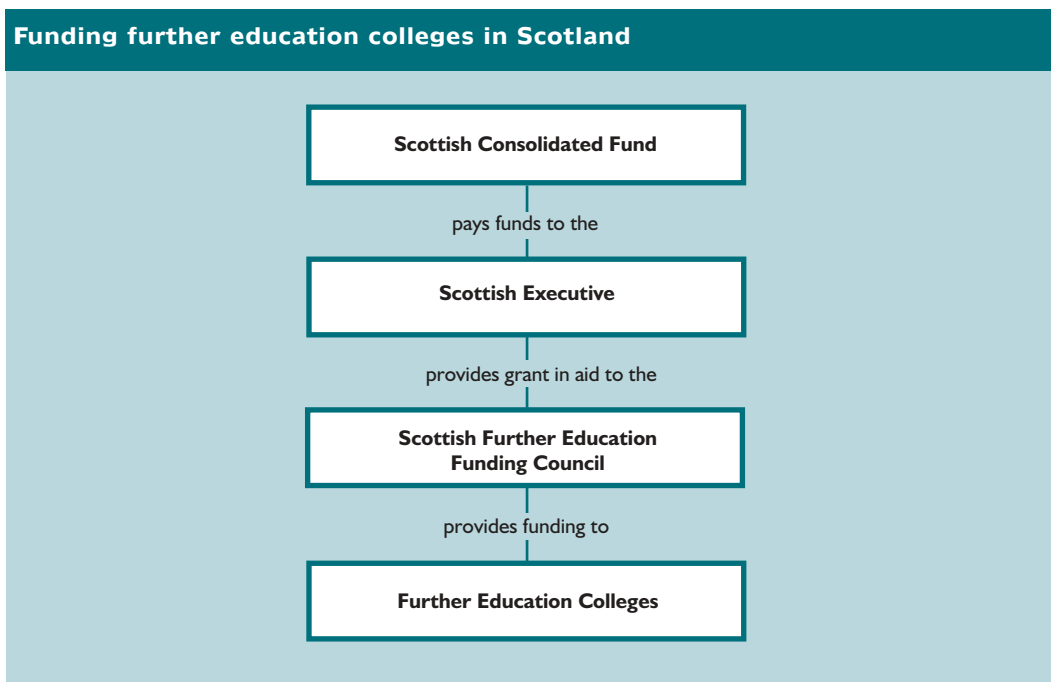
Quality assurance

- 95.** Audit Scotland carries out quality assurance reviews on a sample of audits carried out by both the in-house teams and the private sector providers each year. This is supplemented by surveys of the views of the audited bodies of the level and quality of service received. A

report is sent to the auditor at the end of each review and a summary of identified good practice and areas for improvement is circulated to all auditors. The results of the reviews are reported to the Auditor General and the Accounts Commission and are taken into account in assessing tenders to carry out audit work and in developing training programmes.

Reliance on the work of other auditors

96. The flow of funds within Scotland means that some of the expenditure is audited progressively as it passes from the Scottish Consolidated Fund to the final spending body. This is illustrated below in the funding of further education colleges:



97. The auditors of all four bodies through which the funds flow are appointed by the Auditor General and can either be Audit Scotland staff or professional firms. The audit approach adopted by Audit Scotland is to ensure that auditors at each level are able to take assurance from the work of auditors at other levels. The Scottish Executive auditor will not seek to re-perform any of the work of the Funding Council auditor.
98. In the above example the auditor of the Scottish Consolidated Fund will seek confirmation from the auditor of the Scottish Executive of the amount of funds drawn down. The auditor of the Scottish Executive will seek confirmation of the funding given to the Scottish Further Education Funding Council from its auditor and will enquire whether there are any issues arising on that audit which may need consideration at the Scottish Executive account level.

99. Auditors placing reliance on the work of other auditors appointed by the Auditor General or the Accounts Commission do so after making any specific enquiries relevant to issues arising on that audit but also taking assurance from the Quality Assurance arrangements operated centrally by Audit Scotland.

Performance audit

100. Performance audit aims to contribute to an overall picture of the performance of an audited body. This involves both traditional value for money studies together with reports on performance indicators and performance management and planning in local government.

101. Performance audit studies take three forms:

- ◆ baseline reports setting out the current position, identifying good practice and making recommendations for improvement;
- ◆ follow-up reports examining the progress made in implementing the recommendations and good practice from the Baseline report;
- ◆ reactive reports in response to emerging issues or specific events.

Study selection and planning

102. Possible study topics are identified from a combination of monitoring developments, suggestions from audited bodies and other stakeholders, issues arising during other audit work and follow up of previous studies. Consultation then takes place with key stakeholders including the Audit Committee of the Parliament before programmes are recommended to the Auditor General and the Accounts Commission (via its Best Value and Performance Audit Committee).

103. For each major study an advisory panel is formed which includes experts in the study area and representatives of audited bodies and other relevant stakeholders. For the study *A Clean Bill of Health*, which examined the cost, efficiency and quality of domestic services in hospitals the panel included representatives from NHS Trusts and public health experts as well as a trade union official and a representative of a trade body. A panel will be involved in reviewing the scope of the study, the identification of key issues, the nature of the main messages emerging, and the draft report.

Quality assurance

104. Quality assurance processes are designed as far as possible to build quality into studies and reports. As outlined above the selection of studies is subject to external consultation and to approval by the Auditor General and the Accounts Commission. Where appointed auditors are involved in the study then training and advice is provided by central performance audit staff.

I05. Draft reports are considered by the advisory panel as well as by the Auditor General or Accounts Commission. Surveys are carried out of audited bodies' views after the completion of studies. Audit Scotland is developing further its approach to costing studies and assessing their impact.

Examining and reporting on current developments

I06. Part of the study selection process involves considering recent developments such as Modernising Government and the Private Finance Initiative/Public Private Partnerships. Audit Scotland is well placed to consider studies that cross traditional borders between central government, local government and the health service and to ensure that identified good practice and recommendations for improvement are promulgated to all relevant bodies irrespective of the sector that they are in. Joint studies with other bodies are also possible with a recent example being a report on *Managing Rent Arrears* prepared jointly with Scottish Homes (now Communities Scotland) in order to promote improvements in the management of rent arrears by both local authorities and registered social landlords.

I07. Audit Scotland is also able to use staff with experience in one sector on studies in another. For example staff with experience of undertaking Private Finance Initiative studies in central government are now conducting a study of the Private Finance Initiative/Public Private Partnerships initiative in Scottish schools.

Reporting and following up work

I08. All accounts subject to audit by auditors appointed by the Auditor General and any associated reports prepared by the Auditor General are laid in the Scottish Parliament and published no later than nine months after the end of the financial year under the provisions of the Public Finance and Accountability (Scotland) Act 2000.

I09. In addition to reports on individual accounts the Auditor General (and for local government the Accounts Commission) prepare Overview Reports for major sectors. These summarise the findings from all audit work carried out in that sector.

I10. For value for money studies the Auditor General has the power to report the result to the Scottish Parliament. Reports will also be published and press notices issued. Reports are also available on the Audit Scotland website (www.audit-scotland.gov.uk). There may also be other outputs from studies such as Good Practice Guides or Self-assessment packs to assist audited bodies to ascertain their own position and to effect improvements.

- 111.** The Audit Committee of the Scottish Parliament take the lead role in parliamentary consideration of reports by the Auditor General. The Committee may consider reports, take evidence from the Accountable Officer and others and prepare reports of its findings.
- 112.** Baseline reports will be followed up after about 18 months. For other reports the Auditor General and/or the Committee may decide to follow up previous reports or follow-up may be included within one of the Sector Overview reports prepared by the Auditor General.
- 113.** For local government the Controller of Audit (who is also a Deputy Auditor General in Audit Scotland) may make reports to the Accounts Commission on matters arising out of audits. If the Commission concludes that there has been illegality or loss due to negligence or misconduct or failure to bring sums to account they may, following a report and, if required, a hearing, censure, suspend or disqualify councillors or censure officials.

The Comptroller and Auditor General for Northern Ireland

114. The Comptroller and Auditor General for Northern Ireland, who heads the Northern Ireland Audit Office, is responsible to the Northern Ireland Assembly for the audit of central government departments and most of their sponsored bodies. His aim is to provide independent assurance, information and advice to the Assembly on:

- ◆ the proper accounting for and regularity and propriety of expenditure, revenue and assets; and
- ◆ the economy, efficiency and effectiveness with which public sector bodies use their resources.

115. The status and functions of the Comptroller and Auditor General for Northern Ireland and Northern Ireland Audit Office are set out in three main pieces of legislation:

- ◆ *The Audit (NI) Order 1987* established the Northern Ireland Audit Office as an organisation independent of government and provides the Comptroller and Auditor General for Northern Ireland with statutory authority to examine and report on the use of resources by those public sector bodies to which he has access (value for money examinations). He may investigate any area of expenditure in these bodies but may not question the merits of government policy objectives. The Order also provided for the salary of the Comptroller and Auditor General for Northern Ireland to be determined by the Assembly and not by an administrative department.
- ◆ *The Northern Ireland Act 1998* reaffirmed the independence of the Comptroller and Auditor General for Northern Ireland by providing for his appointment by the Crown on the nomination of the Assembly and that he can be removed from office only by a vote supported by at least two-thirds of the Assembly. The Act made it clear that he is totally independent in the exercise of his functions and cannot be subject to direction or control by any Minister or Department or the Assembly. It also provided for the annual budget of the Northern Ireland Audit Office to be considered and laid by a Committee of the Assembly thus further underlining the independence of the Northern Ireland Audit Office from the executive.

- ◆ *The Government Resources and Accounts Act (NI) 2001* made provision for the Comptroller and Auditor General for Northern Ireland to examine and certify the accounts of all Northern Ireland departments, including executive agencies. It also extended his access to bodies which exercise functions of a public nature or which are entirely or substantially funded from public money. The Act also gave the Department of Finance and Personnel the power to make orders (a) to give the Comptroller and Auditor General for Northern Ireland access to the accounts of certain bodies and (b) for the accounts of certain bodies to be audited by the Comptroller and Auditor General for Northern Ireland (where necessary by overriding existing statutory provisions). In determining whether and if so how to exercise these order-making powers the Department of Finance and Personnel is required to have regard to any views expressed by the Assembly's Public Accounts Committee.

I 16. Northern Ireland Audit Office reports are published as Assembly documents and are subject to absolute privilege. They form the basis for hearings of the Assembly's Public Accounts Committee.

I 17. Audit of local government and health service bodies in Northern Ireland is carried out by auditors appointed respectively by the Department of the Environment and Department of Health and Social Services and Public Safety. The Comptroller and Auditor General for Northern Ireland has no responsibilities for local government but he audits and reports to the Assembly on the summarised accounts of the whole health and personal social services sector. These audit arrangements were reviewed in 1996 as part of the UK Government's response to the First Report of the Committee on Standards in Public Life. It was agreed at that time to enhance the independence of audit in these sectors by attaching the Departmental staff engaged on the audit of local government and health services to the Northern Ireland Audit Office. The necessary legislation was not brought forward pending devolution but, during debate on the Government Resources and Accounts (NI) Act 2001, the Minister for Finance and Personnel undertook to bring forward legislative proposals to cover this and also address audit and accountability issues raised in the Sharman report.

The audit field

I 18. The Northern Ireland Audit Office audits the accounts of all Northern Ireland Departments and a wide range of public sector bodies. These include a number of new accounts arising from the establishment of devolution. The 2001-02 budget (on a net resource basis) for the Northern Ireland Executive totals some £9.3 billion. The National Asset Register (HM Treasury, July 2001) shows the value of assets held by Northern Ireland departments at over £21 billion.

- 119.** The Office currently audits some 163 accounts, including 26 audited on behalf of the Comptroller and Auditor General of the United Kingdom and covering expenditure of the Northern Ireland Office and Northern Ireland Court Service which are accountable to Parliament at Westminster. The move from cash to resource and accruals accounting has increased the complexity of public sector accounting in Northern Ireland. A number of accounts are particularly large, and demanding in terms of audit input. For example, the Roads Service and Water Service executive agencies have estimated infrastructure assets of £11.4 billion and £4.7 billion respectively.
- 120.** The Northern Ireland Audit Office has the right to inspect the books and records of a range of other bodies in receipt of substantial public funds. Particular focus is placed on risks to regularity and propriety. Inspection rights are available for Non Departmental Public Bodies, Higher Education Colleges, Voluntary Grammar Schools, Grant Maintained Integrated Schools, Housing Associations and other miscellaneous bodies.
- 121.** The Office may carry out value for money examinations in all those public sector bodies where the Comptroller and Auditor General is the appointed auditor or has rights of access and inspection. The audit field is therefore large and diverse.

Audit of financial statements

- 122.** The key objective of financial audit is to provide the Assembly with independent assurance and advice on the proper accounting and use of public resources. In addition to reporting the results of its work to the Assembly, the Northern Ireland Audit Office aims to assist audited bodies in improving their financial management.
- 123.** The Office conducts its financial audit in accordance with the Auditing Standards issued by the Auditing Practices Board, as supplemented by Practice Note 10.
- 124.** The Office's financial audit methodology is closely aligned with that of the National Audit Office. It directly applies a range of National Audit Office audit guidance, including its Financial Audit Manual, and has adopted the National Audit Office's audit approach, which has helped focus audit attention more precisely on the areas of greatest risk. In carrying out its financial audits, the Northern Ireland Audit Office makes extensive use of National Audit Office facilities, including its computer systems (to which the Office has a direct connection), audit policy development and training, which result in significant economies.

- 125.** There has been a long tradition of close co-operation between the Northern Ireland Audit Office and National Audit Office which has continued post devolution. The two Offices liaise on common problems and share information, experience and ideas on accounting issues. For example, the Northern Ireland Audit Office receives support from the National Audit Office on the audit of those Social Security Agency accounts which operate on a parity basis with the Benefits Agency in Great Britain. Similarly, the Northern Ireland Audit Office recently shared with the National Audit Office its experience of infrastructure accounting gained through the audit of the Roads Service executive agency.
- 126.** In a number of the Office's audits, there is scope to use the work of other external auditors. Where departmental accounts include the funding of other public bodies the Office obtains assurances from the auditors of those bodies, subject to being satisfied that sufficient attention has been given to regularity and propriety issues. An example of this is the audit of the Health and Social Services Vote where 92 per cent of expenditure comprises advances to health service bodies (Health Boards and Trusts) and the Office relies largely on assurances sought from the external auditors of these bodies. The Northern Ireland Audit Office's work on this Vote also enables it to give assurances to other auditors, for example to the National Audit Office about advances from the Department to the Human Fertilisation and Embryo Authority.
- 127.** The Northern Ireland Audit Office's quality control of financial audit involves an independent review each year of a number of audits to provide assurance that sufficient and appropriate evidence has been collected and evaluated and that the Office's procedures comply with professional standards. Since 1998-99, arrangements have been in place whereby the Northern Ireland Audit Office and the National Audit Office review a number of each others' audits. This provides the opportunity to exchange ideas, insights and methodologies and enhances independence. More recently similar reciprocal arrangements have been established with the National Audit Office in Wales.

Value for money examinations

- 128.** The Northern Ireland Audit Office seeks to promote better value for money in public expenditure in Northern Ireland by reporting on the experience of public bodies and suggesting ways in which they can achieve their aims and objectives more cost-effectively.
- 129.** A structured approach is adopted in selecting topics for examination and an annual programme is prepared prioritising these. Selection is made on the basis of factors such as the potential for improving value for money and Assembly interest. For some years the value for money programme has taken account of the prospect of a devolved Assembly. A

particular change has been to include, alongside major reports, a range of shorter studies on issues of local concern, offering the Assembly's Public Accounts Committee a wider choice for their programme.

- I30.** The Members of the Assembly's Public Accounts Committee have opportunities to contribute suggestions to the Comptroller and Auditor General for investigations and to give their views on the prioritisation of subjects. In the first full year of the Assembly's operations, ten value for money reports were published. In addition, two short studies have been completed in response to requests from Members of the Legislative Assembly.
- I31.** In carrying out value for money examinations, the Office follows closely National Audit Office procedures, including preliminary studies, evidence collection and analysis, project management and liaison with the audited body throughout the process. In some investigations useful assistance has been received from external reference partners who can provide relevant experience which the Office would otherwise find difficult to match. For example, two retired surgeons provided advice on a study of hospital operating theatres. More use is also being made of specialist consultants who can help add breadth and penetration to examinations and can help clarify particularly contentious issues. For example, a firm of consultant engineers was engaged to assist on the study of *Water Leakage Management and Water Efficiency* (NIA 49/00, April 2001).
- I32.** In Northern Ireland the key document setting out the Executive's strategic priorities is the Programme for Government. An important theme of this is working together to develop the new democratic structures and efficient, accountable public services. The Northern Ireland Audit Office is endeavouring to ensure that its programme of work complements and reinforces the objectives of the Programme.
- I33.** All reports are subject to rigorous internal quality control, which includes a formal peer review. Draft reports are also cleared with the audited body to ensure that the Public Accounts Committee is presented with an agreed report on which to base its examination. On publication, reports are submitted for external quality assessment to a panel of independent members selected for their academic or senior public service experience or specialist knowledge of the subject matter in the report.
- I34.** Summaries of Northern Ireland Audit Office value for money reports are available on the Office's website (www.niauditoffice.gov.uk).

Reporting and following up work

- 135.** All Northern Ireland Audit Office reports are published as Assembly documents and usually receive wide local media publicity. The Assembly's Public Accounts Committee has decided it will take evidence on all reports either in a formal session where the senior officials responsible give oral evidence or by writing to senior officials asking for a response to specific questions.
- 136.** Following its consideration of evidence, the Public Accounts Committee reports its findings and recommendations to the Assembly. The Executive is required to respond to the Committee's reports in consultation with the body examined specifying the action the body intends to take in response to the Committee's recommendations. If the Committee is not satisfied, it may ask for further oral or written evidence from the Accounting Officer and might request the Comptroller and Auditor General for Northern Ireland to investigate further.
- 137.** The Northern Ireland Audit Office monitors action taken by a body on its undertakings to the Committee and if it is not satisfied with progress may produce a follow-up report, giving the Committee another opportunity to examine the Accounting Officer.
- 138.** The Public Accounts Committee is widely regarded as having established a very effective accountability regime. It has held 10 evidence sessions since its first in July 2000, and its proceedings have attracted considerable public attention. The Reports of the Public Accounts Committee are available from the Northern Ireland Assembly website at www.niassembly.gov.uk.
- 139.** The Committee has not confined itself to value for money reports and has also dealt with important issues arising from examinations of accounts. It has held joint oral sessions covering financial and value for money topics. For example, a recent session on the Fire Authority for Northern Ireland addressed a value for money report on fleet management and other issues arising from the financial audit of the Authority's accounts.

