



Northern Ireland
Assembly

Audit Committee

OFFICIAL REPORT (Hansard)

Review of the Governance and
Accountability Arrangements for the NIAO
and the NIPSO: RAISE Briefing on Public
Audit Governance

25 November 2020

NORTHERN IRELAND ASSEMBLY

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Members present for all or part of the proceedings:

Mr Daniel McCrossan (Chairperson)
Ms Joanne Bunting (Deputy Chairperson)
Mr Jim Allister
Mr Alan Chambers
Ms Emma Rogan

Witnesses:

Ms Emma Dellow Perry RAISE

The Chairperson (Mr McCrossan): I remind members that this session is being recorded by Hansard. I refer members to the research paper on 'Public Audit Governance', which is at pages 13-39 of members' packs. I ask Assembly Broadcasting to bring Emma Dellow Perry into Spotlight. How are you, Emma? You are very welcome to brief members. Thanks very much.

Ms Emma Dellow Perry (RAISE): Thanks very much, Chair. We drafted the report to respond to some specific questions from the Committee, so we have necessarily focused on those subjects. If there is anything extra, we can, of course, look into that and get back to you.

The first question was on the background to reform, the policy rationale and how the changes were taken forward. To start at the beginning, there was a general background of reform of public appointments from the mid-1990s, and, of course, devolution had taken place, which changed the responsibilities of the National Audit Office (NAO). The real spirit of reform came when there was some negative media coverage of the Comptroller and Auditor General's (C&AG) expenses. That prompted the Public Accounts Commission to commission the 'Review of the National Audit Office's Corporate Governance' by John Tiner, which was eventually published in 2008. That reviewed the Government's terms and conditions of the Auditor General's position. That prompted an immediate reform of his expenses, which were tagged to those of permanent secretaries. The Public Accounts Commission then created some draft clauses that were broadly accepted. Legislation was planned for 2010, but that was removed before the May election. It was brought back as the Budget Responsibility and National Audit Act 2011. That was how they ended up with reform of the NAO. That Act also contained powers for the Welsh Administration that would allow them to carry through their reform.

I will give you a brief bit of background on the Auditor General for Wales. That office was created during the devolution settlement. Its powers were expanded in 2006, with reform, along the lines of the Tiner review, taking place in 2013. Again, negative media coverage was the spur to reform. A report by the Welsh Finance Committee in 2011 covered the issues in some depth. The reform took place in

the Public Audit (Wales) Act 2013. The legislative background to that was the expansion of power in the 2011 Westminster Act; that is all there was. Again, that created an Auditor General very much along the lines of the one detailed in the Tiner review but based on a different review.

In Scotland, there was much more proactive reform. Under the Scots devolution model, they were required to set up their public audit structures. They did so in the Public Finance and Accountability (Scotland) Act 2000, which set up the office and the auditor. That was ultimately reformed following a report from the Scottish Commission for Public Audit, which is more or less equivalent to the Audit Committee. That had been requested by Audit Scotland as part of a look again at the structures and the governance 10 years into devolution, and that eventually was incorporated into the 2010 Act, which was a much wider Act and which did reform the office of the Auditor General. What sets Scotland apart from the three other nations of the UK is that very proactive element of its reform, whereas Wales and the NAO were responding to governance failures.

On the reforms themselves, specifically, we were asked to comment on the background and rationale on tenure. Tenure was quite interesting. First, every public body agreed that the mandatory retirement age that accompanied the lifetime appointment did not comply with European legislation on age discrimination. So, that disappeared entirely, and that was agreed upon by all of them. There is no opportunity for reappointment following the reforms. Again, there was not much dispute over that. It was considered to be a sensible manoeuvre to prevent improper pressure on the Auditor General.

Across the UK, the period of tenure is between eight and 10 years. It is 10 years in Westminster and eight years in Scotland and Wales. The reasons that they arrived at that number are all pretty similar in that the feeling was that eight to 10 years gives the occupant of the office enough time to really get to grips with the role, to start long-term projects and to bring in changes if necessary. The general feeling was that, if you have a longer period than that, there would be a risk that people would get complacent, it would be too much influence for one person to have and so on and so forth. Therefore, a non-renewable period of eight to 10 years was what everyone settled on. Of course, the Auditor General can be removed by a vote of the relevant legislature. In most cases, a weighted majority of about two thirds is required. That dealt with the retirement age.

The current governance structure is quite a detailed subject. I do not want to bore the Committee with a recitation of who does what across three separate offices, but, as a broad overview, all of the reformed offices have a similar structure with a Comptroller and Auditor General and a board. The board is the body that is talked about in the legislation. The official name for the board is Audit Scotland or Audit Wales. It employs all the staff and provides the resources to the C&AG to carry out his or her work. That board is composed of a blend of non-executive directors. In Wales, they have employee members, and then, obviously, you have the Comptroller and Auditor General and the chairperson. There is a table in your papers that should lay out the differences between each one, but, broadly, it is the same structure.

The board will agree with the Comptroller and Auditor General a code of practice. Some call it terms of reference. It lays out, in some detail, the relationship between the C&AG and the board, and this code is then approved by the parliamentary Committee responsible for oversight. In the case of the NAO, that is the Public Accounts Commission. In Scotland, it is the Scottish Commission for Public Audit, and so on and so forth. As far as I can tell, in Northern Ireland, the code appears to be approved by the Comptroller and Auditor General and not by the Committee, but I was not able to find anything that definitely said that. It just said that the code is approved by the Comptroller and Auditor General.

The code will contain a provision to establish an audit committee. The audit committee carries out a lot of the functions that we think of when we talk about challenge-governance functions. It sits alongside the human resources committee and the remuneration committee, and it performs the governance functions that this Committee would be concerned about. They include internal audit, value-for-money challenges and pulling together the reports — all that you would expect. As I said, it is an in-depth topic. There is more detail on it in appendix 2. That shows in some detail how the committees spend their time, what they do and their founding documents.

We were also asked to look at the accuracy of audit and how the board obtains external validation of the quality of audit. It is done in a number of ways. A common theme is that the board can appoint auditors to assess whether the audits are being carried out well. That is in all of the revised codes. There are other structures such as internal review structures or internal review teams that have a degree of independence. They are separate teams or set aside in some way, but they are not strictly external auditors. The Welsh annual report for 2019-2020 set aside funding for auditors to come in

and look at the quality of audit. Therefore it is done, and it appears that it is the board that appoints the auditors in question. They also have those internal review mechanisms.

There are also external auditors, such as the financial reporting committee, for example. The audit offices list the types of standards with which they comply when conducting their audits. That will be the like of the international standards (ISO) for auditing and the standards of the Institute of Chartered Accountants for the relevant jurisdictions, and so on. In Audit Wales, the assistant Auditor General used to be responsible to the Auditor General for audit quality, but it seems that that is in the process of being changed.

I move now to the additional powers that the parliamentary Committee will have following reform. It seems that it is more involved in such things as the appointment of the chair of the board and the appointment of board members. The NAO can appoint auditors, but the board has the right to advise the auditors. Where they have more-detailed powers, those are generally about the appointment of members of the board and the ability to scrutinise the governance of the office. However, those reforms are being reformed. There are slightly different quorum requirements for the boards in Wales and Scotland, for example. Wales is thinking about moving to the Scottish model, and Scotland is thinking of switching to the Welsh model.

Wales is undergoing a further reform. Audit Wales is being allowed to appoint its own external auditors, because it gets complex with the tripartite contacting arrangements that they have in place at the minute, so they want the right to appoint their own. Advanced further reforms are being considered at the minute that might be of interest to the Committee, because they are taking a look at what they have done and seeing how they can do it better.

The only other thing that I was asked about was the extent to which statutory boards exercise a challenge function in relation to their respective Auditors General. It is an interesting question to answer because there is an element of subjectivity in it. In appendixes 1 and 2, sort of combined, I tried to answer that question. All I can really show you are the additional points at which governance can now take place.

It is a bit more challenging to assess how well they exercise that challenge function but there are more points of governance, more stops along the way, if you will. So, to the extent that those are there, governance can be said to be improved. That is more or less a whistle-stop tour of it all, but I am happy to take any questions

The Chairperson (Mr McCrossan): Emma, thank you very much for taking the time to carry out that research and for sharing that information with us. It is very helpful that we can compare with other devolved Administrations. It has been very helpful, particularly around the C&AG tenure and the differences that exist compared with here. I heard that in Westminster it is 10 years, Scotland is 8 years and Wales is —

Ms Dellow Perry: It is 8, I believe.

The Chairperson (Mr McCrossan): OK.

Ms Dellow Perry: The Scottish Comptroller and Auditor General gave evidence to a Committee. I have included that evidence in full, at 2.3 in your paper. It is quite an interesting consideration of the issue because it is from the horse's mouth. It runs through what was in their mind and why they ended up where they did.

The Chairperson (Mr McCrossan): Yes, thank you. On the C&AG retirement age, in Northern Ireland that is set at 65, is it not?

Ms Dellow Perry: I would have to check that specifically.

The Chairperson (Mr McCrossan): I think it is. OK, I will open to members, in the usual order. Joanne Bunting? Are you OK, Joanne?

Ms Bunting: Can you hear me, Daniel?

The Chairperson (Mr McCrossan): Loud and clear.

Ms Bunting: All right, OK, sorry. Emma, thank you very much for your presentation. I read through some of it last night.

It seems to me that, in the other regions, there is a bigger input from their Public Accounts Committees than we have here. A lot of their Public Accounts Committees seem to take on board the role that we have, except that the role we have is purely looking at public bodies' finances and their budgets and their value-for-money aspect. I noted from your research that, here, their quality assurance in terms of internal processes and internal governance and all those issues are really done by their own audit and risk assurance committee. Is that a fair assessment, or are those things also checked by their external auditors?

Ms Dellow Perry: I can give you a quick answer, but I might have to go away and get more detail on it for you. The audit and risk assurance committee is common to all. When I talked earlier about the structure of the board, they all have an equivalent of the audit and risk assurance committee.

It would be fair to say that our Committee does not have the same level of engagement with the output of the audit and risk assurance committee, but that is not unique to Northern Ireland. Even in the Scottish report, their equivalent to our Audit Committee said that it wanted direct reports from the audit committee of the Scottish board, but as far as I am aware those things are still being checked. In the Northern Ireland accounts, there was discussion about bringing in the Institute of Chartered Accountants in England and Wales to review those issues.

To answer your question directly, yes, there is a difference in Northern Ireland in how value for money is assessed, but that is not —.

Ms Bunting: Let me direct you a wee bit, Emma. Essentially, what I am trying to get to is that, in other regions, their quality assurance — not just how they audit but their internal governance, structures, whistle-blowing and all those things — are not done internally, by themselves, are they? Are those assessed by their external auditors? It struck me that, according to this report, in the Northern Ireland Audit Office, that is done internally by its audit and risk assurance committee.

Ms Dellow Perry: Yes. The board appoints external auditors to do that elsewhere in the UK.

Ms Bunting: Yes, but here they do it themselves.

Ms Dellow Perry: They bring in somebody or do it themselves, yes. Sorry, I misunderstood your question.

Ms Rogan: Hi, Emma. Thanks for your presentation. Following on a wee bit from Joanne's question, what input do Audit Committees in other jurisdictions have in determining the make-up of their advisory boards? It is strange that we would appoint our own. Maybe that is what they do. I am not sure.

Ms Dellow Perry: The Committee would appoint the non-executive members of the advisory board. Depending on how the legislation is crafted, in some, there is a required balance to achieve a quorum, and in others, there is a minimum number. The Committees elsewhere in the UK have much more input into the composition of the board than we do in Northern Ireland.

Ms Rogan: The advisory board's terms of reference are approved by the Comptroller and Auditor General. Is that the same in other jurisdictions? It seems to me that there is a lack of independence and oversight in that. What is your view?

Ms Dellow Perry: It did strike me as a difference that the code was approved by the Committee, but in Northern Ireland, it seems to be approved by the Comptroller and Auditor General.

The Chairperson (Mr McCrossan): Can broadcasting bring in Alan Chambers, please?

Mr Chambers: Chair, I am OK. I am just playing catch-up, and apologies for coming to the meeting late.

The Chairperson (Mr McCrossan): You are OK. You are very welcome, Alan. Jim Allister?

Mr Allister: Thank you for your paper. It is informative and well put together, but it really comes down to this: in Northern Ireland, any supervisory or oversight role is in-house, whereas elsewhere, it is, as you would expect, external. Is that it in a sentence?

Ms Dellow Perry: Certainly, much more of the governance structure in the rest of the UK is done externally. A lot of what you would see being done externally elsewhere in the UK is done in-house in Northern Ireland.

Mr Allister: To the very point that the Comptroller and Auditor General appoints the board and appoints the chair, and they then sanction his work?

Ms Dellow Perry: It does seem to be that way, although my understanding is that the Committee endorses the selection of the Comptroller and Auditor General for the chair.

Mr Allister: Are there any international standards that create expectations about how these matters should be?

Ms Dellow Perry: Specifically about the governance of public audit?

Mr Allister: Yes, about public audit.

Ms Dellow Perry: I would have to look into that, but I am happy to take it away.

The Chairperson (Mr McCrossan): Emma, thank you very much for your presentation, for taking our questions and for the time you spent doing that research; it was very helpful.

Ms Dellow Perry: Thanks.