



Northern Ireland
Assembly

Audit Committee

OFFICIAL REPORT (Hansard)

Governance and Accountability Arrangements for the
Northern Ireland Audit Office and
the Northern Ireland Public Services Ombudsman:
Mr Richard Lloyd-Bithell, Chartered Institute of Public
Finance and Accountancy

10 March 2021

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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

Witnesses:

Mr Richard Lloyd-Bithell Chartered Institute of Public Finance and Accountancy

The Chairperson (Mr McCrossan): I welcome to the meeting, via StarLeaf, Mr Richard Lloyd-Bithell from the Chartered Institute of Public Finance and Accountancy (CIPFA). You are most welcome. Can you hear us OK?

Mr Richard Lloyd-Bithell (Chartered Institute of Public Finance and Accountancy): I can hear you fine. Thank you.

The Chairperson (Mr McCrossan): That is fantastic. I will remind you, as I reminded other witnesses, that this session is being recorded by Hansard, and a transcript will be published on the Committee's web page in due course. Thank you for your attendance and your time. I invite you to make some brief opening remarks.

Mr Lloyd-Bithell: Thank you very much, Chair. Thank you for the invitation to provide oral evidence as a follow-up to our written submission, which we were grateful was accepted by the Committee.

We are very happy to provide evidence. As a professional body, we take a particular interest in good governance across all sectors and jurisdictions. I will summarise some of the points from our written submission. We advocate that the Northern Audit Office (NIAO) and the Public Services Ombudsman be fully independent of government. This independence should be curtailed only by the need to ensure the oversight of and accountability for the use of public funds. The Northern Ireland Audit Office performs a vital governance function in holding government bodies to account. Similarly, the Public Services Ombudsman provides an independent and impartial examination of complaints across a range of public services.

In the previous session, my learned colleague provide evidence on a number of areas, including the term of office and the move from a sole corporate to a body corporate, which will *[Inaudible]* a number of areas, and, as we can see from the other models in the UK that we looked at, notwithstanding the reference to some scandal, this has driven the modernisation of audit offices. As Dr Foster outlined,

this provides a parallel for where best practice can be moved to and the pathway to moving towards a different model that may provide a number of additional layers of governance, accountability and benefits to the current structure.

I also want to cover whether there are any potential future issues that the Committee may want to consider when it comes to the forward outlook for the position of audit in the sector. As colleagues have said, there are non-renewable tenure terms in England, Scotland and Wales, usually eight to ten years. Our view is that there are a number of benefits from having a tenure term. It negates a number of risks: long-term postholders can be open to external pressures, political or from organisations; familiarity can arise from being in a long-term position; and long-term postholders can become complacent in the role. For example, a private sector parallel is that, in theory, shareholders approve *[Inaudible.]* In reality, directors usually make decisions that require shareholder approval at the AGM. The ability to reappoint or replace auditors over a term of office may extend to only one set tenure. We understand that partner rotation is usually recommended as best practice amongst the audit firms.

Comments were made about the career prospects in and the appetite for this position. I believe that it is an attractive position for anyone. There needs to be due consideration by those who hold the post for the tenure of any future opportunities that they may take. In particular, the positions open to them post their tenure as Comptroller and Auditor General might be restricted.

We support the independent appointment of external auditors. It was raised as a point of interest by Parliament, the Assembly, the Secretary of State or the Minister of a sponsor Department. Although there is apparent security of tenure in the public sector, internal arrangements for the rotation of all personnel will be required. For example, in the old days of the English Audit Commission, a review of appointments was required every five years, although that did not necessarily lead to a change in the auditor. A similar mechanism is operated in Scotland, where there is an expectation that different auditors will be appointed every five years. The same principle should apply to the Comptroller and Auditor General (C&AG). However, the length of that tenure, of course, could be longer than five or seven years. I move on to a point of particular interest, that of becoming a body corporate. As we have seen with the new National Audit Office (NAO) in England, there was a move to that as part of the Budget Responsibility and National Audit Act 2011, which modernised the National Audit Office's governance arrangements while protecting the independence of the Comptroller and Auditor General in matters of judgement, which we feel are very important.

I will run through the steps that the Act created. It established the National Audit Office as a corporate entity with a statutory board. It also required that the appointment of the Comptroller and Auditor General should be by Her Majesty The Queen and *[Inaudible]* upon Parliament by the Prime Minister.

It also determined that the Public Accounts Commission be formally responsible for the appointment of non-executive members of the NAO board and the external auditor of the NAO and required that the NAO board would agree a code of practice, setting out the relationship between the board and the Comptroller and Auditor General and how that would work in practice. That was independently approved by the Public Accounts Commission, which in essence would probably be the Audit Committee.

We have had previous questions about the responsibilities of the board. The board would support and advise the Comptroller and Auditor General in the dispatch of his responsibilities and oversee how it would manage and use its resources.

The composition of the board is as follows. It has a majority of non-executive members, who are appointed by the Public Accounts Commission, which, as colleagues have said *[Inaudible.]* However, there is a difference in that appointments are ratified by Parliament.

I know that you wanted me to keep my statement as brief as possible. A number of questions have been answered by my colleagues. I want to ensure that there is ample time for members to ask about particular points. Thank you, Chair. That is my opening statement. I am happy to answer questions from issues that they may want to discuss.

The Chairperson (Mr McCrossan): Thank you very much for your presentation and for covering those points. For clarity, is it your view that the Audit Office here should become a body corporate?

Mr Lloyd-Bithell: I think that there is a case for it. However, it would need to be a particularly robust case as to why it would fit the local jurisdiction in Northern Ireland. I think that it would provide an

additional level of accountability. It would open up opportunities to look at the potential statutory basis of the board, which could be the next step for the NAO.

There are a number of other options that are not among the current models in the UK. The board might have the opportunity for extra powers that do not exist elsewhere in the UK, such as the power to sanction. There are any number of other powers that you might want to look at. It is also worth considering the remit of the board and whether it should have a greater role in providing support and advice to the Comptroller and Auditor General. It needs to fit the local jurisdiction and your current arrangements. There is a case to be explored, and we would be happy to look at that in more detail with you.

The Chairperson (Mr McCrossan): Our current arrangements are far from straightforward. Many would struggle to find examples similar to those that we have in place, to put that quite broadly. You mentioned that, if the Audit Office here were a body corporate, it would provide an additional level of accountability. In Northern Ireland, there is no official Opposition. Do you feel that, in that situation, we should give serious consideration to it, given the way in which we are made up?

Mr Lloyd-Bithell: I think so, Chair. I do not claim to be an expert on the power-sharing arrangements, but, given the principle of having no political opposition, the internal governance arrangements need to be as robust as possible with as many opportunities for accountability of governance to *[Inaudible]* self-reflection, and the board could provide the opportunity for that additional layer of accountability.

The Chairperson (Mr McCrossan): Yes, that is a good point. I want to make a very brief point about the C&AG. It is a very important role, particularly in the Northern Ireland context of government, and the independence of that office is vital as well. You mentioned the tenure of the C&AG, as have a number of the previous witnesses. Just for clarification, are you saying that the term should be an eight-year term, or did I pick that up incorrectly?

Mr Lloyd-Bithell: I am sorry, Chair: did you say 18-year term?

The Chairperson (Mr McCrossan): Did you say that it was an eight-year term?

Mr Lloyd-Bithell: My point is that the rules for the rotation of auditors in the private sector are that it should be every seven years. I believe that an appropriate term, which would be consistent with other practice in the UK, would be a non-renewable fixed term of between eight and 10 years.

The Chairperson (Mr McCrossan): OK. That is grand. Most of our witnesses were of a similar mind. Thank you very much for that. I will open the session up to other members.

Ms Bunting: I want to turn your attention to paragraph 2.5.2, subparagraph 2, in your paper, which is about separation of responsibilities. It states that an example of such separation includes the:

"Consideration of appropriate separation for the appointment of members to any advisory board or governance body appropriate to the organisation. This is necessary to ensure the absence of political influence in any appointment and that the correct mix of skills and experience are in place."

I think that we would all concur with that. However, we need to ensure that that is balanced with the challenge function. There may be some difficulty with regard to the challenge function in circumstances in which a C&AG is appointing his or her own board. Do you have any thoughts on the best way to take that forward? How do other jurisdictions do it?

Mr Lloyd-Bithell: The challenge function and the mechanisms for challenge are particularly important. Of course, the board must have the appropriate knowledge and skills in place to do so, but the remit and the scope of the board give it an opportunity to review its challenge mechanisms, particularly with regard to decisions, investigations or reports. We can look at that in more detail in order to expand on our point and follow up with the Clerk. I hope to be able to provide more detail on that.

Are there any more specific points, or is it just the mechanism for challenge on which you would like more detail?

Ms Bunting: No. That was my point of interest. We are trying to ensure that the office's independence can remain without political interference. However, we are also trying to ensure that the governance

arrangements are robust enough to deal with things of which the Assembly may not be aware and that there is accountability elsewhere. The Assembly sees the outworkings of the Audit Office's work, but we do not know what the internal workings and accountability mechanisms are. It is about ensuring that there is a robust internal challenge mechanism and that there is appropriate transparency and accountability. I presume that you have seen our memorandum of understanding (MOU).

Mr Lloyd-Bithell: I have seen it, but I would not be able to quote it in great detail.

Ms Bunting: I do not think that any of us could [*Laughter.*] I will ask you what I asked the other witnesses today: what, to your mind, are the weaknesses or gaps in the MOU that need to be addressed in the review — apart from the things that you list in your paper — if, indeed, there are any?

Mr Lloyd-Bithell: Other than what we list in the paper, we will be happy to do a follow-up to look at that in more detail. I apologise that that may be a disappointing response [*Inaudible*] might have heard from other colleagues today. We will be happy to follow that up for you after the session to provide more details and answers on the MOU.

Ms Bunting: That is fine. Thank you very much.

Mr Allister: I want to get a snapshot of the audit arrangements across the various levels of government in Northern Ireland. We have local government, which seems to be tucked in as an adjunct to the Audit Office. Then we have the devolved institutions, which the Comptroller and Auditor General proper looks after. Then we have excepted and reserved matters, which are administered by the NIO. How are the audit functions for those overseen?

Mr Lloyd-Bithell: Apologies, Mr Allister. I missed the last part of the question.

Mr Allister: How are the audit functions performed in respect of non-devolved issues?

Mr Lloyd-Bithell: Apologies, can you expand on that a little?

Mr Allister: In our devolved institutions, as in Scotland and Wales, you have defined subject matters that are devolved. That is straightforward. In our case, the local Comptroller and Auditor General has oversight of those, but some matters are not devolved: excepted and reserved matters. Those fall under the ambit of the NIO and some fall under the Westminster Parliament. How and by whom are those audit functions performed?

Mr Lloyd-Bithell: At local level in other devolved functions — for example, in Wales, its National Audit Office will look similarly at local authorities — and devolved and Executive Administrations perform those functions for those areas with rotation and a number of other mechanisms to provide an avoidance of risk of familiarity and such risks that we have covered already.

There are similar models that correlate, which, I think, you are outlining. Apologies if I am going down a trail for which you are not asking. Are you after a comparison model with other devolved nations?

Mr Allister: I am asking: how are non-devolved issues audited?

Mr Lloyd-Bithell: Apologies: I understand what you are saying now. Non-devolved issues would probably come under their own arrangements. For example, if non-devolved issues are dealt with in Westminster, they would be dealt with in the model of Westminster's accountability and governance arrangements. There is a bit of a grey area between audit arrangements and governance arrangements that may impact at a local devolved level, in which decisions and scrutiny are taken in a more vicarious way. I would have to look into the detail of specific non-devolved issues. We would be happy to do that if there is anything specifically that you would like us to look into.

Mr Allister: Right. With local government, its auditing function is to perform as a secondary or adjunct role of our present Comptroller and Auditor General. Is that satisfactory?

Mr Lloyd-Bithell: I know that other colleagues have spoken about the levels of audit and the pros and cons of a National Audit Office and the alternatives. There is always room for scope, review and

developments on that. There are a number of mechanisms where a National Audit Office is in place, and the Comptroller and Auditors General are working on those together. The mechanism, rotation and a number of other things can go in to improve the accountability and governance arrangements, but we would have to go into more detail on whether it is satisfactory. If this review were not happening, there would be a school of thought that may say that it is not satisfactory.

Mr Allister: I will leave it there, Chair.

The Chairperson (Mr McCrossan): Thank you very much, Jim and Joanne, for those questions. Thank you for your evidence today, for being with us and for taking the time to answer some of our questions. We very much appreciate it.

Mr Lloyd-Bithell: Thank you very much, Chair.