



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: Audit Wales; National
Audit Office

2 June 2021

NORTHERN IRELAND ASSEMBLY

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Members present for all or part of the proceedings:

Ms Joanne Bunting (Deputy Chairperson)
Mr Jim Allister
Mr Alan Chambers

Witnesses:

Ms Lindsay Foyster	Audit Wales
Dame Fiona Reynolds	National Audit Office

The Deputy Chairperson (Ms Bunting): Dame Fiona Reynolds, chairperson of the National Audit Office (NAO), and Ms Lindsay Foyster, chairperson of Audit Wales, are with us to give evidence as part of our review. Professor Alan Alexander, chairperson of Audit Scotland, is unable to attend today but will give evidence on 7 July. With that, I welcome Dame Fiona Reynolds and Ms Lindsay Foyster to the meeting. The Clerk has advised me that Lindsay is still trying to connect. Dame Fiona, you are very welcome. I apologise for the short delay.

Dame Fiona Reynolds (National Audit Office): It is lovely to be with you. Thank you.

The Deputy Chairperson (Ms Bunting): We are grateful to you for taking the time. In circumstances where the previous meeting had to be rearranged, we are grateful that you bore with us and are with us now. Thank you very much indeed.

Dame Fiona Reynolds: That is no problem. It is probably easier this way than coming to see you, sadly, much as I would love to come to see you.

The Deputy Chairperson (Ms Bunting): Yes. I think that we are all ready for travel at this point. Thank you so much for taking the time. I invite you to make your opening remarks. After that, we may have some questions, if that is OK.

Dame Fiona Reynolds: Indeed, yes. I should begin by saying that I am a rather new chair of the NAO. I took up my role only in January 2021. Therefore, I thought that I would keep my opening remarks quite short and then answer any questions that you have about the way in which things work.

It is already clear to me that some really important principles guide the work of the NAO board in England. The first is to respect and maintain the independence of the Comptroller and Auditor General (C&AG) in his statutory role and, connected to that, of course, to respect and maintain the

independence of the NAO as an organisation that reports to Parliament. As you may know, we have an established code of practice that sets out that relationship clearly. I am happy to elaborate on that in response to questions.

The second guiding principle is to ensure that we focus on our strategy and its delivery, rather than on operational details, which are left to the staff and management of the Comptroller and Auditor General. The third is to provide support and appropriate challenge to the C&AG and his senior team. The fourth is to bring our expertise and experience to support the NAO's mission and purpose. Therefore, most of what we do is wrapped up in those four guiding principles. If you have questions on any of them or how things work in practice, I would be delighted to answer them.

I thought that I would mention the composition of our board, because it has changed quite a lot in recent months. In addition to my arrival as the new chair, we have two new non-executive board members: Sir Martin Donnelly, who is a former permanent secretary and a very experienced civil servant, whose experience is, of course, immensely useful; and Gaenor Bagley, who is a former partner at PricewaterhouseCoopers (PWC) and now holds a number of non-executive roles. They join the two continuing non-executive members: Janet Eilbeck, who is also a former partner at PWC and chairs our audit committee; and Dame Clare Tickell, who is an independent director at the John Lewis Partnership and a former charity chief executive, as, indeed, am I. Dame Clare's charity was Action for Children. Therefore, we have a strong and well-qualified group of non-executives on our board, and one of our ambitions is to ensure that we always add value to the work of the NAO and bring our expertise into the room.

That is all that I wanted to say at the outset. I am very happy to answer questions and elaborate further.

The Deputy Chairperson (Ms Bunting): Thank you very much. We appreciate that. I have just been given a note from the Clerk, who advises me that Ms Foyster has now joined the meeting. I cannot see her. Lindsay, are you with us?

Ms Lindsay Foyster (Audit Wales): I am. I have managed to find a way in. Hello. How are you?

The Deputy Chairperson (Ms Bunting): Lovely. Thank you so much for joining us today. We appreciate that you rescheduled due to commitments that we had. We are very grateful that you have taken the time to be with us. We have just heard from Dame Fiona. I am not sure whether you heard her remarks. Did you?

Ms Foyster: I heard the last couple of minutes, yes.

The Deputy Chairperson (Ms Bunting): Lovely. In that case, I invite you to give your opening statement. We will have a conversation after that.

Ms Foyster: Yes. Thank you very much for inviting me to give oral evidence as part of your review. I will read from my notes, just to get through as much as I can in the time available. I want to set out in my opening remarks, as I think that Dame Fiona was doing, the basis on which the Wales Audit Office board was established, its make-up and the roles and responsibilities of the board and its members. I will also say a little about how it works in practice: it works in a way that protects the independence of the Auditor General for Wales whilst establishing effective and robust governance. I am aware that that may be an area to cover more in questions.

By way of a brief background, I have been a non-executive member of the Wales Audit Office board since 2015, which was one year after it was set up fully, having been established through the Public Audit (Wales) Act 2013. I was appointed by the Senedd as chair in October 2020, and my maximum eight-year term runs until March 2023. It was interesting to hear what has just been said, as my background is in the third sector, and I am not an auditor or finance professional. I think that that reflects the depth of diversity and different perspectives that we have around the board table.

The composition of the board is a really interesting model. It was unique for the public sector in Wales at the time. It has nine members. I know that it is larger than some. However, it has been established in that way to accommodate the unique feature that we have of two elected employee board members. In all, there are five non-executive board members, including the chair. That is to ensure that a majority of non-executive members is required for a quorum. As I say, there are two elected employee members as well as the Auditor General, who is also the chief executive and accounting

officer, as you will know. There is also his nominated elected employee member. The non-executive members have the role of approving that appointment. Therefore, by implication, they can also decline it. That is currently the executive director for corporate services at the Wales Audit Office.

It might be worth noting that all board members cannot take up office on boards of any of the other public bodies that are audited by Audit Wales. They must consult on any potential conflicts that would arise out of any activities that are related to their work, paid or unpaid, outside their role on the board of Audit Wales. Again, that links directly into the requirement to maintain the independence of the Auditor General.

The board has two committees. We have an audit and risk assurance committee and the remuneration and HR committee. Both have advisory roles to the board. As well as having non-executive members as chairs of those committees and the board, which is a statutory requirement, one of the non-executive members is also appointed by the board to be the senior independent director. They have a specific role in supporting the chair. They carry out the chair's annual performance appraisal, as well as having oversight of the election process with support from the board secretary or elected employee members.

We also have board link roles, which, I think, is an area of interest. They relate to areas that are strategically significant. Examples of that are equalities and inclusion, data analytics, cybersecurity, sustainable development and, more recently, audit quality. You can imagine that, in order to support the effective running of those governance arrangements, both practically and in terms of governance best practice, we have the support of a board secretary, as well as half a full-time equivalent role that supports the executive leadership team. That person is a planning and reporting specialist. I refer to that to highlight that, in order to enable governance arrangements to operate effectively, particularly on a statutory basis, there clearly is, as I am sure you will be aware, a cost attached.

I will move on to the roles and responsibilities. I am aware that there will be an understandable focus on how, with a statutory board in place, the independence of the Auditor General is protected. In my experience, this has worked well in Wales, and, as we heard applies also to the National Audit Office, is established through statute and laid out clearly in our governance framework documents. Crucially, the code of relationship practice between the Auditor General for Wales and the Wales Audit Office sets out clearly the governance framework, highlighting the Auditor General's independence to the corporation sole. It sets out the principles governing the relationship between the two bodies and clearly sets out the responsibilities of the Wales Audit Office board. It also sets out that it cannot encroach on the Auditor General's independence. That document has to be laid before and approved by the Senedd.

Under the Public Audit (Wales) Act, the Auditor General is a corporation sole, as I said, and has complete discretion as to how they exercise their audit functions as laid out under the Act. They must have regard to the advice given by Audit Wales, but that is entirely up to them. There is no interference in the individual components of the Auditor General's work programme. The board is set up to monitor the exercise of those Auditor General functions, and we may provide advice. However, we must ensure the provision of resources required for the exercise of those functions, and we must preserve the operational independence of the Auditor General and do nothing to undermine that.

How does that work in practice? It is worth having a sense that the board's remit is primarily about running the business and ensuring that Audit Wales is a model organisation for the public sector in Wales. As I say, the board does not seek to influence individual components of the Auditor General's work. However, it is really important that, in order to provide the resources needed to carry out that work, the board has a good understanding of the work that the Auditor General is undertaking. We have formal processes for that, which I am happy to go into in more detail. At the very top level, under statute, we have to jointly prepare the annual plan, and that enables the board to understand the nature and scope of the Auditor General's work programme. Alongside that, we review the workforce strategy, which is how we ensure that we are providing the resources that are needed. A number of other things that we do in the course of our business mean that we have an oversight that enables us to monitor the exercise of the Auditor General's function. We have other governance documents, such as the schemes of delegation, which make crystal clear where responsibilities lie, very clear *[Inaudible owing to poor sound quality]* terms of reference and the board's code of conduct.

I can go into a lot of issues in a bit more detail, but it is important that the Committee gets the opportunity to ask questions about the areas that it is interested in. I hope that that was a reasonable starter.

The Deputy Chairperson (Ms Bunting): Thank you very much, ladies. It is much appreciated. Jim, do you wish to follow up on anything?

Mr Allister: Thank you for the evidence. I just want to understand this a little better: on the occasions when either of you needs to challenge the Audit Office, is there a formalised process, an informal process or is it a combination of both?

Dame Fiona Reynolds: Thank you. Shall I begin? It is not a formal process. It is much more a discussion around the table on the basis of papers provided by the executive, and the board members — the non-executive members — may ask, "Actually, have you thought of this?", or say, "In our experience, things do not necessarily work out in the way that you hope and predict they will". For example, we have embarked on a major audit transformation programme to improve the underlying technical and computerised basis of how we manage our audit systems. It is a big investment and a big transformation programme. A number of board members have a lot of experience of this kind of transformation programme. We are not challenging in a negative way — it is a very constructive form of challenge — but we are saying that, in our experience, we need to place more emphasis on certain aspects or take great care over particular elements of the programme. It is that kind of challenge.

Mr Allister: If you need it, do you have the power to compel the production of papers etc?

Dame Fiona Reynolds: In my recent experience, we have never had to compel. If we ask for things, the executive is only too ready, in my experience so far, to say, "Yes, we will produce a paper".

Mr Allister: Yes, but, if it came to it, do you have the formal power to compel?

Dame Fiona Reynolds: I think that it depends what it is on. We do not have control over the audit programme. That is the C&AG's remit. I do not think that we could require the C&AG, for example, to produce a paper that would take away his authority. However, it is different with anything to do with the strategy or the responsibilities: for example, we approve the programme of NAO services and budgets. We could require papers on things for which we have responsibility, as set out in our code of practice.

Mr Allister: When setting your strategy, is it shaped exclusively by you, or does the Audit Office have any role in that?

Dame Fiona Reynolds: The strategy was prepared in an iterative way. The senior staff, led by the C&AG, developed proposals for the strategy. Before the strategy was finalised, the proposals were discussed extensively with the board and, indeed, with the staff in the office. It was finalised by the board on the basis of a process of debate and discussion, and it has been in place for just over a year. My sense is that it is proving extremely helpful to have a strategy and to be really clear on what our long-term objectives are. I can give you some examples of what is in the strategy, if that would be helpful.

Mr Allister: Yes, if you would.

Dame Fiona Reynolds: We have three strategic priorities. The first is to support effective accountability and scrutiny. The second is to ensure that our work leads to better outcomes and value for money. The third is to provide accessible, independent insight, and you may have got a sense that we are moving more to that area of insight over time.

Beneath those three strategic priorities, we have three strategic enablers. One is to attract, retain and develop high-quality people. The second is to make effective use of technology, data and knowledge, and that is where our audit transformation programme sits. The third is to be an exemplar organisation, including on diversity. They are all big, strategic areas of work in which we are ambitious to move forward.

Mr Allister: How do you measure the success of, for example, the second strategy?

Dame Fiona Reynolds: We have key performance indicators (KPIs). For example, on diversity and inclusion, we have specific goals for the percentage of staff in different categories. On the effective use of data, we have clear KPIs that are mostly based on asking our people whether they think that we are being effective as an organisation. Asking your staff whether they feel that you are effective is

a standard way of judging success. Of course, the KPI relating to the strategic enabler around people is significantly dependent on feedback from the staff survey, which is where the staff indicate whether they are motivated and engaged in their work. They also provide feedback on the quality of their management.

Mr Allister: How do you judge value for money?

Dame Fiona Reynolds: How do we judge value for money? That is a very good question, and it is one that we constantly explore. We have a huge challenge each year from the Public Accounts Commission, which is, in a sense, our regulator in Parliament. It requires us to produce evidence each year on how we have spent our resources, the outputs from our activity and whether we believe that they are effective. We also have to present budgets for the following year, and the commission gives pretty fierce scrutiny to those to make sure that we are using our resources well and wisely.

Mr Allister: The final question from me is this: how do you avoid too cosy a relationship developing with the Audit Office?

Dame Fiona Reynolds: That is a really good question, and it is one that is very much in my mind as the chair. As a board, we are very clear that we want to be supportive and to help the NAO to achieve its objectives. However, we also want to make sure that we are challenging the senior team by asking searching questions. We have a board review every year, which we have just completed. One of the questions that we ask is whether we feel that the NAO is being challenged enough and whether the executive feels that it is getting challenge as well as support from us.

Ms Foyster: Do you want me to come in and give a perspective from Wales on those questions?

Mr Allister: Yes.

Ms Foyster: OK. On the first point, which was about whether, if there are concerns, there is a statutory route, I take the view that there are number of ways in which it is important to build relationships. It is important that what is in statute works in operation. That is about the relationships and the trust that are built between the board, including the executive members of the board, and the executive leadership team, including the Auditor General. I have seen that work very well in the Wales Audit Office. The relationship between the chair and the Auditor General is very important. As well as the relationship building behind the scenes and around the meetings, there is, as was just described in relation to the NAO board, space, which the chair helps to create, for constructive challenge and the ability for the different perspectives to be heard and listened to. We try to take that strengths-based approach and build on what is presented to us, including any concerns.

The board's role in a lot of that is to seek assurance. When the executive leadership team presents something to us, if a lot of time and effort has gone into its development, and it has gone to the board for early engagement but come back to us at a later stage, we will seek an assurance that any concerns raised have been addressed. It is a process. It is not just a one-off confrontation on the issues. In extremis, which, fortunately, we have not had to deal with, the chair can go directly to the Chair of, in our case, the Finance Committee, which is our scrutiny board in the Senedd. The chairs of our committees of the board can also do that. We therefore have a route in statute by which we can pick up on major concerns, but that would be well down the line from building relationships and using our governance processes appropriately.

You asked about strategy and how that is developed. Again, the preparation and some of the initial thinking sit with the executive leadership team, including the Auditor General. The board has been involved at a very early stage in sharing its perspectives and thinking on that. Our last strategy has pushed us, much like the National Audit Office, in the direction of thinking more about how our insight and the wealth of data that we have available to us can be used to good effect for the public sector, particularly for service improvement, cost-effectiveness and efficiencies. As the board, we are then jointly involved in discussing and deciding on the final strategy, which will very clearly become the strategy of the board. Similar to the NAO, we measure its success by looking at the performance indicators. At each board meeting, we look at the performance measures for that period, which are one of the cornerstones of the governance framework. We challenge by asking these questions: are the indicators measuring the right things? Does the exercise tell us not just the number of activities but the impact and the influence they are having? That has led to a review of our key performance indicator suite, which will be conducted and completed at the start of 2022-23. It shows that the dialogue with the board leads to further developments and improvements.

You asked about a cosy relationship developing. We have a clear distinction of roles set out. The code of relationship practice is very important in underpinning that, but it is really important in practice. The chair has a role in not only making sure that we are not just seeing things through because we think that it is a good job done but that we have conducted the appropriate level of scrutiny and received the appropriate level of assurance as we go through. I hope that that helps.

Similarly, on an annual basis, our finance committee is involved in quite close scrutiny of whether the governance arrangements are working, particularly in relation to our estimate and annual plan.

Mr Allister: Thank you.

The Deputy Chairperson (Ms Bunting): Jim, do you have a follow-up question?

Mr Allister: No.

The Deputy Chairperson (Ms Bunting): Alan, welcome to the meeting. I appreciate that you did not hear Dame Fiona and Lindsay's presentations. Dame Fiona is the chairperson of the National Audit Office and Lindsay Foyster is the chairperson of Audit Wales. From the questions and answers you heard to and from Jim, do you have anything that you want to follow up on?

Mr Chambers: I have no questions, Chair. Thank you.

The Deputy Chairperson (Ms Bunting): No problem. Thank you, Alan.

Ladies, thank you so much for the information that you have given us. You will appreciate that, from our point of view, we are trying to find the balance between allowing the Audit Office and C&AG to be independent while having accountability mechanisms. From our perspective, it seems that we have the ability to scrutinise their budgets. You have a code of practice, and we have a memorandum of understanding (MOU). We are not clear about the strengths of that arrangement. Have you seen our MOU?

Dame Fiona Reynolds: I have not.

Ms Foyster: No, I have not seen it, I am afraid.

The Deputy Chairperson (Ms Bunting): It would be interesting to understand your opinion of the pros and cons of a code of practice. You have been appointed by the Senedd and Parliament. Is it your view that there is space for constructive, challenging conversations, or is that somewhat prohibited in circumstances where the C&AG appoints his board, which is what happens here? Do you consider that to be a weakness, or are there benefits with that system?

Dame Fiona Reynolds: We have found our code of practice to be very helpful. In fact, in the next few months, we are going to refresh it and check that it is completely up to date. Our code of practice is really clear. To me, it is helpful to have something that has that status and recognition. It is helpful to emphasise the points about the complete independence of the C&AG in setting the audit programme and holding the audit quality responsibilities. It also makes clear what our responsibilities are for the strategy, the budget and the presentation to the Public Accounts Commission and all the rest of it. I have to say that I have found having a clear code of practice very useful in our work so far.

It also helps that I am appointed by Parliament and that I chair the process to appoint new board members. That allows us to be clear and strategic about the skills that we need and seek. It also allows us to, quite properly, think about how best we can support and challenge the C&AG, which would be a different situation if the board members were appointed by the C&AG. Those are my answers: the safeguards and responsibilities that we have are pretty clear and well set out.

Ms Foyster: I certainly agree with that. As I said, our code of relationship practice sets things out really clearly. It is what underpins our work. As I explained, the way that the board and the Auditor General conduct their day-to-day business is understood in a broad sense, but if we ever wanted to go back and double-check, there is a mechanism that underpins that. Although I do not feel that I can give an opinion directly on the arrangements in Northern Ireland, there is certainly potential, even if it is a perception externally, for cosy relationships to develop if the Auditor General was appointing their

own advisory board. That is not to say that that is the situation there, but I could understand that there is the potential for that perception to develop. As I said, I find that having a statutory board and the clarity and distinction between the roles really helpful.

The Deputy Chairperson (Ms Bunting): Thank you. Are your codes of practice in statute?

Ms Foyster: It is in statute that we have to have one. When we first established one, which was last reviewed in 2019, it had to be laid before and approved by the Senedd.

Dame Fiona Reynolds: Ours is approved by the Public Accounts Commission, which, as I mentioned, is our regulator. It also approves the appointments to the board that are recommended to it. That parliamentary oversight is very clearly established, which, again, we find helpful.

The Deputy Chairperson (Ms Bunting): One of you, in your answers, made reference to the key skill sets that are required for an effective board. I appreciate that you have links to the business and charity sectors. To your mind, what are the key skill sets that are required for an effective board in circumstances where there is corporatisation in a way that is different from ours?

Dame Fiona Reynolds: I will start, and Lindsay can come in. Clearly, we need people who have sufficient knowledge of the work of the NAO. As I mentioned, we have two people who have worked in the accountancy sector and have achieved great prominence and respect. They have detailed knowledge of that area. I am not an auditor in any sense, but we also want people who can stand back from the detail, who have good strategic skills and responsibilities and who understand public policy and public expenditure in its broadest sense because we are not only working in audit. As you know, we are examining value for money and, increasingly, looking at the question of broader insights, which include knowledge gained over many years from a very broad spectrum of analysis that can be brought to help shape improvements. We are all very motivated not just by the findings that emerge from our work but by the fact that they lead to improvements and better outcomes for the public. We want people with the ability to bring their knowledge and experience to the board and who understand the work of the NAO sufficiently well but who are, in a sense, not so enmeshed in it that they cannot always see the bigger picture, which is a very important ability.

I hope that that is helpful. We are not constrained to different sectors; we could bring people in from many sectors, but those are the core skills that I recognise.

Ms Foyster: Yes, I will come in on that. I certainly concur with all those areas. One of the things to recognise is that you will not necessarily have everything around the table in board members just because of the constraints on the number of people that you have access to and the number of board members that there are. It is particularly about having that ability to stand back and see the bigger picture and to be able to connect to what is happening in the wider world as well as having that direct focus on understanding the nature of audit work and the work that is being done in service improvement. As we just heard about in terms of the NAO and the Wales Audit Office, a lot of public-sector organisations are going through considerable transformation, whether that is in the technical data analytics-type transformation that we have recently gone through or looking at improving business systems and systems that support the use of data in our audit work. We can have people with that kind of experience and background who do not have to be directly in the audit world.

It is about looking at what the needs are at the time. For the Audit Wales board, those appointments happen for non-executives through the finance committee. It is then important that the current board, through the chair, has the ability to highlight the gaps in knowledge and skills that it believes exist.

We also have insight from the staff perspective, which comes in through the elected employee members to our board, and that has added a real richness and value to all our discussions. That is something that I strongly advocate that you look at because it has certainly added value to our board.

Dame Fiona Reynolds: We do not have that arrangement in the NAO. We have, in addition to the C&AG, three executive members of the board who are all members of the senior team. However, we do not have elected members; therefore, that is not something that I have experienced.

We have an enormous amount of engagement with staff in the NAO. I have been enormously impressed by the quality and regularity of our staff surveys. We are having a big consultation at the moment about working arrangements post-COVID. That is a very inclusive and deep-listening process

as well as one that is clearly thinking about what the organisation needs. It is important that there is effective engagement with the staff throughout the organisation.

The Deputy Chairperson (Ms Bunting): I concur. With regard to the staff, one of the key tenets of accountability is a robust whistle-blowing policy. Could you perhaps outline your own whistle-blowing policy and the appeal mechanisms in that, please?

Dame Fiona Reynolds: I am going to hand that one to Lindsay. She probably knows more about it.

Ms Foyster: There are two elements to whistle-blowing. One is whistle-blowing on our audit work externally, and that is dealt with through the Auditor General's side of things. That happens if public bodies or members of the public want to whistle-blow on the bodies that we audit. That is one side of it.

The other side is about whistle-blowing in Audit Wales. The senior independent director whom I mentioned is the designated board member who is the whistle-blowing lead and the person who would be contacted. There is a policy in place. We aim to enable complaints and concerns to be heard as reasonably and openly as possible. We try to develop a culture and a set of values and behaviours that mean that people feel free to be able to say if they are not happy with something.

We get an annual whistle-blowing report. Also, through our audit assurance and risk committee, we have internal audit that looks at those kinds of internal controls and ensures that whistle-blowing is highlighted in its reports.

Dame Fiona Reynolds: I am afraid that I am not in a position to give you chapter and verse on the detail of our policy, but I can write to you if there is anything different to say from that which Lindsay described, which is all recognisable to me. However, I do not have the detail at my fingertips.

The Deputy Chairperson (Ms Bunting): That would be lovely. Thank you very much, Dame Fiona.

Ladies, thank you very much. We very much appreciate your time and evidence. It has been helpful for us. Once again, thank you for joining us today. We appreciate it. Thank you.

Dame Fiona Reynolds: Thank you very much indeed.

Ms Foyster: If there is anything else that you want to follow up or get more detail on, we will be more than happy to provide you with more written information. A lot of what I talked about is accessible to the public on our website and through our publications scheme. If you need any further information, please get in touch.

The Deputy Chairperson (Ms Bunting): That is great. Thank you very much indeed. All the very best.