

Audit Liaison Group
Meeting of 6 October 2003

Those present:

Sir John Bourn, Comptroller and Auditor General
Gus O'Donnell, Permanent Secretary, HM Treasury } Joint chair
Tim Burr, Deputy Comptroller and Auditor General, NAO
Sir Andrew Likierman, Managing Director, FMRA HM Treasury
Helen Ghosh, Inland Revenue (deputising for Sir Nick Montagu)
William Nye, Home Office (deputising for John Gieve)
Caroline Mawhood, Assistant Auditor General, NAO
John Coombe, Finance Director, GlaxoSmithKline
Chris Butler, HM Treasury
Rob Molan, HM Treasury
Gabrielle Cohen, Director of Communications and } Joint secretaries
Corporate Affairs, NAO

Introductions

The C&AG welcomed those present to the NAO.

Client Feedback

Caroline Mawhood introduced paper ALG 03/7 which reflected the NAO's mechanisms for obtaining feedback from audited bodies and assurance about the quality of NAO work. These included nominated Client Directors for each department, independent quality assurance reviews from the London School of Economics for VFM work and reviews by the Joint Monitoring Unit of the Accounting Profession for financial audit work

Following the discussion at the first meeting of the ALG, the NAO had looked at some additional methods of gaining feedback. NAO's preferred approach was for a rolling programme of moderated interviews by an independent party using structured questionnaires.

Each Department and Agency would be covered over a five year period. The experience of large accounting firms suggested that this approach could identify issues that the client might be reluctant to raise with the Auditor directly. The costs were likely to be significant and provided NAO could

secure additional funding it would be able to start from 2005-06. The success of the initiative would depend in large part on the co-operation of senior staff in audited bodies.

In discussion the following points were made:

- moderated surveys were likely to identify issues that could be addressed productively by both sides in subsequent audits.
- senior level involvement was important to ensure they were aware of issues arising from the audit but so too was involvement from those closer to the detail of the audit process.
- it would be helpful to pilot the use of surveys in 2004-05.

Summing up the C&AG confirmed that the **NAO would pursue this initiative with a pilot exercise in 2004-05 and would seek funding for the full programme from 2005-06**. He reiterated the importance of engaging senior staff.

Contracting out VFM audit

Caroline Mawhood introduced paper ALG 03/8 and outlined the extent to which VFM audit was already carried out by contractors. Key points were:

- almost all NAO studies had some contracted out component ranging from expert panels, consultants and academics to assist with fieldwork, to contracting out whole studies to provide independent advice and assurance on the quality of NAO analysis and conclusions.
- contracting out was not necessarily cheaper but allowed NAO to supplement its expertise with specific skills when required and to bring different perspectives to the work.
- NAO's use of consultants in VFM work was likely to increase to 15% of the cost of studies over the next four years. To achieve this it would be important for departments to support contractors as well as in-house NAO teams on value for money studies.

In discussion the following points were made:

- there would be real benefit in developing long term partnerships with external suppliers.
- it was important to ensure Departments were content with the selection of consultants.

- it was sometimes difficult to find consultants who were independent but had enough knowledge of a department to make a valuable contribution.
- expert input added credibility to NAO reports for example the use of an expert in auction theory in the NAO report on Gold Sale.
- contracting out whole studies would increase the capacity of the NAO to deliver more VFM studies and would allow suppliers to build up their expertise.
- some contractors had been surprised at the time taken to agree the factual accuracy of reports.

Summing up the C&AG welcomed the **Group's support for the use of contractors both in contributing to work led by the NAO and in carrying out whole studies and confirmed that NAO would develop this approach further.**

Statements of Internal Control

Chris Butler gave an oral report on integrating statements of internal control with the risk management agenda. His points were:

- NAO and Treasury had worked together well since the last meeting leading to the DAO letter to PFO's , in May. The relevant chapters of Government Accounting would be issued later this year.
- departmental boards and senior management were engaging more actively with the statements of internal control process and the evaluation of control.
- it was important to know how the external auditor was evaluating the completeness of statements of internal control and how departments were complying with Treasury regulation.
- this must not become a tick box exercise and there was a continuing need to converge statements of internal control with the risk management agenda.
- overall 86 per cent of Departments appeared to have completed the process and initial indications were that the comprehensiveness of their approach were encouraging.

In discussion the following points were made:

- in the private sector external audit evaluation of statements of internal control was seen as a valuable process though the cost was high.

- it was important to demonstrate that real improvements had been made if statements of internal control were a tick box exercise, but this was often difficult.
- the statement of internal control is mainly concerned with the processes and does not require disclosure of all problems. External auditors must bear this in mind in placing reliance on it.
- summing up, the **C&AG said the update had been helpful and the Group should consider the topic again in a year's time.**

Faster Closing of Accounts

Sir Andrew Likierman introduced paper ALG 03/9 on faster closing of departmental resource accounts. Key points were:

- the NAO and Treasury agreed about the benefits of accelerating the timetable for the preparation and submission of resource accounts
- the aim was to get all of Central Government to match best practice in the wider economy but progress had not yet been sufficient.
- the Group needed to consider what more the NAO, the Treasury and Departments could do.

In discussion the following points were made:

- senior management commitment was key to the success of the faster closing project.
- departments had not been applying adequate resources to this issue and the skills base was weak, but significant progress had been made where departments had brought in highly skilled and experienced accountants.
- some PFO's might not see this as a high priority as the business benefits were not immediately obvious. The need for departments to manage finances in year on the Treasury budget basis rather than the accounting basis diverted attention from faster closing given the limited project management expertise in departments finance functions.
- slow production of accounts might indicate serious problems in financial control.
- the NAO was concerned that too many accounts were rendered late for certification; although the number signed after the deadline was reducing each year, a significant proportion were received very close to the deadline.

- there would be real benefit for departments in a shift towards conducting the audit throughout the year. This would require the management accounting information to be generated from the system that produces the financial accounts.
- single systems that produce management and financial accounting information were commonplace in industry and fast closing of accounts allowed staff to concentrate on the year in hand.

In summing up the C&AG said that **the NAO would continue to collaborate with Departments as they worked to achieve faster closing**. The wider issue of managing to budget definitions rather than accounting definitions was interesting. It had parallels in the different views of accountants and economists/statisticians in respect of Network Rail and the difficulty in explaining the logic of the different views highlighted a need to bring them together on a more consistent basis. **This was a topic to which the Audit Liaison Group should return.**

Media coverage of NAO reports

Gabrielle Cohen provided an overview of the NAO approach to media handling. Key points included:

- the increase in coverage of NAO reports was attributable to a concerted effort by the NAO to secure more coverage in specialist publications and greater interest in public service delivery issues.
- the NAO strategy is aimed at taking the key messages from each report to the appropriate audience. Audiences included Parliament, the general public and practitioners. NAO aimed to secure balanced coverage of its work; sensationalist or distorted coverage undermined its reputation and damaged relationships with audited bodies.
- the NAO approach to media handling was tailored for each report but always within the agreed conventions and with close liaison with the audited body.
- the NAO was relatively successful in securing coverage of key messages, including those that were positive about departmental performance. Analysis of print coverage had shown a substantial proportion of reporting to be positive or neutral towards the audited bodies.
- the Chairman of the Committee of Public Accounts was often asked to comment on NAO Reports for which NAO briefed him but his public statements reflected his views of the findings and conclusions of the NAO report.

- the publication process would be improved if departments engaged earlier with the presentational issues surrounding the publication of NAO reports. The conventions allowed departments to issue statements at the time of publication, providing they did not take issue with the agreed report, and were agreed with the NAO in the same way that the NAO report and press statement was agreed.

Points made in discussion included:

- there would be merit in earlier discussions between NAO and departments about media handling issues.
- it would be helpful for the NAO and Treasury to reissue the conventions including a summary of the NAO approach to media handling and encouragement to engage earlier with presentational issues and agree statements for use on publication.
- success for the NAO press office was demonstrated by how far all key messages were covered rather than by the volume of coverage.

Summing up, the C&AG reiterated that media coverage of NAO work was important in terms of securing NAOs objectives and the aim was to secure balanced coverage of all key findings. He agreed that the **NAO would work with Treasury to produce a paper for departments on media handling and suggested that the Group revisit this topic in a year's time.**

Financial expertise in Departments

Sir Andrew Likierman introduced paper ALG 03/10 which set out progress in improving the financial expertise of departments. Key points were:

- there was a continuing shortage of financial expertise in departments. Some progress had been made and this would be strengthened by the move to replace PFO's with Finance Directors who are either themselves professionally qualified or supported by professionally qualified staff.
- the challenge was to raise the performance of departmental finance functions to the levels of best practice models developed by accountancy bodies and the Public Audit Forum.

He welcomed the consensus between Treasury and NAO judgements on the departmental progress against the Public Audit Forum model.

Points made in discussion included:

- it would be beneficial to generate a flow of senior and high quality NAO staff into departmental finance functions.
- Audit Committees should taken an interest in skills shortages in finance functions.
- the C&AG's General Report has referred to the finances skills shortages in departments but it would be helpful if specific concerns could be raised with the relevant Audit Committees in the first instance.

Summing up, the C&AG said much progress had been made but there was more to do.

Greater movement of qualified staff from the NAO to departments was one way of addressing the skills gap and should be explored further.

Any other business

NAO VFM Programme - It was agreed that the NAO would circulate a paper to the Group setting out the ways in which their future work VFM programme aligned to current departmental priorities.