

H M Treasury

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DAO(GEN)07/01

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Dear Accounting Officer

SUPPLEMENT TO DAO(GEN) 13/99: APPOINTMENT OF ACCOUNTANCY FIRMS TO AUDIT AND OTHER ASSIGNMENTS IN THE PUBLIC SECTOR, AND NATURE OF THE AUDITING RESPONSIBILITIES

Purpose of this letter

This letter supplements DAO(GEN) 13/99 *Appointment of Accountancy Firms to Audit and other Assignments in the Public Sector, and Nature of the Auditing Responsibilities* (19 July 1999). It:

- (a) clarifies that external auditors may be used to undertake work connected with monitoring the implementation of the Whole of Government (and, in the interim, the Central Government) Accounts programme;
- (b) amends the threshold relating to the value of non-audit work which may be undertaken by the external auditors; and
- (c) draws attention to guidelines on limiting liability in Government contracts issued by the Procurement Policy Unit in the Office of Government Commerce.

Application of this letter

2. The letter applies to those bodies whose appointed external auditor is a private sector firm, and references to “external auditors” in this letter should be taken as references to those private sector firms. Where the Comptroller and Auditor General (C&AG) is the appointed auditor, but has sub-contracted the audit work to a private sector firm, the C&AG is primarily responsible for agreeing the terms under which any additional work is done by his sub-contractor.



INVESTOR IN PEOPLE

Use of external auditors to undertake a monitoring role as part of the Whole of Government Accounts Milestones (paragraphs 21-23 of the annex to DAO(GEN) 13/99)

3. These paragraphs address the question of external auditors undertaking non-audit work. Their conclusion is that there is a presumption that a firm appointed as an external auditor of a public sector body should not be invited to tender for any non-external audit work, such as consultancy work. The intention of this requirement is to prevent possible conflicts of interest, but the DAO letter recognises that there may be circumstances in which it would be more cost-effective to make use of the external auditor's knowledge of the organisation when undertaking additional work.

4. The programme to develop accounts for, initially, Central Government and, ultimately, the Whole of Government has identified the need for additional assurance work to monitor implementation. Although the work does not fall directly within the scope of the external audit, it requires knowledge of the systems and procedures adopted by the body, and there is therefore advantage in the work being undertaken by the external auditors. Guidance recently issued by the Treasury to Departmental Consolidation Managers *Central Government Accounts: Milestone One – Establish Principal/Secondary Auditor Relationship* (DCM 2/01 dated 17 May 2001) sets out amendments to the audit engagement letter to enable the external auditors to undertake the monitoring role. (Departmental Consolidation Managers are officers appointed by departments and other bodies to manage the preparation and submission of information related to the consolidated accounts.)

5. The use of the external auditors to undertake this monitoring activity does not, in the Treasury's view, contravene the general rule that external auditors should not normally undertake non-audit work. As far as the additional assurance work required for the Whole of Government Accounts programme is concerned, the general requirement - given in paragraph 22 of the annex to DAO(GEN) 13/99 - that non-audit work should be put out to tender, but with the external auditor being excluded from the tendering process, is waived. Similarly, there is no need for a body to consult its sponsor department if it wishes to appoint the external auditor to undertake this additional assurance work without any tendering procedure (paragraph 23).

Thresholds for the value of non-audit work (paragraph 22 of the annex to DAO(GEN) 13/99)

6. This paragraph notes that the external auditors may undertake non-audit work if the value of that work is below £10,000 or 10 per cent of the audit fee. With immediate effect, this limit is increased to £25,000 or 20 per cent of the audit fee – these thresholds are consistent with those adopted by the Audit Commission. The intention is to keep the thresholds automatically in line with those adopted by the Audit Commission and further guidance will be issued from time to time.

Limitation of liability (paragraphs 32-36 of the annex to DAO(GEN) 13/99)

7. These paragraphs consider the circumstances in which a department may accept contracts which include clauses limiting the firm's financial obligations in the event of a claim being made against it.

8. The Procurement Policy Unit in the Office of Government Commerce issued new guidance in April 2001 *Limiting Liability in Government Contracts* (PPC (G)(01) 5) which, while not introducing a major change in the general approach, clarifies that liability should be considered in a value for money context.

9. DCM 2/01 notes that no limitation on an auditor's liability can be accepted in respect of the audit of the consolidation schedules prepared for the purposes of Whole of Government Accounts under section 10 of the Government Resources and Accounts Act 2000, as this work forms part of the scope of the external audit. Any proposal for a firm to restrict its liability in respect of the additional procedures required by DCM 2/01 should be considered in the light of the guidance in PPC(G)(01) 5 – in particular that liability should reflect value for money considerations and be considered on a case-by-case basis.

Further action

10. Departments should note the content of this letter and send copies of the letter to those bodies whose appointed external auditor is a private sector firm. The C&AG will undertake the additional assurance work referred to in paragraph 4 above for those bodies where he is the statutorily appointed auditor and will arrange for the work to be done where he has sub-contracted the audit work to a private sector firm.

Enquiries

11. Enquiries about the additional monitoring work relating to the Whole of Government Accounts programme should be addressed to the Whole of Government Accounts Team (wga.team@hm-treasury.gsi.gov.uk). The guidance issued by the Procurement Policy Unit gives Mike Davis (mike.davis@ogc.gov.uk) as the contact for questions or comments.

Yours sincerely

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