

AUDIT LIAISON GROUP

MEETING of 17 JANUARY 2006 HELD AT HM TREASURY

Those attending

Nick Macpherson	Permanent Secretary, HM Treasury	} Joint Chairmen
Sir John Bourn	Comptroller and Auditor General	
John Coombe	External member	
Alex Allan	Permanent Secretary, DCA	
Tim Burr	Deputy Comptroller and Auditor General	
Mark Lowcock	Director General, DFID	
Mary Keegan	Managing Director, HM Treasury	
Michael Whitehouse	Assistant Auditor General, NAO	
Gabrielle Cohen	Assistant Auditor General, NAO	
Martin Sinclair	Assistant Auditor General, NAO	
Robert Prideaux	NAO	
Paula Diggle	Treasury Officer of Accounts, HM Treasury	
Arni Narain	Treasury Office of Accounts Team	

Introductions

1. Nick Macpherson welcomed those present to the Treasury for the meeting of the Group. Mark Lowcock reported that he was substituting for DFID Permanent Secretary, Suma Chakrabarti.

Quality assurance processes at the NAO (Paper 1 ALG Jan. 06)

2. Gaby Cohen introduced the paper and explained the key assurance process in place for financial and value for money audits and the planned new developments to improve them further.
3. Financial audits were subjected to an appropriate level of review at all stages of the audit process and in addition annual cold reviews were conducted after the accounts were certified. Contracting out around 25% of audit work had also given the NAO a valuable comparator against major audit firms. The NAO's financial audit practice was subjected to annual review by an independent monitoring body, the Quality Assurance Directorate (QAD) of the Institute of Chartered Accountants in England and Wales (ICAEW) who evaluate compliance against the profession's audit regulations and best practices. The NAO also sought structured feedback from audited bodies and acted on areas identified for improvement.

4. The key feature of the NAO's current approach to internal quality control for value for money work was the five quality thresholds at each key point in a value for money study's lifecycle. The 60 or so vfm studies produced annually were also subject to independent external cold review using a set of assessment criteria, and were carried out by Oxford University and London School of Economics (LSE). The NAO had decided to replace the cold reviews by hot reviews that would take place at two critical stages: at the end of preliminary work before the C&AG grants approval for a full study and again when the first draft report was produced. The assessors would also be asked to assess whether the reports concluded adequately on the overall vfm achieved by the programme under examination. The Public Accounts Committee would be briefed on the main points raised by the hot review and how the NAO had responded.
5. In the discussion the following points were made.
 - The assurance procedures set out in the paper were in line with expectation.
 - Feedback on the quality of financial audits contracted out by the NAO, and how this compared with the assessments of audits undertaken by the NAO's own auditors would be helpful.
 - The introduction of hot reviews was a welcome development which could usefully be drawn to departments' attention.
 - The decision on which VFM studies to undertake rested with the C&AG but subjects for study were normally discussed in advance with the relevant Permanent Secretary. On occasions it would be helpful if the NAO articulated more clearly to departments why they had selected a particular area for study, as such choices often reflected areas of concern to the Parliament rather than the topics that seemed most compelling to departments.
 - Government was often ahead of the private sector in establishing strong and consistent procedures for follow up and quality assurance, and the full quality assurance mechanisms described in the NAO's paper were comprehensive and sound.
6. In summing up Nick Macpherson noted the comprehensive assurance systems NAO had in place and welcomed the steps it was taking to bring in further improvements.

NAO Response to the Government's Efficiency Improvement Programme(Paper 2 ALG Jan, 06)

7. Michael Whitehouse introduced the paper. The Government's efficiency programme of achieving saving of £21bn was a significant

development and the NAO's role was to report independently on progress and achievement and to highlight good practice. The NAO had been working on a number of areas related to efficiency and the overall assessment was that departments needed to make concerted progress to move to a situation where efficiency was firmly embedded in day to day processes and activities. The first of the NAO's reports on the Government's efficiency programme was due to be published in February. The report was likely to conclude that good progress had been made towards achieving the Gershon targets but that reported efficiency gains should be treated as provisional until supporting data was of more consistent quality. Efficiency would be a key theme for a significant proportion of NAO reports in the future.

8. The NAO had undertaken three joint studies with the Audit Commission in 2005 examining delivery chains underpinning PSA targets on improving the delivery of affordable houses, increasing the public's use of bus services, and tackling child obesity. A fourth report drawing conclusions on the efficiency and effectiveness of departments' existing delivery chains was due for publication in March 2006.

9. In the discussion the following points were made:

- Departments had made a good start towards the £21bn efficiency savings target.
- The respective role and responsibilities of the NAO, OGC and departments in relation to the efficiency programme needed more clarity.
- The NAO had responded to a Government request to examine the robustness of technical notes produced by departments for measuring the delivery of efficiency savings.
- Delivery chains were becoming more complex, such as through the development of an increasing number of partnerships involving national and local agencies and the voluntary and private sectors and the pooling of a number of central government funding streams in local area agreements. Such changes made accountability less clear and it was becoming more difficult for auditors to confirm whether the money was being spent as intended by Parliament.
- There would be benefit from more visibility and clarity about respective accountabilities within the delivery chain. In this area there were many issues that were common to departments and it would be important for them to share good practice and knowledge.

10. Summing up Nick Macpherson said that he welcomed the work of the NAO on efficiency and would look forward to the publication of the fourth Report on delivery chains. It would be important to publicise the generic findings amongst departments.

Financial Management Reviews

11. Mary Keegan introduced a short presentation covering progress with the Financial Management Agenda. This was an integrated programme of change covering professional skills for government, corporate governance and effective and efficient corporate services and was aimed at improving financial management.
12. The financial management challenge was better corporate management of resources that were focused on delivery and risk and rooted in value for money. There was a need to institutionalise economy, efficiency and effectiveness within the management processes of departments. There was great support in departments for financial management reviews and so far 44 reviews had been signed off. Action plans for individual departments would be drawn up and agreed with their Permanent Secretaries. For smaller departments emerging common themes would be pulled together. A top down approach was being adopted with focus on improving central management and data, better governance, and financial skills for non-finance management. There would also be focus on shared services and IT agenda to drive out costs, enhance management and planning information with smarter and faster data, and professional skills in the finance function.
13. 60% of departments now had qualified Finance Directors. The Treasury will monitor how departments report on compliance with the corporate governance code requirements in their 2005-06 resource accounts. Looking ahead, during 2006 the Treasury would be examining structural issues such as taking stock of finance training and enhanced finance functions.
14. In discussion the following points were made:
 - Good progress made by departmental financial management reviews was welcome. Successful implementation of the resulting action plans would be crucial.
 - Improved financial management in departments would also help the Treasury's agenda of achieving faster closing of accounts and lesser number of qualifications.

- There were tough times ahead on public spending; departments needed to work more like commercial organisations with better understanding of their financial risks and opportunities.
- There were issues around governance of dispersed organisations such as agencies that were core to the delivery of many of departments' objectives. Lines of accountability and responsibility between a department and its agencies were often blurred. The agency framework document had not kept pace with policy changes over time and the evolving role of agencies.

In response to a query it was clarified that financial management reviews of departments did not cover effectiveness of internal audit functions.

- The private sector also had to grapple with management of dispersed entities. Private companies tended to ensure that their entities had clear objectives with reliable and timely financial information flowing from them to the corporate centre to enable effective monitoring of their performance.

15. Summing up the discussion, Nick Macpherson said that the vision of what departments did had changed over time. The Treasury would give some thought to the issues raised about agencies outside the working of the ALG.

C&AG's audit of NDPBs and Special Health Authorities: 2005 Survey Results (Paper 3 ALG Jan. 06)

16. Paula Diggle introduced the Treasury paper. A separate paper prepared by the NAO in response to the Treasury paper had also been circulated to members. The outcome of the survey provided an early indication of how the NAO services were viewed on the ground and may not tell a consistent story. The survey was central to implementing the Sharman recommendations and Parliament expected an honest account of the impact of C&AG's taking over of audit of these bodies.

17. In the discussion the following points were made.

- The NAO's own feedback from audited bodies had been broadly favourable in contrast to the survey findings reported in the paper which had a more negative emphasis.
- The NAO was keen to get feedback on their audit work and would welcome a discussion with any NDPB or SpHA that had concerns in order to resolve such problems.
- The NDPBs and SpHAs were new clients and the NAO had invested some time to know their business.

- The NAO and the Treasury would work together to bottom out the issues in the survey consulting relevant departments as necessary.

18. In summing up Nick Macpherson asked for a dialogue between NAO and Treasury officials about the issues identified in the survey.

Any Other Business

Qualification of departmental resource accounts for 2004-05 (NAO)

19. Martin Sinclair introduced the subject. This issue needed to be considered against the background of significant improvement in the overall position of departmental resource accounts. For 2004-05 there were two departments that had their accounts qualified. However, there were many underlying concerns that would benefit from a more top down management engagement with the resource account preparation processes. For the financial year 2005-06 two to five departments could be in difficulties with their accounts and eleven departments needed to improve their timetable to meet the faster closing timetable.

20. In the following discussion it was clarified that for the 2004-05 resource accounts one qualification was related to a long-term issue of fraud that the relevant department was keen to address. The second was a case of disclaimer of opinion on the financial statements.

21. In summing up Nick Macpherson said that good progress had been made in reducing qualifications over the years and the Treasury would welcome a dialogue with the NAO as and when cases arose.

Prime Minister's Delivery Unit (PMDU) – Departmental Capability reviews (HMT and NAO)

22. The key points made were:

- The reviews were a welcome initiative and a step forward towards achieving greater accountability by departments against a set standard. The reviews should be able to identify good practice that would be of use across all departments.
- The Audit Commission had done similar work for local authorities through Comprehensive Performance Assessment but that model was not appropriate for central government departments.
- The NAO was keen to be involved with the reviews and had seconded a Director to the PMDU.

Value for Money studies – expenditure areas for future studies (HMT & NAO)

23. The key points made were:

- The Treasury had done some useful work internally with the spending teams in identifying areas for future VFM studies and this had been shared with the NAO.
- The NAO found the list provided by the Treasury very helpful and would welcome any more ideas in the future.

Conclusion

24. Nick Macpherson thanked everyone for coming the next meeting would be hosted by the NAO in the autumn at a date to be fixed.

HM Treasury