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The future of public audit

MARCH 2015

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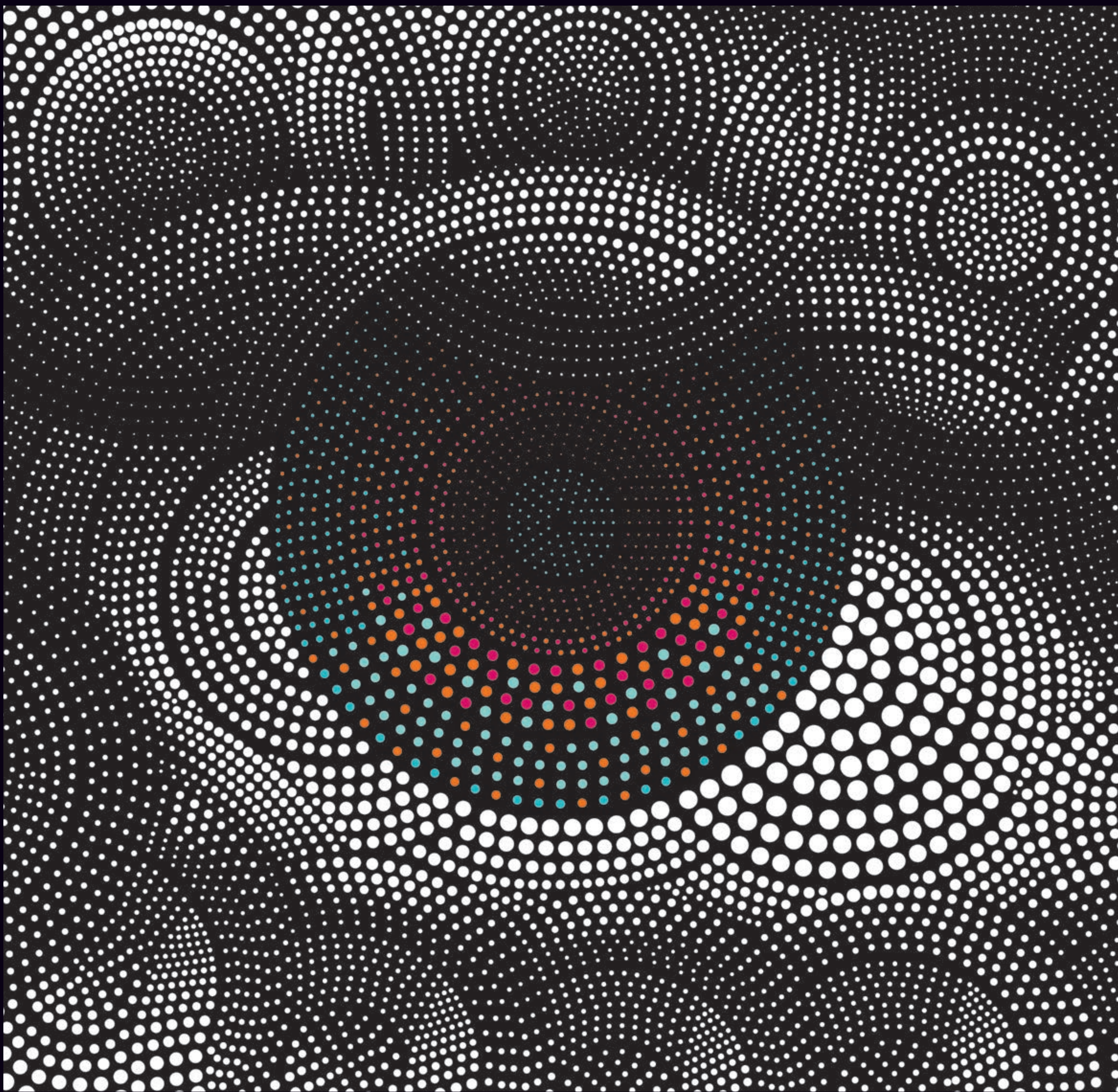

CIPFA The Chartered Institute of Public Finance & Accountancy

PF Perspectives

This is the first in a series of *PF Perspectives*, produced by CIPFA and *Public Finance*. They are designed to stimulate discussion on key public finance and policy issues. These essays, by leading practitioners in public audit and assurance, explore the challenges that all audit bodies face – in the UK and internationally – in ensuring that public money is well spent

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FOREWORD

MARGARET HODGE MP
Chair of the Public Accounts Committee

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This is a critical moment for public audit. In the UK and internationally the challenges facing the public sector are enormous. Soaring demand for services, rising demographic pressures, and the continuing climate of austerity have squeezed budgets as never before. In response to these pressures, governments have looked to new ways of delivering essential services, some of them more successful than others.

For those charged with protecting the public purse in this increasingly complex, fragmented landscape, the tasks are legion. It is no longer possible, if ever it was, to see the role of public auditors in narrow terms. They need increasingly to apply their assurance skills to a wide range of 'big picture' questions that help the public and policy-makers determine whether taxpayers' money is being wisely and prudently spent. In that sense, this collection of essays – brought together by CIPFA and *Public Finance* - is extremely timely and welcome.

In England, the process of public audit is of course undergoing massive change, due to the closure, after 32 years, of the Audit Commission. How the new assurance world will shape up is, as yet, unknown territory. But everywhere, public auditors are having to ask themselves whether their institutions and governance structures are truly fit for purpose in an era of austerity. Are they up to the job of scrutiny and oversight in a public services scenario where the terrain is shifting by the day, and where the restoration of trust in public bodies is at a premium?

Some of the answers, or at least the right questions, will be found in these *PF Perspectives*. The authors – who include past and present auditors general, along with influential senior officials and policymakers – bring a wealth of experience to their dissection of the issues.

Whether debating the impact of devolution on public audit, the role of local place-based audit committees, or the purpose of assurance on a wider global scale, these essays demonstrate that the function of public audit is very much a live and contested topic. It is also a role that – done right - will contribute significantly to the future resilience of the public realm.

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THE NEW LANDSCAPE OF ASSURANCE

Back to what public audit future?

ESSAY

BY LORD HESELTINE

Closing the Audit Commission is at best precipitous. We need a process for protecting the public purse. That may mean we have to re-examine the new structures for public audit

Lord Heseltine *is a Conservative peer and former deputy prime minister*

MORE THAN THREE decades on from the creation of the Audit Commission – and as it finally closes its doors – it is worth reflecting on what the reasons were for setting it up in the first place. It is also useful to ask which of the issues that prompted its creation are still relevant today.

The impetus behind the founding of the Audit Commission, back in 1983, was twofold. The first objective was to inject a greater degree of expertise from the world of private sector auditing into the previous monopoly of public sector auditing.

The second objective was to establish effective value-for-money public auditing. In other words, the aim was to properly compare one authority with another authority, and one service with another.

All this was happening against the backdrop of the Layfield report on local government finance, alongside a much broader discussion about improving public sector efficiency and carrying out wide-ranging public sector reforms. I was very heavily involved in all these important discussions, and we did of course make major changes to the way public services are delivered.

But the creation of the Audit Commission, which as environment secretary I personally instigated, was a discrete exercise in its own right; connected to these wider questions, but separate from them.

I had in fact attempted to get the government to legislate on the issue as far back as 1979. At the time, the Treasury – as is its wont – opposed such a move. But fortunately, after revisiting the issue a year later, the legislation eventually went through.

Like any radical measure that challenges entrenched interests, the creation of the Audit Commission initially received a mixed reception. However, the proof of the pudding was in the work it did. Throughout the eighties, the commission rapidly got going and began to do a first-class job.

Mission creep

The central principle behind the commission's work was that if you trust people with the public's money, you have to get value for that money. And the only way to do that is by measuring as best you can the outputs that public services make.

This principle remains as valid and critical today as it was then, which raises the question of what may or may not happen to public audit now, in a post-Audit Commission world.

I have made no secret of the fact that I regard closing the commission as a mistake, or at best precipitous. If I had been in a position of decision-making, I would have preferred to see the track record of the commission closely examined ahead of any final judgment on its fate.

There are those who say that as an organisation it had gone beyond its initial brief, and that it had taken on more responsibilities and was doing more things than were appropriate. In short, that it was guilty of what is often called mission creep.

I haven't carried out an examination of these claims, and have no knowledge of whether they are valid or not. It is certainly true that all human organisations, left to their own devices, have a tendency to grow exponentially and find new tasks to do, in order to justify their existence.

So was the Audit Commission, which certainly extended its mission far beyond its original one of achieving quality local audit, guilty of mission creep? I have no way of knowing, but neither do I think that there was necessarily anything wrong with extending its functions to examine local health bodies, blue light services or other parts of the public sector.

Indeed, at its foundation, I wanted the Audit Commission to go much further, and extend its auditing role to central government. There was of course flat resistance to that in Whitehall.

Value for money

All the management information systems that I invented for central government have long gone. There is little interest, on the part of either ministers or officials, in continuing the process and no prizes for those involved. And because most people consider these to be arcane, boring subjects, there is little public outcry at this state of affairs.

Another area where the Audit Commission has been accused of straying beyond its remit is in relation to the work it undertook on Best Value and performance management, particularly in the 1990s. Some critics argue that it became too closely aligned with the Labour government of the time, and was therefore seen as less of an independent body.

Again, this is something that any serious examination of the commission's history would have looked at rigorously, and drawn the appropriate conclusions. If it emerged that it had turned into an organisation that was incompatible with its founding principles, I for one would have been happy to see its powers stripped back.

As it is, we are now about to enter a post-Audit Commission world, confronted with many of the very same issues that prompted its creation in the eighties. Now as then, probity is the key issue for public auditors. Are people behaving within the law, and within their stated remit? And crucially, are public services providing value for money?

Lack of scrutiny

We'll see in the years to come whether the new arrangements provide sufficient information to make valid value-for-money comparisons; for example, on what it costs to empty a dustbin in one area as opposed to a similar dustbin a couple of hundred miles away. Or on the validity, or otherwise, of figures on NHS waiting times.

If we are able to get sensible and reliable answers, then that will be ok. If not, if those in charge say, we don't know, then there will doubtless be further questions to be answered.

At the time when the abolition of the Audit Commission was announced there was, naturally enough, little grief expressed by local authorities. No doubt, if you got rid of the private sector auditing function entirely, there would be cheers from many who would welcome the lack of scrutiny.

But at the end of the day, that won't do. We have to have a process for protecting the public purse, and for evaluating value for money. And if that involves re-examining the new structures for public audit – or even if it comes to it, reinventing the Audit Commission – so be it.

'The central principle behind the Audit Commission's work was that if you trust people with the public's money, you have to get value for that money. This principle remains as valid today as it was then'

Beyond the public service fragments

ESSAY

BY GARETH DAVIES

The forces of austerity and marketisation are sweeping through the English public sector. What must public auditors do to keep up?

Gareth Davies is a partner at Mazars LLP where he is head of public services

ASSURANCE PROVIDES VITAL evidence to support those held accountable for public services. It allows them to check that their understanding of an organisation's performance is accurate and that its systems of control are working as intended. It also allows them to demonstrate effective stewardship to their stakeholders. Some forms of assurance are aimed directly at the funders and users of public services, helping them to exercise their democratic rights or make choices between service providers.

If assurance is the fuel powering the machinery of accountability, it needs to be carefully adapted to the changing design and uses of the machine. So any account of the new landscape of assurance in England's public services needs to start with the changes sweeping through those services.

The rate of change in the nature, scale and risk profile of public services is higher now than at any point in our lifetimes. The causes of this are well rehearsed, with the most obvious being the public spending reductions already made since 2010 and still to come. The impact of these has varied between sectors and services, but none will be unaffected and many will be transformed or even eliminated altogether.

Budget reductions have been accompanied by a patchwork of policy changes, not all pointing in the same direction. Localist moves such as a power of general competence for councils, the partial localisation of business rates and the introduction of the New Homes Bonus have increased the scope for local discretion. Cynics might take the view that it is not coincidental that these steps have come at a time of austerity, leaving local authorities with more responsibility and fewer resources. But there is a brutal logic to the emerging picture in English local government – councils will be much less reliant on central funding and should therefore see a reduction in central oversight.

Contested territory

Accountability is not heading in this localist direction in all services. For decades, accountability for school performance and value for money has been contested territory. It remains that way with the current growth in the number of academies and the invention of the latest regional layer of oversight, outside local education authorities. The latest enormous reorganisation of the NHS has not prevented the accident and emergency difficulties of this winter from landing at the door of national ministers.

The aftermath of the referendum on Scotland's independence has added impetus to that big sibling of localism, devolution. Greater Manchester has made the running in securing greater control over transport and infrastructure investment, building on a long history of effective joint working in that city region. Other large conurbations are moving to catch up.

This development has led to calls for new forms of accountability, such as elected mayors for city regions, and new forms of scrutiny, such as a 'Greater Manchester public accounts committee' that would hold all public services in the area to account. This could be the boldest attempt so far to tackle the longstanding difficulty of holding multiple organisations to account for outcomes they jointly influence. Previous attempts have struggled to shift the view that if everyone is accountable, then no one is.

Another relevant force at work in many public service areas is the extension of the commissioner/provider model and further growth in contracting with the private sector. Commissioners in many service areas are managing a mixed economy of public, private and third sector providers and are grappling with the layers of accountability involved. The probation service is just the latest example of frontline provision becoming the responsibility of private companies working to a contract for services. A long-running and lively debate about the interaction of commercial confidentiality and public accountability for service results and value for money has not yet resolved into a clear way forward.

One final set of changes is also having an impact on public service accountability – the growth of social media and webcasting. Some local authorities now routinely stream video of their council and committee meetings and provide archived online recordings of those meetings. Engaged citizens use blogs and Twitter accounts to share their views on decisions and debates. Freedom of Information requests (and the answers) are gathered into searchable online databases.

So the systems of accountability in our public services are being reshaped by a set of forces working in different ways in different sectors: austerity, localism, devolution, joint working, commissioning, outsourcing and social media. How are assurance providers keeping up?

Focus on financial resilience

First, it's necessary to ask: what is being assured? For such a basic question, there is a surprising lack of clarity in many areas. Perhaps the firmest ground is the audit of accounts. The need to demonstrate independently that public funds have been properly accounted for is the oldest and most established form of assurance, with agreed standards governing the work of all auditors. But even here, change is coming.

In the name of localism, local public bodies (including councils, fire and rescue authorities, police bodies and NHS commissioners) will join NHS foundation trusts in becoming responsible for appointing their external auditors, rather than have them appointed by an independent body. A large number of smaller local councils (those with annual expenditure less than £25,000) will be freed from the requirement for an external auditor to perform a limited assurance review. The supply of local public audit in England is now fully privatised.

The fact that these changes apply only to England, and not Wales or Scotland, will provide researchers with ready-made sources of evidence to test various hypotheses. Will the end of the independent appointment of auditors have any impact on the robustness of audit reporting? Will audit fees be lower? Will small parish councils become more vulnerable to fraud or incomplete accounting for the public money they control?

'There is a brutal logic to the emerging picture in English local government. Councils will be much less reliant on central funding and should therefore see a reduction in central oversight'

External audit in the public sector has long provided assurance beyond the accuracy of the accounts. One of the principles of public audit is its broad scope, reflecting the fact that taxpayers cannot legally withhold payment if they lose confidence in how their money is being used. This scope has for a long time included assurance on the legality of public spending and whether adequate arrangements are in place to secure economy, efficiency and effectiveness in the use of resources (value for money, for short). The new local audit arrangements have not changed this broad scope. The National Audit Office has taken on responsibility for the Code of Audit Practice, which provides auditors with their marching orders. The revised code takes much the same line on legality and value for money as its predecessor.

But what level of assurance on value for money does the external audit provide? Over recent decades the work done by local auditors to meet their responsibilities has taken many forms. Detailed reviews of individual service areas (based on national studies) were superseded by examination of key lines of inquiry designed to generate scored assessments of corporate arrangements. In turn, those have been replaced in the era of austerity by a focus on financial resilience, with significantly less auditor resource and cost required. For assessments of service quality (the 'effectiveness' element of value for money), auditors now rely to a significant extent on the work of the specialist inspectorates of children's services, adult social care, healthcare and policing. These inspections do not cover all areas of spending. At a time when the reach and quality of service provision is coming under pressure from funding cuts, it is not clear that auditors have access to sufficient evidence to be able to form a comprehensive view on whether the budget has been balanced at the expense of service quality or outcomes for local people. ▸

The National Audit Office has picked up another new role with the abolition of the Audit Commission. It now has the power to include local government in its value-for-money reviews, allowing big changes to be followed from government policy-making all the way through to local implementation. It will be interesting to see how this area of work develops, and in particular how the NAO's role in supporting parliamentary scrutiny adapts to holding local government as a whole, and perhaps individual councils, to account. Perhaps the NAO will work with local auditors in a city region to support scrutiny reviews by the emerging local public accounts committees?

A growing proportion of the total public service assurance effort is being devoted to assuring the protection of vulnerable people. The recent series of scandals in child protection, hospital care and adult residential care have driven a renewed focus on the inspection of service providers in these sectors.

Specialist chief inspectors have been appointed to each of these service sectors and the number of inspectors has increased. New inspection methodologies have been developed to increase the likelihood that care failures are detected, such as greater use of unannounced inspections. Commissioners of services for vulnerable people are becoming highly dependent on the evidence provided by the inspectorates across the mixed economy of service providers.

A further source of evidence for those seeking assurance on the quality of service provision, particularly where some form of user choice is emerging, are the direct views of service users and other stakeholders. The 'friends and family test' in the NHS is now a key performance measure for healthcare providers. The NHS Choices website allows patients to rate and comment on their GP practice and prospective patients can browse the comments before deciding where to register. As a source of assurance, such TripAdvisor-like models have similar pros and cons to their private sector counterparts. But given the demand for first-hand experience, it seems likely that they will develop into a useful addition to the information provided by official inspectors and auditors.

> 'The NHS Choices website allows patients to rate their GP practice. As a source of assurance, such TripAdvisor-like models have similar pros and cons to their private sector counterparts'

'Three lines of defence' model

So far, this survey of developments in assurance has focused on the assurance provided externally by agencies and individuals independent of the public service organisation. But those responsible for public services cannot and do not rely only on external auditors, inspectors and service users to know what's going on in their organisation.

Modern governance arrangements are based on a 'three lines of defence' model, setting out how boards and other governing bodies gain the assurance they need that the risks facing the organisation in achieving its objectives are being identified and managed. The first line of defence consists of the organisation's management arrangements, ensuring that the people, structures and systems in each part of the organisation are up to the task of delivering services to the required standard within available resources. Managers are expected to spot and deal with emerging pressures, escalating risks to more senior levels in the structure where necessary.

The second line consists of the oversight arrangements (such as risk or audit committees) put in place to review how well the first line is doing its job of identifying and managing risk. The third line of defence includes assurance providers independent of the management arrangements – predominantly internal audit.

The first and second lines of defence both need reliable and timely information on service and financial performance, as well as assurance that the internal controls they have put in place to assist with risk management are working as intended. This last area is the focus for most internal audit activity. Internal auditors are increasingly being challenged to provide assurance by audit committees and boards on strategic and management risks outside the core financial controls that have traditionally formed the staple diet of internal audit plans.

This has obvious implications for the skillset and specialist expertise of internal auditors at a time when resources are being squeezed for this service as much as any other. The trend in public sector internal audit is for larger aggregations of teams, such as the formation of the new Government Internal Audit Agency for central government departments and mergers of NHS internal audit consortiums. One aim of these changes is to provide the specialist capability of offering assurance on more complex risks and controls.

In conclusion, assurance providers are responding to radical changes in the risks and accountability structures of English public services. Much depends on the quality of that response at a time when they are themselves being reshaped by the same forces of austerity and marketisation sweeping through the public sector.

A brave new world for local audit?

ESSAY

BY MARCINE WATERMAN

As the Audit Commission finally shuts its doors, there are a host of outstanding questions about practicality, cost and the value of public audit

WITH THE CLOSURE of the Audit Commission, on March 31, the transition to new arrangements for local public audit starts in earnest. They have been almost five years in the planning. A good deal of work has gone into ensuring that the changes are as seamless as possible. For example, the National Audit Office laid the new Code of Audit Practice before Parliament, ahead of it taking effect on April 1.

The nature of the changes requires stakeholders to adjust to dealing with a wider range of organisations than at present. These include Public Sector Audit Appointments (PSAA) – the independent company established by the Local Government Association to manage our contracts with audit firms – the NAO, the Cabinet Office and the Department for Communities and Local Government. Life will be more complicated for audited bodies, which will have to liaise with government departments, regulators and auditors, about various issues previously dealt with or coordinated by the commission. It is not clear, for example, who will investigate complaints against auditors or their fees after we close.

To give an idea of the new complexity, the 'future functions at a glance' table on the commission's website has almost 40 rows charting the correct point of contact for a range of different circumstances. The Audit Commission will not exist to see how the new arrangements work in practice, although former staff will be watching closely with interested stakeholders. The questions I am curious to see answered fall into three categories: practicality, the cost of audit and maintaining the value of audit.

Practicality

Will stakeholders receive enough clear information about the transitional arrangements leading to the new local appointment of auditors?

PSAA will manage audit contracts until 2017 or 2020. So auditor panels, local procurement of auditors and any sector-led procurement bodies will not be needed for some time after the commission closes. These future arrangements and their timetable remain uncertain. This means that stakeholders will need clear and timely information to help them prepare for procuring their own auditors, and for when the new regulatory framework is fully in place.

Who will collect information about local audit to paint the big picture?

Armchair auditors were meant to come to the fore in response to local government releasing more information onto the web. To date, they have not done so in a way that allows comparisons across the piece. This is not just an issue for independent commentators. Central government relies on information provided by auditors and collected by the commission – for example, to demonstrate that money passed to local bodies has been spent properly. It also helps people trying to hold their council to account for late publication of audited accounts, or for a qualified audit opinion, to know that almost every other authority was able to meet the deadline with a clean audit opinion. The Local Audit and Accountability Act 2014 does not provide for the national collation and reporting of the results of local audits. We believe this information is important to taxpayers and accounting officers and should be available. ▶

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Marcine Waterman *led the Audit Commission as controller of audit from September 2012 to March 2015*

PSAA will publish information on the results of auditors' work at local government bodies, including small bodies, until the end of current contracts with audit firms. After that, there has been no clear or specific commitment to produce reports setting out the big picture across local government, or across health, as our *Auditing the accounts* reports have done. I hope this will be addressed.

How successfully will multiple regulators work together, particularly after our audit contracts finish?

The new arrangements for the regulation of local audit break up the regulatory framework. The NAO, Financial Reporting Council, Recognised Supervisory Bodies, local auditor panels and audit firms will all have parts to play. This creates a number of uncertainties about how local appointment and oversight of auditors will work. Some roles and responsibilities need clarification – for example, about which body will receive and investigate complaints about auditors' conduct. There will be a need for memorandums of understanding between organisations taking over functions from the commission, to support their effective and co-ordinated operation.

How will the arrangements for small bodies work in practice, and will they ensure accountability?

The new arrangements are complex and present practical challenges. The partial exemption of the smallest authorities (those spending less than £25,000 a year) from audit and assurance requirements presents them with a number of practical problems. In particular they will face higher audit fees (particularly those bodies currently charged nothing) because they will have to incur the costs of 'retained auditors'.

For small bodies in general:

- Firms are likely to charge higher prices than currently to bodies in remote locations.
- If, as seems possible, a sector-led body for smaller authorities does not develop, they are likely to lose economies of scale and scope in procuring audits.

In 2013/14, auditors qualified the accounts of 597 small bodies that will become exempt from routine external audit. The risk is that removing independent external auditor scrutiny will reduce the pressure on these bodies to account properly for their financial performance.

The cost of audit

Will the current audit contracts be extended, avoiding procurement costs and locking in inflation-proof low prices for a further three years?

The government has announced it will decide in summer 2015 whether the commission's audit contracts will last until 2017 or be extended to 2020. There is very little room for slippage. I believe that the government should:

- Obtain the views of local bodies on the advantages of locking in inflation-proof contract prices in time for an effective decision.
- Ensure local bodies, auditors and other stakeholders have time to prepare for any impact on the timetable for local procurements.

Will a sector-led body emerge to be an 'appointing person' under the Local Audit and Accountability Act, able to minimise procurement costs and secure lower prices?

The Local Audit and Accountability Act 2014 allows the secretary of state to specify a sector-led body to be an 'appointing person'. There was strong support for this measure during parliamentary scrutiny of the Local Audit and Accountability Bill and among leading bodies in local government. However, this depends on different organisations acting in time. The timing will also need to fit with the government's decision about contract extension. If organisations do not act in a co-ordinated fashion, this puts at risk the possibility of collective procurement and appointment to access economies of scale.

How will the audit market develop after our audit contracts end?

Local appointment of audit will operate in a less managed market. There is a risk that, over time, there will be fewer providers of audit services to local public bodies, not more. This would increase the difficulty of making joint procurements in the absence of sector-led appointment bodies. Without mandatory central procurement of audit, costs will almost certainly rise. Without a central body, firms lose the ability to spread costs and risks over a larger body of work. This suggests that:

- Smaller audits or those in more remote areas will be less attractive to firms without higher prices.

'Armchair auditors were meant to come to the fore in response to local government releasing more information onto the web. To date they have not done so'

- Local public bodies will have to bear the costs of complying with European Union procurement rules every five years.
- Larger organisations will come to dominate the market over time because they can achieve economies of scale and, with fewer providers, prices will rise.

Protecting the value of local public audit

Will the new arrangements deal effectively with the differences between private and public audit?

The government wishes arrangements for regulating local public audit to mirror those in place for company audits. Public audit has a wider scope, such as examining arrangements to secure value for money, and this has direct implications for auditor qualifications, audit regulation, quality monitoring and the application of ethical standards in local public audit.

In particular, the risk of conflicts of interest calls for effective oversight of how firms apply ethical standards to their non-audit work. Our experience suggests this needs close monitoring. The planned CIPFA guidance on setting up and operating auditor panels will aim to address these risks.

How will auditor panels work in practice?

Will there be confusion about roles and responsibilities between auditor panels and audit committees? As a minimum, each authority should review its constitution and standing guidance to minimise this risk.

Where authorities set up combined auditor panels to make joint procurement more efficient, they will have to consider how to handle issues that involve one body alone. For example, an authority commenting on findings that may lead an auditor to issue a public interest report, may be unwilling to have these discussed by others.

A number of bodies have expressed concerns about the availability of appropriately experienced members for auditor panels.

Will auditor panels support locally procured auditors to be sufficiently robust in addressing financial and governance risks?

Defending the role of external audit is more important than ever in the current environment, which poses risks to good financial management and governance. Local authorities are under financial pressure, leading to a greater chance that some may:

- Cut their finance function inappropriately or downgrade the position of their statutory officers, who have a duty to protect the quality of decision-making with regard to finance and legality.
- Reduce the number of fraud investigators. We reported evidence of this trend in our latest *Protecting the public purse* report.
- Cut the level of their scrutiny support function, which provides challenge to decision-making – as evidenced in the latest Centre for Public Scrutiny survey.
- Attempt to make transformational service change (such as massive outsourcing or integration) at high speed.

Councils can and will continue to adapt to financial circumstances. Where conventional strategies can no longer be relied on to deliver savings, they will need to develop new approaches to public service delivery that rely less on government funding. Undoubtedly they will face risks as they do so, and local public audit will need to be robust to maintain visible accountability. With the commission closure it will be for the government and others to:

- Find alternative ways to draw on auditors' insights into councils' financial resilience and remain vigilant for signs of financial stress.
- Ensure councils continue to fight fraud vigorously.
- Simplify the new arrangements.
- Keep audit fees as low as the commission has been able to keep them.

No matter where my career takes me next, I will be watching the new audit arrangements with great interest, having spent three years overseeing the current system (and 19 years at the commission before that). Ever the optimist, I've taken the inspiration for the title of this piece from Shakespeare's *The Tempest*. The brave new world of local audit may result in us celebrating, as Miranda does, 'beauteous mankind' – or at least the way public money continues to be robustly accounted for. The other vision of the brave new world, Aldous Huxley's, doesn't bear thinking about.

'Defending the role of external audit is more important than ever in the current environment'

Not your average company auditor

ESSAY 4

BY ROB WHITEMAN

Public audit requires a different set of skills and experience from the private sector. This is one of many issues that the new assurance arrangements fail to address

ONE CAN NEVER be certain what's around the corner. When the First Fleet of English settlers found Botany Bay inhospitable, they revisited Captain James Cook's charts of 18 years earlier and noticed a bay of little significance just up the coast. Taking one ship, Captain Arthur Phillip decided to sail in there anyway and found a strait which after a while opened into Sydney Harbour. He planted a flag on what is now Australia Day and the rest is history.

So what's this got to do with public audit? Simply, that we are in new uncharted territory in England after the abolition of the Audit Commission; one where we cannot anticipate what lies ahead. We think we know how all this will work, but I would caution that there will be some unintended consequences not accurately charted thus far.

Although the Audit Commission closes with effect from March 31, existing audit contracts will continue for the next two years, with the new regime coming fully into effect from 2017. While this might give authorities and auditors time to adjust to new arrangements, equally valid is a view that it may add cost and uncertainty at a time when local service delivery is under increasing funding and demand constraints.

Margaret Hodge MP, launching the report of the ad-hoc committee that subjected the Local Audit Bill to pre-legislative scrutiny, said: 'The committee is concerned that the proposed new arrangements as set out in the draft Bill will result in a more complex and fragmented audit regime. We believe that the principle of independent audit – which has guided public sector audit for the last 150 years – could be undermined if the Bill is not amended.'

Armchair auditors

While some amendments were made, many observers remain concerned that the requirements set out in the Local Audit and Accountability Act have not addressed the issue of complexity, which may result in a reduction in the accountability of the local public sector to citizens, and will fail to meet the government's stated policy objectives.

There are four points to consider that have led me to have these concerns. Hopefully these worries will prove to be ill-founded in practice, but I think we should test and assess the new arrangements. First, the Act has created three tiers of relevant authority based on gross annual income or expenditure (turnover). Those with turnover of more than £6.5m will be subject to a full audit – so we expect no change in accountability there. But those with a turnover of less than £25,000 will be exempt from audit (regardless of the size or complexity of their asset holdings); and those in between (so-called 'smaller authorities') will be subject to an assurance review. Contrast this with the current approach where smaller authorities are those with turnover of £200,000 or less and there are no exemptions.

In place of audit, authorities with a turnover of less than £25,000 will be subject to the new Transparency Code for Smaller Authorities that, the government believes, will enable local electors and ratepayers to access relevant information about the authorities' accounts and governance. I question this, not least because the existing transparency agenda hasn't led to the army of armchair auditors that the government expected. This

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__Rob Whiteman__ is chief executive of CIPFA change, then, arguably leads overall to less accountability.

There is some logic behind the desire to align the audit regime for the local public sector with the Companies Act regime. There is an argument that councils and NHS trusts as public bodies will not receive the quality they deserve if they uniquely do not appoint external audit. However, it is intriguing that the Local Audit and Accountability Act does not align with the Companies Act in one key area: in order to be classified as a small company, the company has to meet two out of three criteria. In addition to a turnover of less than £6.5m, the others are gross assets of less than £3.26m and fewer than 50 employees. Had the same conditions been applied to relevant authorities, the number of smaller authorities would have dropped dramatically and current levels of accountability would have been maintained.

For me the important message to retain during change is an understanding of the totality of purpose of public audit. Public sector auditors don't just audit the financial statements and assess compliance with accounting standards (important though that is). They assess the regularity of expenditure and, depending on the precise function they are auditing, look at governance issues and might also review the arrangements for ensuring that public money is used economically, efficiently and effectively. And they have to stand ready to consider questions and objections from local electors and might need to undertake additional work if a Public Interest Report and/or judicial review is deemed necessary. Not the work of an average company auditor – these additional aspects require additional skills, particularly in assessing value for money and in deciding whether an elector's objection should be upheld.

> 'The principle of independent audit has been eroded. Most councils can be trusted to appoint a good quality auditor. But can all?'

Specialist teams

So that leads me to my second point. There appears to be a view that any company auditor can audit a set of local public sector accounts. However, if one looks at the firms that are already engaged in this field, you see that they have specialist public sector teams and thus recognise that company and public sector audits are not wholly identical. CIPFA's new Public Audit Qualification (which is not mandatory for company qualified auditors) gives training in the skills required as part of the course of theoretical instruction that all trainee accountants go through; but even then it is experience of dealing with such matters that is vital to ensure quality.

Thirdly, the principle of independent audit has been eroded. Most councils can be trusted to appoint a good quality auditor for the right reasons. But can all? The Act is quite clear that each authority will be required to appoint its own auditor. But authorities can do this is in a number of ways: acting alone and establishing an auditor panel to oversee the process; joining other local bodies to appoint jointly (with one auditor panel to cover all partners); or opt-in to (or out of) a central procurement process, where no auditor panel is required. While central procurement is welcome in that it has the potential to remove burdens from local authorities and should allow for the economies of scale that the Audit Commission achieved, the new approach may have unintended consequences or lead to confusion. For example, those authorities that are exempt from audit are not exempt from appointing an auditor. This is because they too need to be ready to deal with electors' questions and objections, so will opt in or out of central procurement.

My fourth point is that given the nature of the market where some large individual councils or groups of councils will attract most responses, some smaller organisations may find sub-optimal quality or cost. One of the government's stated policy aims is to open up the market in local public audit, which it anticipates will help reduce costs. This is a laudable objective but in an open market this could mean the larger and more experienced auditors work for the larger clients while smaller bodies attract new and less experienced providers. Might the clients with greatest audit risk attract the providers carrying more delivery risk?

Of course, in raising these concerns I recognise the safeguards of the new system too. In awarding an audit contract (alone, jointly, or through central procurement), an authority would be rightly criticised if it didn't pick an auditor with the relevant experience to carry out a proper audit (including the wider, public sector specific requirements) and, indeed, the Financial Reporting Council will also require the person responsible for signing off an authority's accounts to have relevant experience.

Almost five years since the announcement of the Audit Commission's abolition, we have another two years of the existing arrangements before we sail into the unknown. Will the system work as intended? From the point of view of public accountability, I certainly hope so, but I have my fingers firmly crossed.

AUDIT NUTS
AND BOLTS

No more back-seat driving

ESSAY

BY SIR DEREK MYERS

Public audit needs to shape up and become more interventionist. The economic climate demands that it's in the front seat, driving change

I GRADUATED IN the artsy end of social sciences. I preferred words to numbers. Even in economics, I preferred rhetoric over graphs. Studies show I was illustrative of baby boomer graduates, many opting into expanding public services. We didn't do science. We barely did maths.

A generation of folk promoted, however surprisingly, to senior office, but who still liked the well-argued paragraph more than heavy data, perhaps explains why so much public policy continues to be driven by many factors, though rarely hard evidence. Mind you, that famous chemist, Margaret Thatcher, thought conviction was quite enough.

A while ago audit was an important but limited trade. Not required or expected to be creative, it was about checking and reporting, essentially on whether records were in order and whether processes were in place and in compliance. Audit was more tolerated than cherished. Regarded as acceptable but a little odd, like an early vegetarian among a crowd of sausage eaters.

In my version of history all this changed with the creation of the Audit Commission, which began work in 1983. The story of this creation is fascinating, with telling anecdotes about the prestige, salary and importance to be attached to the first senior staff appointments. Truly audit had arrived.

Over the next decade, audit climbed from the back seat of the car where it had sat quietly, occasionally looking backwards to consider what had been run over, into the front seat where in something closer to real time it felt confident to comment on the driving.

The age of the interventionist auditor had begun. The democratically elected rascals in Lambeth and Liverpool were surcharged and a legend was born as the fearless, relentless district auditor John Magill became very interested in the decision-making at Westminster City Council.

A counterbalance to politics

If public auditors could be this much of a counterbalance to politics; this much of a deterrent (Westminster's Lady Porter was eventually to pay back £12.3m), then the extension of audit into inspection became inevitable. First it was social care, then education, then fire, then everything through Comprehensive Performance Assessment.

As a serving council chief executive I loved this challenge and prospered in these years. Give me a marking schedule and I was ready to show my homework.

And I do not think I was alone, even though the received wisdom is that the Audit Commission post-CPA and when stretching for Comprehensive Area Assessment, overreached, designing an apparatus that was just too ambitious, too process heavy, too confidently asserting that all the variables in local service provision could be credibly synthesized and labelled. It had designed its own hubris.

And so the pendulum swung back. In the name of localism, the Audit Commission was slain in a decisive blow by a bold secretary of state, in an era of manufactured press hysteria about expenses and excess. So where does this leave public audit now? Keen to dust itself down and go again, I rather hope. ▶

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Sir Derek Myers is chair of audit committees at Public Health England and the Royal Botanic Gardens, Kew

We are now, we are told, in a decade of austerity. Assumptions long held about reasonable redistribution of wealth to support public services for all and support for the few are being either challenged or abandoned.

To the political winners go the spoils, so let democracy have its day. But in my old-fashioned way I worry that budget requirements or political convenience (zero council tax rises despite massive cuts) are coming apart from duties given to statutory bodies by Parliament. If as a country we cannot afford public services, then the current duties should be repealed. Until they are, public servants should be loyal to their central mission. And auditors should note and 'mind the gap'.

These duties fall a lot to local government. The NHS is surprisingly light on specific duties, but common law and the, as yet largely untested, NHS constitution (which talks of 'rights' to comprehensive coverage, excellence and best value) provide benchmarks against which an interventionist auditor could compare what she or he observes.

To prompt this, let me lay out my proposals for the future of public audit:

> 'We are now in a decade of austerity. Assumptions long held about reasonable redistribution of wealth to support public services for all and support for the few are being challenged or abandoned'

1/ TIMELINESS

In local government, external auditors can at any time issue a report in the public interest that is in effect an admonishment. Given the proper importance of this manoeuvre, such reports are few and far between and only happen after months of forensic inquiry.

I would like both internal and external auditors to seek under their terms of appointment the right to offer formal warnings if they get a well-conceived sniff that the audited body is adrift from its statutory duties. Such a public warning would upgrade the surrounding decision-making to ensure a fully debated change takes place. These reports would not have to be so diligently researched. They would be a yellow card, not a red.

2/ SCOPE

If I set auditors up to be the assurer of the public interest then their scope should extend to more than just:

- Has money been well accounted for?
- Has value been generally sought?
- Have losses been deterred?
- Is decision-making lawful?

And should be extended to more demanding areas such as:

- Are services free from discrimination?
- Is decision-making coherent (do decisions across the institution appear joined up)?
- Are decisions mindful of duties?
- Are there ignored risks to the sustainability of the enterprise (ie, poor forward planning)?

This might sound a formidable checklist but what statutory body would not want to be able to display that at all times it can demonstrate these things to be true?

3/ SIGNIFICANCE

Currently in local government, auditors have to report to 'those charged with governance'. This often turns into a tepid setpiece. There are other debating arenas where more lively debate might be expected. Audit output ought to:

- Be integrated with other regulatory reports (from inspectors and reactive regulators such as the Health and Safety Executive).
- Take account of other reputation-critical information, including complaints patterns and Ombudsman's findings.
- Be brought together in a proper annual report of equal standing to the institution's annual accounts.

And this final report ought to be debated at a setpiece event to which the public should be invited; which ought to be webcast and of which an audio record should be both kept and made available on request.

4/ ENHANCED PROFESSIONALISM

Auditors need an interested, responsible audience for their work. Hopefully all managers will embrace this ethos. But audit committees need to be of the strongest quality.

I think:

- Audit chairs should only be drawn from a pool maintained by CIPFA. Sloppy performance should lead to expulsion.
- Audit committee chairs should have compulsory training and, in time, a recognised qualification.
- There should be a code of practice (not just the Treasury code) that lays down expectations about the public reporting duties of audit committees and the whistle-blowing duty if audit recommendations are not implemented with reasonable dispatch and diligence. The Public Accounts Committee is probably the most suitable body to police these extremes.

5/ CHANGE WITHIN THE AUDIT PROFESSION

I have never met an auditor who was not thoughtful, reasonable and committed to the public interest. But I have met too many who are quiet, understated and place considered judgment too far ahead of firm assertion.

If auditors are to be more influential they need to be more in the moment; more scary, more demanding. This suggests a development agenda including assertiveness, influencing skills and public speaking.

Auditors should have public emails; should be willing to talk to community groups; should engage in civic life.

> 'If our expectations of communally funded services are being thrown up in the air, then audit must adapt accordingly'

6/ NEW LEGISLATION

A more interventionist public audit function will require statutory underpinning.

In the modern way a reforming government could publish a draft Bill to stimulate debate. A bold government might want to shake up audit responsibilities for publicly listed companies too. My expectation as a shareholder is that auditors protect my interests from management excesses (executive pay, expenses, vanity buildings, etc) just as much as I expect public auditors to protect my interests as a taxpayer – but that is the start of another article altogether.

Public audit has had a fascinating 50 years. If our expectations of communally funded services are being thrown up in the air then audit must remain contemporary and adapt accordingly.

No-one ever got sacked for managing a tight finance system but the stakes are higher than just going through the motions on control and risk. We can trust auditors to hold us to the highest standards when we work on behalf of others. This will sometimes be inconvenient and irritating but it will always be fundamentally noble. ●

Following the public pound

ESSAY

BY CAROLINE GARDNER

Delivering world-class public audit in changing circumstances demands that we think differently and experiment with new ways of working. Scotland is pointing the way

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Caroline Gardner is Auditor General for Scotland

AT ITS HEART, audit is as much about looking forward as it is about hindsight. We do play a major role in deterring fraud and corruption and in providing assurance about the use of public money, but at our best we also identify opportunities for improvement by increasing insight into the way public money is used, and offering foresight about financial sustainability, risk and performance. And as public audit in Scotland stands on the brink of significant change, that dual perspective has never been more important.

As Auditor General for Scotland, I and my colleagues in Audit Scotland scrutinise more than 200 public bodies that collectively spend £40bn of public money a year. Providing independent assurance to Parliament and the people of Scotland that public money is spent properly and provides value for money is a fundamental responsibility. But in a world where tough choices about public finances are unavoidable, public audit can also play a significant role in fostering an environment where difficult or challenging issues are better understood, and are met with strategic, transparent and effective action.

It is exactly this kind of environment that we are working in now, as Scotland prepares for greater fiscal autonomy within the UK. The Scotland Act 2012 is already on the statute book, bringing new borrowing and tax-raising powers, and the UK government has recently published draft legislation that gives effect to the recommendations of the Smith Commission for significantly greater financial devolution in future. One of the commission's less noticed, but very much welcomed, recommendations was that the Scottish Parliament should seek to expand and strengthen the independent scrutiny of Scotland's public finances, in recognition of the additional variability and uncertainty that further tax and spending devolution will introduce into the budgeting process.

Implementing these new powers, a big task in itself, comes at a time of increasing financial pressure on public services and growing demand from an ageing population. Public bodies have so far coped well with the considerable financial challenges of the last five years, but increasingly difficult choices will be needed about how to spend the money available and, in future, about the use of the new powers to raise taxes. All of this combines to create a very particular set of circumstances in Scotland that makes the state of the public finances and their transparency especially important. It also presents a golden opportunity to build on the country's record of sound financial management, promote public understanding and engagement, and foster confidence among potential lenders.

In Audit Scotland we have been taking stock over the past year, focusing on what people value about our work, what they expect of public audit and how we can meet those expectations. We've been listening to the views of our stakeholders and staff, and reflecting on our 15 years of supporting parliamentary scrutiny, to build a vision for the future that will be delivered in our strategy for public audit later this year.

We are still shaping that vision, but what is emerging is a clear ambition to deliver world-class public audit that responds robustly and effectively to changing circumstances and emerging issues, to aid Scotland in facing the complex demands of its financial future. That will mean thinking differently and experimenting with new approaches to our work while maintaining the core principles of public audit. For example, our independence remains our most valuable asset and is critical to our ability to work effectively. This culture is firmly embedded across our organisation and is built into its foundations; as Auditor General I am independently appointed by the Crown on the recommendation of the Scottish Parliament, and Audit Scotland is governed by a board whose chair and two non-executive members are appointed by the Parliament's Scottish Commission for Public Audit.

But it is the nature of public audit that our professional and independent judgments will often be challenged by those we scrutinise. That means we need to strike the right balance between safeguarding our independence and maintaining open and constructive engagement with those we audit; we need to understand what they're trying to achieve and the challenges they're facing, and we need to ensure that our reports are always evidence-based, fair and balanced.

Here in the UK, we're fortunate that there are well-established and understood systems of parliamentary scrutiny, using our work to hold government to account in an objective and impartial way that recognises our independence of party politics. But, if we risk becoming complacent, there are many sobering examples around the world of what can happen when that objectivity is threatened.

My own experience of responding to fraud and corruption in public finances has been earned mainly in government and in public services. As Chief Financial Officer for the Turks and Caicos Islands in 2010, I witnessed first-hand the chaos and confusion that can occur in the aftermath of a widespread financial crisis, and the significant work that is needed to pull public services back from the edge once infrastructure, and public confidence, has been threatened.

My time in the Turks and Caicos Islands was the toughest 12 months of my career but it was also incredibly valuable, as it reinforced the need for, among other things, transparency around financial management if bodies are to be properly held to account for how they spend public money and how that impacts on service delivery.

Public audit can contribute to creating a strong and effective system of financial accountability and transparency. Cultivating that transparency is one of the key objectives of Audit Scotland's work, particularly as we recognise that public services are often delivered within complex networks of partnerships and arm's-length or private sector bodies.

In turn, auditors have a responsibility to ensure that we understand those complexities and can effectively navigate those networks, by learning about the environment and culture in which public bodies operate, and the unique objectives and challenges they face when delivering services. That understanding enables us to focus our audits and investigations where they add most value.

And that commitment to open and transparent engagement stretches even further, beyond the public sector and the bodies we audit. Once upon a time, it was safe to assume that the world of public audit was unlikely to generate headlines or attract much curiosity from anyone beyond those working in the business. But the legacy of the financial crisis and our increasingly charged political climate – heightened at times of elections – has contributed to a growing awareness of the importance of sound public finances, and a desire to engage more actively in decisions about public services. The media, and in turn the public, are paying closer attention to the findings and recommendations of our work, recognising that we provide an independent and informed perspective that can make a major contribution to debate and decision-making.

We've seen this particularly in relation to our recent audit work on the health service in Scotland, with our findings regularly raised in Parliament, by healthcare professionals and in the media, to support arguments and calls for change on all sides of the political debate. We're widely recognised as an impartial source of independent analysis and commentary on public expenditure and the challenges facing public services, and that gives our conclusions and recommendations authority and credibility. We're absolutely committed to working with the Scottish Parliament, and especially its Public Audit Committee, to provide strong and effective scrutiny that improves the use of public money.

We have a unique chance to respond to the challenges and opportunities ahead, by using our role to support the Scottish Parliament and public in understanding the way public money is managed and the choices that need to be made. If we get it right, this will in turn help to improve our own work by ensuring that it is relevant and timely, and makes a genuine contribution to progress.

By taking this approach and following the public pound, wherever it is spent, I hope we create a future where it is taken for granted that public audit plays an essential part in ensuring that Scotland's public finances are well managed, and that services continue to improve to meet the needs and expectations of users, taxpayers and society as a whole.

> 'We need to strike the right balance between safeguarding our independence and maintaining open and constructive engagement with those we audit'

A place-based approach to restoring trust

ESSAY

BY JESSICA CROWE

Local public accounts committees are one way to deliver better governance that can't be achieved through decentralisation alone

BEN PAGE OF Ipsos MORI is fond of citing a 1944 Gallup poll which found that two-thirds of the public believed that, at the height of what Winston Churchill called 'their finest hour', the politicians of the wartime coalition were in it for personal or party interest – only a third believed they were in it to serve the national interest. We have never much trusted our governments.

It seems that even this historically low level of trust has fallen lower still, driven by factors such as the MPs' expenses scandal and growing cynicism about 'spin' and 'sexed-up dossiers'. Is this irreversible? Or are there things we could do about the way we are governed and do politics that might reverse or at least halt the decline in public trust?

We know that the public's trust in local politicians is almost double that of national politicians, and councils are trusted to run local services much more than national government. Polling has also identified a range of factors – such as the quality of governance, leadership and audit – that affect levels of trust in public institutions.

All of this suggests that a more decentralised approach to running public services, with decisions taken by democratically accountable local politicians, could help. Alongside this, we need to improve governance and service delivery to make them more willing to listen and engage in dialogue and learn from mistakes, and to ensure there are independent and robust systems of scrutiny and audit alongside high quality leadership. So what cultural and structural solutions do we need to help deliver these twin reform objectives?

Devolution and decentralisation

It is a truism to say that Britain is one of the most centralised states in the developed world. Despite steps in the last 15 years to devolve some powers to the Scottish, Welsh and Northern Irish parliaments and assemblies, decentralisation has mostly stopped in the capital cities. Political parties have repeatedly promised devolution and localism in opposition and failed to deliver when in power; Whitehall departments have resisted breaking up their empires.

There are signs that this may be changing, driven partly by the quest for economic growth and an understanding, even in the Treasury, that decentralised countries tend to have higher growth rates. The creation of combined authorities at city region level and, in particular the agreements giving Greater Manchester and Sheffield more powers in return for stronger governance, offer the best prospect for devolution in years.

By collaborating at functional economic area level, local government could gain power and resources to direct transport infrastructure, skills and welfare programmes, business support and development, strategic housing development and potentially other services such as policing and health services. At the same time, there may be further local health and social care integration directed by health and wellbeing boards. These are all necessary steps to bringing decision-making closer to people and giving power and responsibility to locally accountable politicians. Necessary, but not sufficient.

If we unpack these developments a bit more it becomes clear that decentralisation will not automatically deliver more public trust. We need to consider how local public

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Jessica Crowe was executive director of the Centre for Public Scrutiny, 2006-2015. She writes in a personal capacity institutions' governance must change to meet this objective. The government has made clear in devolution agreements such as that with Greater Manchester that 'strengthened governance is an essential pre-requisite to any further devolution of powers'. However, the agreements do not spell out what this should involve, other than references to structures (a Greater Manchester mayor, or a scrutiny function, for example). In fact, many of the changes to governance required to improve trust are cultural, meaning that we need to begin with some clear design principles and only then think about structures.

Any new arrangements for making decisions about devolved services and resources, for example by a combined authority, need to be capable of:

- Clear and effective decision-making.
- Clarity about lines of responsibility and accountability, ie what is determined by a combined authority and what remains with constituent councils or other public services.
- A unified and streamlined system of governance.
- Robust internal challenge.

Having agreed on principles that matter locally, areas may conclude that new institutions are required to achieve them. The Centre for Public Scrutiny is promoting local public accounts committees to create a single, transparent and high-profile point of public accountability for combined authorities. It should focus on value for money and the impact of the new devolved arrangements, and be supported by robust financial analysis and research such as the National Audit Office provides to the Commons Public Accounts Committee. CIPFA members and others in the accountancy and audit profession have a key role to play in providing this independent financial advice.

Local PACs could gather evidence from citizens and service users to supplement quantitative data and, being led by local politicians, ensure that such analysis is open and inclusive. We are also suggesting three new powers: to require persons and papers from any institution operating in the area and spending public funds; to be able to refer a matter to Parliament where a systemic issue is identified; and to enter premises to gather evidence. This will enable the local PAC to take a genuinely place-based approach, able to hold powerful institutions – public or private – to account on behalf of local citizens.

The chair of the local PAC will need to be a respected individual and thought could be given to how that person is elected to ensure their independence. Research by CfPS suggests that, in a worrying minority of councils, scrutiny chairs are chosen and appointed by the leader, and in others, requests for information are refused or blocked. For this new approach to devolved governance to work in terms of enhancing public trust, where local leaders are gaining substantial new powers and resources, there must be a parallel strengthening in their obligation to be accountable for how they use these. This may require a change in how we develop leaders.

The model of a local public accounts committee has benefits of simplicity and clarity but every city, county or locality developing a combined authority to secure greater devolved powers and responsibilities will need to choose an approach that will work for them. The crucial thing in relation to public trust is to base it on an open and honest debate about how a combined authority might relate to the area's citizens. For example:

- Transparency: will there be an open and evidence-based approach to decision-making and arrangements to provide clarity about performance and outcomes?
- Involvement: how can a commitment to public participation help the combined authority capture data to build insight about local aspirations?
- Accountability: is there shared understanding among leaders that this helps demonstrate credibility, builds support for tough decisions and manages risk through having effective scrutiny of the new arrangements?

Recent tentative steps towards decentralisation of public services and decisions over issues such as economic development are welcome, not purely because they are likely to lead to better outcomes for communities, but also because they offer an opportunity to rebuild trust with the public and citizens. However, this will not happen automatically: it is vital that local leaders genuinely consider how they are going to design a new approach to governance that will match their new powers with real accountability, transparency and involvement. We urge all those responsible for governance and thinking about devolution to consider these principles and take some important steps towards rebuilding trust in public governance in this country.

'In a worrying minority of councils, scrutiny chairs are chosen and appointed by the leader, and in others, requests for information are refused or blocked'

AN INTERNATIONAL PERSPECTIVE

How to walk the assurance tightrope

ESSAY

BY LYN PROVOST

The 'seal of approval' beloved of media headlines is deceptive. But auditors must go beyond box-ticking to advise public bodies on smarter ways of working

INDEPENDENCE, INTEGRITY AND value for money lie at the heart of an auditor general's report on the use of public resources. The need for transparent reporting by governments has increased since the global financial crisis. It left governments across the world grappling with intergenerational financial implications that will be sometimes unequal and difficult to control.

While New Zealand has a high-performing public management system, my reports often urge public agencies to step up a gear. That's because, in the face of changing needs and ever increasing complexity, public agencies must keep delivering services to citizens. For the public sector, managing change is not just about having money – it is about using that money effectively and efficiently. The challenge is how to make our financial management even more effective, and the information that underlies it more useful.

I expect no less of my own organisation, the Office of the Auditor General. Auditors general must deliver value from their work. The agencies we audit face many pressures, so expect clear explanations of our fees, assurance from our audits and value for money from our reporting.

We monitor audit fees to ensure that they are fair and reasonable. For many of our public agencies though, the important part of the equation is not the cost – it's the exchange for value.

We regularly survey public entities and over recent years have seen that, despite financially trying circumstances, their overall ratings of our audits have continued to improve. Alongside their ratings comes feedback that they want auditors to:

- Be future-focused and strategic, to go beyond box-ticking.
- Challenge them about how they do things and give constructive and practical feedback and specific advice on what they can do smarter.
- Discuss how they can add value by sharing the insights and good practice that auditors see in other organisations.

Parliamentary stakeholder surveys agree that we work with integrity and independently of government. They also tell us we need to further consider:

- The range of audit and evaluation tools and staff capabilities needed to maximise our impact in improving public sector performance.
- How our service delivery model allows sufficient flexibility to adapt in a changing or unique environment, balancing pressures of value for money and timeliness with comprehensiveness and engagement.
- How to increase our emphasis on performance improvement within an organisation, while retaining principles of independence and integrity.

These challenges are a tall order – perhaps even a mandate tightrope – to balance independence of perspective with delivering value to help future public agency

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***Lyn Provost** is Controller and Auditor General of New Zealand*

improvement. Public entities are accountable for how they use public resources and powers. It's my job to give independent assurance to Parliament and the public about how they account for their performance.

So what is the public perspective on our value for money? Research shows there are generally low levels of public knowledge about the role of auditor general but, when prompted, its critical importance is acknowledged. Endorsement in principle, I guess, but a challenge to raise our game to better connect with the public.

I frequently see my role and responsibilities overstated in media reports. An unmodified audit opinion is often described as getting 'the seal of approval', 'the big tick', or a 'clear health check'. Such statements probably do more harm than good by suggesting that an unqualified audit opinion means that everything in the organisation has been checked and is fine. Not only is this suggestion wrong, it is dangerous. What an unqualified audit opinion does deliver is independent assurance that financial (and other performance) information has been reported fairly and can be relied upon.

Some people (often knowingly) place too much reliance on the work of an auditor. This can include managers of public entities who then take inadequate steps to manage risk. There is nothing new in this conundrum and it equally applies in the private sector.

By law, the Controller and Auditor General is the auditor of all public entities in New Zealand – about 3,800 in total – that are required to prepare audited financial statements. No other organisation, public or private, has the same overview of the public sector, which puts us in a unique position to help improve performance. We also have a body of robust information about financial performance in the public sector.

Accrual accounting was introduced in 1992 to help better management of the economy by revealing the full extent of government assets and liabilities. The International Federation of Accountants tells us the main benefit is transparency. Giving a complete picture of a government's finances should help to avert undesirable spending and enhance public confidence in its financial management.

More than 20 years on, it is time to maximise the benefits of the information that auditors spend so much time and effort making sure is robust. Our quest continues to be to encourage the widest and best use of good financial information.

One of IFAC's assertions about the benefits of accrual accounting is that governments cannot hope to govern in a sustainable way unless they are made aware of the liabilities (largely public debt) created by their decisions. True insight about financial sustainability comes from understanding the relationship between financial and operational performance through analysis of audited financial information. Together with operational performance information, we can highlight the long-term implications of financial statement trends and risks to operational performance.

In using financial statements as described, we put ourselves in the shoes of information users. From this perspective, I make a heartfelt plea to everyone to continue to work for simpler reporting and integrated information. Too often, overly rigid rules and/or fixed mindsets undermine meaningful and concise information that might improve scrutiny of public entities. I do not subscribe to the notion that more information is better. Information should be appropriate for its users.

Most challenging is making information useful for the many interest groups and individuals that make up 'the public'. We have begun exploring different ways to communicate our messages. These include Twitter, Facebook and blogging, but the channels are endlessly evolving.

We are preparing a work programme based on themes that allow us to find and communicate with relevant communities of interest about our proposals. This is over and above the annual parliamentary consultation on our work plan. I hope that focusing on making a difference to citizens' lives will begin to bridge the longstanding knowledge and expectation gap.

There are many opportunities for external auditors to deliver value. But the quest to provide value for money will challenge auditors general (and public agencies) in the foreseeable future. Smart analysts, and clever technology, will help us to better analyse our rich data sets and share what we know about public entities. Social media is growing the connections and range of ways people communicate, and will help us share with a wider range of people and audiences the things that matter for them in the public sector.

Times of change are times of opportunity – but my starting premise that independence, integrity and value for money lie at the heart of an auditor's work mean that the direction we must travel is clear. The opportunity lies in the many and varied ways we can potentially provide more value to the public of our diverse nations. ●

'I do not subscribe to the notion that more information is better. Information should be appropriate for its users'

Who audits the auditor?

ESSAY

PAMELA MONROE ELLIS

Getting the right balance between rigorous oversight of audit bodies, and protection of their independence, is a big challenge

A GOOD GOVERNANCE structure is fundamental to the effectiveness of public audit organisations. It is something that must apply to all, without exception. This is particularly true for what are known as supreme audit institutions.

SAIs, owing primarily to their role in public financial management, must be in the vanguard of good governance. They have a critical responsibility to scrutinise the work of government entities.

As such, they often issue none-too-complimentary opinions or views, frequently provoking the ire of government officials, who may well ask: 'Who audits the SAI?' I am sure many colleagues have been asked this question, usually following an unfavourable audit report or opinion.

These moments are a reminder of the awesome responsibility that one has, as head of an SAI, to ensure that all of its activities are beyond reproach. So what then are the key requirements for independent audit, in the context of the structures in Jamaica?

First, our constitution gives the minister responsible for finance the duty to audit and report on the accounts of the auditor general's department. The minister is also granted right of access to all records relating to the accounts, which have to be audited annually. The report that results is submitted to the Speaker, who is required to lay it before the House of Representatives.

Second, under Jamaica's Financial Audit and Administration Act (2011), the Internal Audit Unit is identified as the body that undertakes the review of the accounting records of the auditor general's department. It is intended to be a sober reminder of the need for checks and balances.

Although these audits have not to date identified significant weaknesses, the minor issues they raise reinforce the need for robust review and oversight. The need for such regular reviews has become established, albeit in a simple form.

Third, there is the Audit Committee, established at the request of Jamaica's SAI, and which is comprised primarily of private sector representatives, in an attempt to safeguard independence.

These safeguards have together established a robust governance structure for the supreme audit authority. The question remains though as to who should conduct the SAI audit – and whether there should there be limits on the extent of that review. This depends largely on who the primary auditors are and who they report to – a view substantially influenced by the need to safeguard the independence of the SAI.

Constitutional responsibility

Two important factors come into play here. First, Jamaica's SAI has a constitutional responsibility to audit all government entities, departments and units, including internal audit units. This arrangement means that the SAI reviews the work of the IAU of the Ministry of Finance, as part of our assessment of the extent to which we can rely on the work of that unit when finalising our audit plan – as well as to assess the performance of the unit. On the other hand, the IAU has a responsibility to review ▸

Pamela Monroe Ellis is Auditor General of Jamaica

the accounting records of the auditor general's department. This potential circularity suggests that both the SAI and IAU are exposed to risks of impaired independence and objectivity.

This has not hitherto given rise to any particular difficulties. But we also need to be mindful that the role and function of the internal auditor has been evolving. The occupation has been transformed from that of 'old school auditor' to one more akin to a management consultant, focusing on value added. As a result, an internal auditor, much like with an SAI, is not solely interested in the accuracy of accounting records, but also in the effectiveness of an organisation's business activities.

The main business activity of an SAI is to conduct audits. This was brought home to me forcefully when a request was made for our risk-based audit plan. I was taken aback by the fact that our internal auditor was able to request such information, to assess the efficiency of our audit planning strategy.

The Jamaican Constitution states that the Auditor General shall not be subjected to the direction and control of any person or authority. However, the internal auditor reports administratively to the financial secretary, who reports to the Minister of Finance – who in turn has a constitutional obligation to commission the audit of the SAI.

Of course, the Minister of Finance receives a copy of our strategic plan on an annual basis. But unlike the risk-based audit plan, specific entities are not identified in it. In Jamaica's case, this is an issue that would exist whether the SAI was subject to audit by independently appointed auditors or not.

A second consideration is that SAIs and IAUs are operating in an environment of scarce resources, and need to collaborate to avoid duplication and to employ resources in the most efficient and effective manner. However, any collaborative effort or agreement with the Internal Audit Unit of the Ministry of Finance would likely further impair objectivity and independence.

Even so, it is not obvious that external auditors are the solution. Government being rules-based, it is fundamental that an audit of any public sector body should encompass a regulatory review of its operations. Public sector auditors are more likely be more familiar with these rules and therefore to more readily identify breaches. A downside is that it is not the role of an internal auditor to form a true and fair opinion of financial statements or appropriation accounts.

On the other hand, the involvement of auditors outside the public sector can also pose a challenge, due to their lack of familiarity with the issues. But this is not always the case – it simply means that non-public sector auditors must be carefully selected, to ensure that the review's objective is achieved.

Rigours of oversight

Whatever the case, SAIs must not escape the rigours of oversight. This could be from within (as in the case of Jamaica) or by external auditors, and should not be limited to financial performance or the execution of fiduciary responsibility. However, SAIs (as 'apex' institutions) need real independence to carry out their mandates.

In that respect, peer reviews should be encouraged between SAIs to bolster their governance structure, effectiveness and knowledge sharing, while protecting their independence. In this way SAIs would benefit from organisation-wide reviews that foster best practice between them. We should consider making such SAI peer reviews mandatory.

Ultimately though, it is the effectiveness of the audit function that counts. That depends more on the governance structure than on who provides oversight. My view, largely influenced by the requirements of reporting to the Minister of Finance, is conditional on there being adequate operational independence for SAI and IAUs.

Alternatively, SAIs could report to an independently constituted panel, such as a public accounts commission, or obtain the support of an advisory council. Where that is the case, independent auditors could undertake financial and performance audits. Whatever the model, I believe that SAIs can benefit from independent assessments of their quality and effectiveness – an approach that can help validate strategies and identify areas for improvement.

'Supreme Audit Institutions need real independence to carry out their functions'

A mandate to deliver good government

ESSAY

BY PAT BARRETT

Public audit cannot resolve historically low levels of trust in politicians, their parties or even democracy itself. But it can address vital issues of financial performance and value for money

IN MOST COUNTRIES public audit is expected to be an important contributor to sound governance frameworks that enhance trust and confidence in government – at local, state, national and international level. Although Westminster-style national governments have provided strong support for the audit function, the impact of the global financial crisis on public trust in government – and on rising political instability – cannot be ignored.

Armed conflict, terrorism, corruption and divisive election outcomes have also contributed to uncertainty, with pervasive impacts on governance. Perhaps the most significant risk for 2015 is the 'Russian situation', which encompasses all the above elements.

Historically low levels of trust are reflected in widespread disillusionment with politicians and political parties (and even the democratic form of government). The United States Congress, for example, has not exceeded a 20% average approval rating for five years (15% in 2014), down from 56% in 2001. There are similar findings in many Asian and European countries.

What can public audit do?

Public audit alone cannot resolve these issues. Nevertheless, we should expect audit strategies to promote greater public confidence in governance. Audit's well-recognised role is to provide assurance to parliament and the public that money is spent legally and for approved purposes. There is the perception, at least, that public audit should prevent and detect fraud and corruption; an assumption that is simply not feasible with the resources available to any public audit office.

Indeed, such an expectation can only be met by a concerted effort across the whole community, which has to demand, and be bound by, a framework of values and ethics that acts in the public interest – and is constantly reinforced by public audit.

Ironically, the propensity for audit to identify shortcomings and failures in administration – often highlighted in the media – is more likely to reduce confidence in public institutions. Frustratingly, there is often little public recognition of the conformance and performance results for the majority of those institutions. This is now being addressed more frequently by audit offices in reports that highlight both positive and negative aspects of their findings, within an expanded performance audit mandate. However, it is difficult to escape the conclusion that, for government, 'good news is no news'.

Conformance versus performance

So how can public audit make a greater contribution to trust in government? The key is the 'audit mandate' and enough resources to implement it successfully. Audit offices are judged by the quality of their performance, based on value added by relevant and reliable performance indicators and information. What has always made a real difference to public confidence in audit has been its legislative independence – its freedom from political or other influences to provide frank and fearless findings and recommendations. Without such independence, including – increasingly – access to information and the ▶

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__Pat Barrett__ is former Auditor General of Australia

premises of those providing publicly funded services, audit can provide only minimal assurance about public sector performance.

There has been a progressive extension of the audit mandate in many countries over the last 10 to 20 years, to encompass performance or value for money. Better practice guides have been developed, often with specialist private and public sector input, which complement traditional financial statement and assurance audits. They allow more scope for analysis and review, plus a broader perspective on conformance issues in terms of the outcomes achieved by government programmes. This enlarged focus on both the conformance and performance of public sector departments and agencies is a 'complementary', not 'alternative', approach to auditing.

Government, parliament and the public clearly value audit assurance, particularly in relation to legislative requirements and the proper use of public money. It is also clear that an increasingly high value is being placed on systemic audit of the economy, efficiency and effectiveness (the so-called 3 Es) of government programmes, covering their inputs, outputs and outcomes. While audit offices are generally constrained by law from commenting on government policy, it is often evident from their reports that deficiencies in performance are more about policy than implementation. As performance information becomes better specified and more reliable, policy deficiencies will become more apparent – and will need to be addressed sooner rather than later.

The number and quality of performance audits conducted in the UK, US, Canada, New Zealand, Sweden, Australia and elsewhere has had a catalytic effect on public attitudes. There is wider recognition by politicians, public and media of the need to focus more on public sector performance and accountability. Successive reforms, such as the recent Public Management Reform Agenda in Australia, strongly emphasise accountability for performance – and the need for useful performance information.

These reforms also address unnecessary red tape and over-regulation (worth billions of dollars to the Australian economy). Internationally, regulators are collaborating more, with tax audits taking place worldwide and, where memorandums of understanding are signed, asking country regulators to conduct audits on their behalf.

An increasing number of audit offices now report annually on the performance measures provided by departments and agencies. Audit programmes often review performance statements, and address the adequacy, relevance and usefulness of the information provided. They also examine problems that arise from often relatively long implementation periods – and look at intermediate outcomes to indicate what is being achieved.

Lessons are being learned about the impact of programmes on the environment where the perceived need for them was created. The length of time between the need for a programme being identified and its delivery reinforces the requirement for early, reliable and comprehensive information. The rapidly growing importance of social media, particularly for feedback from citizens and recipients, is also being recognised as relevant to issues of trust and confidence in government and public services – and how they must adjust to the information age.

'While audit offices are generally constrained by law from commenting on government policy, it is often evident from their reports that deficiencies in performance are more about policy than implementation'

Innovation and risk management

Learning from failure – and celebrating a degree of risk-taking – are ideas that, until recently, have been anathema to the public sector. The prevailing view has been that there should be minimal risk – virtually zero tolerance – in the spending of public money. Any programme failures would be likely to involve collateral damage to public confidence and be politically unattractive. Such views have been reinforced by the focus of various parliamentary committees on political point scoring and the apparent shortcomings of public servants.

Fortunately, at least in the UK, Canada, New Zealand and Australia, there has been increasing acceptance of risk management approaches by departments and agencies. These need performance management practices that provide for appropriate management action and meet accountability concerns, particularly to parliament and its committees. While such a framework is still developing, it is an area where public audit can make a significant contribution by recognising and promulgating better practice, and indicating how observed weaknesses can be rectified. Such an approach adds real value to public administration and contrasts markedly with the traditional negative image of public audit. In this way, public audit can be a significant contributor to regaining trust and confidence in government.

I have previously stressed, in *Public Money & Management*, the importance of a responsive 'political' governance framework and a complementary 'organisational' one. This reflects the interrelationship between the political and administrative arms of government and the need to make this relationship a reality, particularly for credible risk management. The same interrelationship applies to dealing effectively with policy and management risks requiring the involvement of responsible ministers. For example, it would be expected that the ministerial risk appetite/tolerance would be reflected in the organisation's risk management policy and implementation plans. Sound risk management is essential for both performance and accountability – two areas where public audit can contribute to restoring trust and confidence in government.

In Australia, there is now a legislative requirement (Section 16 of the Public Governance, Performance and Accountability Act, 2013) to 'establish and maintain appropriate systems of risk oversight, management and internal control'. I cannot see the aims of the act being achieved in the absence of ministerial involvement and shared accountability for the resulting performance, by which both the organisation(s) concerned and the government will be judged by the public. It would not be the first time that ministerial actions have been subject to audit. However, it would certainly draw greater attention to the role and impact of ministerial involvement in programme strategy and management.

An ever-extending governance horizon

The governance horizon at both political and administrative levels has been extending over many decades, creating demands for more cooperation, information exchange, greater integration of activities and shared responsibility (including accountability in the audit view). The private sector has long provided goods and services to the public sector. Parliamentary and audit focus has mainly been on the contractual relationships, with particular concern about restrictions on available information and the impact of 'commercial-in-confidence' considerations.

The Australian Senate for many years requested regular audit examination and reports on such arrangements, resulting in the production of Better Practice Guides by the Australian National Audit Office (similarly by the UK National Audit Office). But the UK experience is particularly instructive.

The UK has had by far the greatest experience of public-private partnerships (PPPs) in the provision of infrastructure projects and service delivery. As with other countries, public audit reports have revealed relatively few successes and numerous failures (or at least many that did not adequately meet their performance requirements). Fault has been found on both sides.

'The UK has had by far the greatest experience of public-private partnerships in infrastructure and service delivery. Public audit reports have revealed relatively few successes and numerous failures'

Nevertheless, so-called privatisation of the public sector continues, particularly with governments generally having interrelated budgetary, debt and expertise difficulties, coupled with increasing community demands for large, high-cost infrastructure developments, and more public services in areas such as health, education, environmental protection and social welfare – reflecting an ageing population, at least in most western countries. What we are now witnessing is more cross-sector cooperation (including not-for-profit bodies) and joint development of projects and programmes.

At the same time, there has been a tendency to promote cross department/agency policy and service delivery, extending to cross-government cooperation, internationally, nationally and at state/local government levels. Accountability and performance issues have simply become that much more complicated, with politicians failing to give adequate guidance to the various parties on how responsibility and accountability are to be exercised.

Initiatives such as 'lead agencies' with overriding responsibilities and joint boards or oversight boards have been tried, with variable success. This is due to the grey area between individual and shared responsibility for decision-making and accountability and the results achieved.

The situation is more of a challenge between sectors, involving issues such as defining the public interest; observance of the legal requirements for public servants in the areas of values and ethics; understanding of, and adherence to, legislative requirements; and the relationships between policy and administration that are necessary for sound public administration. Regardless of the language used, it is clear that the public expects to be treated as citizens with particular rights, and not just as customers or clients. They increasingly want to be involved in decision-making, raising the question of who is the key decision-maker.

What we are faced with now is a medium- to long-term learning process for all concerned. Information is key, as are the systems that deliver it. With relatively few exceptions, there is still a long way to go, despite the advances in technology, including the take-up of social media. Public audit offices have had to acquire the necessary expertise, systems and understanding to enable the development of appropriate information and analytic tools and to provide credible and useful reports. A more general problem in moving to different governance frameworks is the tendency for decision-makers to be 'reactive' in their policy responses – rather than providing time and investment to develop the foresight and planning that could deal with the frictions we have outlined.

Good governance

Collaboration and cooperation seem to be at the centre of good governance in the 21st century. I recently heard British policy adviser Simon Anholt give a TED talk about his Good Country Index – a measure of how much each country contributes to the planet and to humanity. Many of his comments resonate with the issues discussed above. While his agenda might seem very ambitious, the basic challenges to good governance are about working together within an accepted framework of values and ethics. Integrated approaches to policy and management need to be supported by shared information systems that are user-friendly, and produce outcomes that are unequivocal and accepted by all stakeholders.

Such a platform would provide a sound foundation for building trust and confidence in government – and for public audit to provide assurance by itself working in a collaborative and cooperative way; not only within its own constituency but also by contributing to international audit initiatives promoted by global organisations such as the World Bank and the International Organisation of Supreme Audit Institutions and its regional organisations.

I leave the last word to my successor, Ian McPhee. 'The role of the Australian National Audit Office has never been more important for good government in Australia,' the auditor general said recently. It is an ambitious statement – but one that applies right across the public sector.

Public audit European style

ESSAY

BY CAROLINE MAWHOOD

State audit institutions play a key role in EU financial controls. But there is growing pressure on the European Commission to do more

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Caroline Mawhood is a member of the audit progress committee of the European Commission

ACCOUNTABILITY FOR THE use of public funds is of fundamental importance to democratic government. At national level this usually involves the executive accounting to parliament for its oversight of taxpayers' money. In the European Union, member state audit institutions (SAIs) make an essential contribution to accountability by providing independent and objective information, assurance and advice to parliament on the accounts presented by the executive. The way each SAI fulfils this key role varies according to its history and place in government.

In principle, in all countries there is a cycle of accountability where the legislature approves a state budget that is implemented by the executive. The audit office examines whether resources have been used as intended. In some countries, SAIs formally discharge the accounts, while in others they produce an opinion. These arrangements have contributed to the hybrid system that has developed to manage and control EU funds.

The public sector is under increasing pressure to provide high-quality services more efficiently with a wider range of bodies – including the private sector – involved in the delivery. These developments have been mirrored by SAIs which have four main structures:

- A court with a judicial function.
- A collegiate structure with no judicial function.
- An audit office, independent of government, headed by an auditor general or a president.
- A distinct model headed by a president and auditing at central, regional and local level.

All SAIs are given a place within government, either by the constitution or by statute. In some institutions, decisions at the highest level are taken by their heads while in others they are taken collectively. The status of the heads varies; some are judges while others are officers of parliament. An important aspect of an SAI's independence is the method of appointment and the security of tenure of its head. For example, the United Kingdom auditor general has a 10-year term and in Denmark they can serve up to age 70.

In most member states, legislatures either appoint or approve the head of the SAI. This also applies to the European Court of Auditors, whose members are nominated by their respective governments but must be endorsed by the European Parliament. In most cases legislatures also play a part in setting the level of resources for the SAIs.

As the SAI's role varies between member states, so do the number and skills of staff employed. For example, UK audit staff are qualified accountants supplemented by subject specialists and researchers. All audit staff in Poland and Estonia have a degree, as do the majority in Slovenia and Malta. The qualifications of staff who carry out performance audits vary between countries. In France, staff from the audited bodies are seconded to the SAI to carry out defined tasks.

Common purpose

The SAIs and the European Court of Auditors have a main purpose in common, namely to examine and report on the use of public funds. Some also carry out performance audits – examinations of the economy, efficiency and effectiveness with which public ▸

funds are used. The number of bodies audited by SAIs varies considerably. In the UK, the National Audit Office reports on several hundred public bodies and has access to the records of thousands more. All SAIs examine the accounts of central government bodies. Some also have responsibility for regional and local government. In Malta, the audit of local government falls under the responsibility of the Audit Office. In Germany, separate organisations audit regional and local government.

Several types of audit can be carried out. A priori audits, carried out by a few SAIs, authorise or advise before public funds are committed or spent. Ex-post audits can be:

- Judicial examinations and judgments on the records of individuals with personal responsibility for the use of public funds. These are carried out by a few member states, which have 'courts' with magistrates.
- Financial audit, when the SAI reports on state accounts and provides the basis for the legislature to give some form of discharge or opinion. This is carried out by all SAIs.
- Performance audit, which addresses wider issues of economy, efficiency and effectiveness and has become an increasingly important role of most SAIs.

The EU's audit and accountability arrangements developed over the years to resemble those in member states. The treaties that established the three original European Communities in the 1950s each created an assembly with a largely consultative role. The Economic (EEC) and Atomic Energy (Euratom) Communities both had a 'commission de controle' (audit board) of part-time members nominated by the Council of Ministers and assisted by a small staff, while the Coal & Steel Community (ECSC) had 'un commissaire aux comptes' (auditor). The arrangements could fairly be described as 'light touch'.

These institutions were brought together in the 1960s in a single Council of Ministers and a single European Commission, while the assembly increased its role and authority to become the European Parliament. This pressed for strengthening of financial management and control. The 1975 Treaty of Brussels reflected that pressure by establishing the European Court of Auditors, with a duty to 'examine whether all revenue ... has been received and all expenditure ... has been incurred in a lawful and regular manner and whether the financial management has been sound'. It is perhaps no coincidence that creation of the court followed the accession in 1973 of the UK, Ireland and Denmark with their systems of accountability for public funds.

Today there are five institutions of the EU – a directly elected parliament, a commission that effectively is the civil service of the union and is headed by commissioners nominated by member states; a council representing member states and composed of government ministers; the court of justice; and the court of auditors, the EU external auditor.

After Maastricht

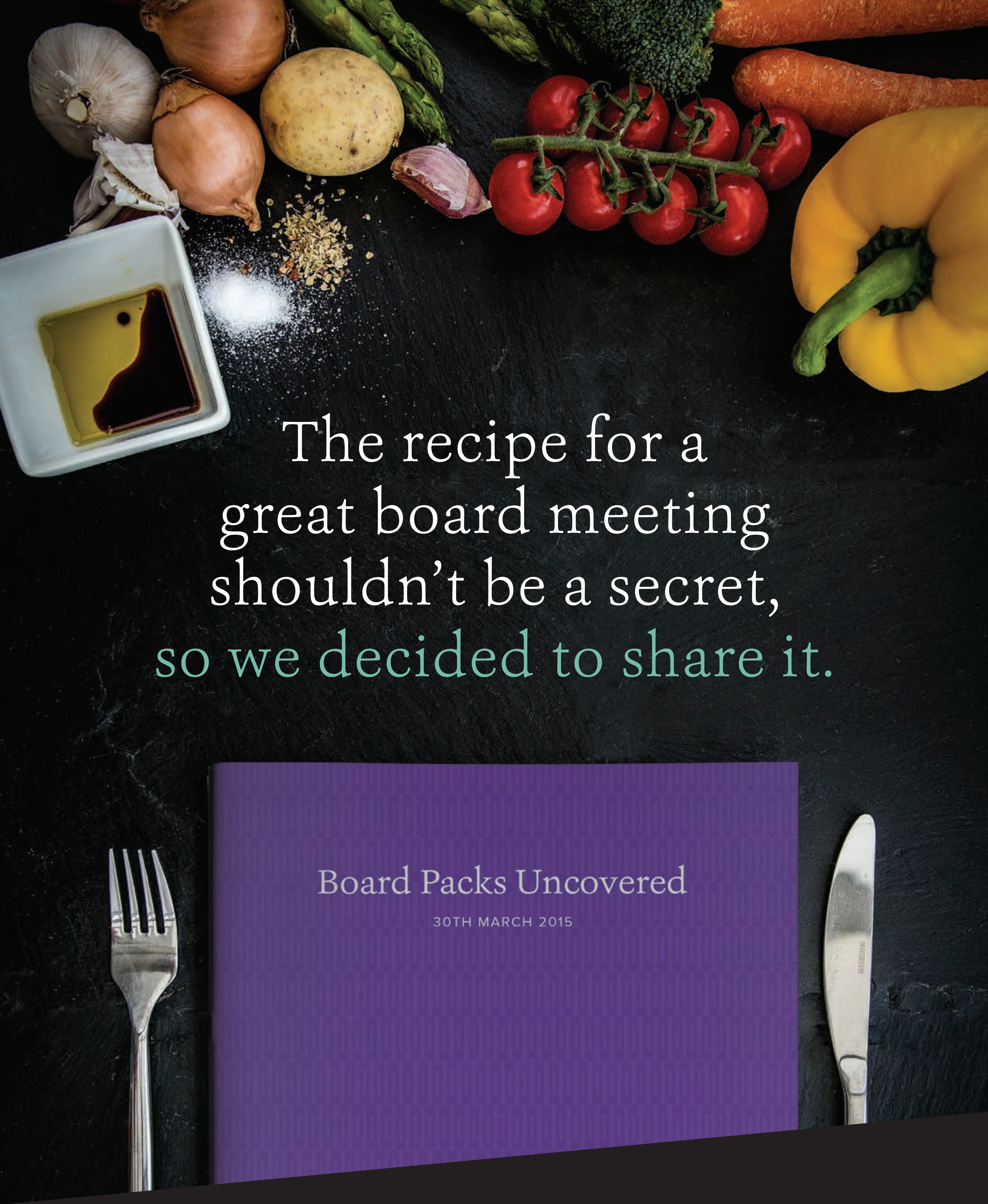
Members of the European Court of Auditors are required to act independently of their member states in the general interest of the community. The Maastricht Treaty, signed in 1992, enhanced the authority and independence of the court. Its primary tasks are to examine all EU revenue and expenditure; to establish whether this has been received or incurred in a lawful and regular manner and whether the financial management has been sound. The court produces an annual report and can also present special reports on specific subjects. The reports are followed-up by the European Parliament's budgetary control committee, which is equivalent to the Public Accounts Committee.

The European Commission has also developed an internal audit capability. The Internal Audit Service was set up as a separate function in 2001 after then president Jacques Santer's commission resigned. This resulted from the report of independent experts on ways to improve financial management and control. It said: 'The underlying problem is that the Internal Audit Service is not perceived as a central department at the service of the entire commission.' Around the same time, the commission set up the audit progress committee (APC) to assess internal audit quality. The APC comprises nine members of whom up to seven are commissioners and two external members.

The organisation and approach of SAIs in the EU, including the European Court of Auditors, can differ significantly. But a common underlying purpose is reflected in the way the system has developed to protect more effectively how taxpayers' funds are raised and used by the EU, with increasing emphasis on value for money. This process has been reflected in an increasing awareness of the need for strong and effective monitoring and control by the European Commission itself.

With acknowledgment to State Audit in the European Union, published by the NAO.

'It is perhaps no coincidence that creation of the court of auditors followed the accession of the UK, Ireland and Denmark with their systems of accountability for public funds'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shouldn't be a secret,
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Protecting the public purse
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