

Georgina Owen  
Second Clerk, Finance Committee  
National Assembly for Wales

Dear Sirs

## Consideration of proposals to amend the Public Audit (Wales) Act 2013

ACCA (the Association of Chartered Certified Accountants) is the global body for professional accountants, offering business-relevant, first-choice qualifications to people of application, ability and ambition around the world who seek a rewarding career in accountancy, finance and management.

ACCA supports its 219,000 members and 527,000 students in 179 countries, helping them to develop successful careers in accounting and business, with the skills required by employers. ACCA works through a network of 104 offices and centres and more than 7,300 Approved Employers worldwide, who provide high standards of employee learning and development. Through its public interest remit, ACCA promotes appropriate regulation of accounting and conducts relevant research to ensure accountancy continues to grow in reputation and influence.

### The proposals

You asked for our comments on:

- the fee charging regime;
- the functioning of audit legislation in Wales; and
- any relevant differences across the UK under the different audit regimes.

Taking your questions in turn, ACCA comments as follows:

#### ***“Aim: To consider the views of the professional audit bodies on the PAWA Bill (2012) and on how PAWA has functioned in practice***

*1. During scrutiny of the PAWA Bill, the main concerns raised by the ACCA and ICAEW related to the Board role and structure and how this might impact on the independence of the [Auditor General for Wales] AGW. Do you have any comments on how the Bill as implemented either met, or did not meet, your expectations.*

*Possible Supplementary:*

*- To what extent does the current Board structure reflect good practice in public bodies (or not).”*

ACCA comment: Good practice is to have roles and structure where there is periodic non-executive oversight of executive activities. In 2012 we were concerned that clauses 25 and 26 seemed to suggest that the Wales Audit Office Board (the Board) could intervene in the AGW’s work programme. We wrote “...the Board’s role should be one of oversight and not one of management – the auditor general should be free to determine the scope of work and how it should be performed.” The proposals in the Bill do not indicate that Board intervention in the AGW’s work is seen as an issue. This is probably more appropriately a question discussed with the Board and the AGW themselves, and could be informed by inspecting the Board’s minutes. The current Board structure, which is 5 non-executive and 4 WAO employees, could be made 6:3 with a non-executive majority which would arguably be more consistent with good practice where the Board’s responsibilities are oversight in nature. More non-executive’s might also make it easier to be quorate.

*“2. One of the elements you called on during scrutiny was a relationship code between the AGW and WAO, which is a requirement of the legislation as passed. To what extent does this help to satisfy some of the concerns around the influence of the WAO on the AGW that you voiced.”*

ACCA comment: Having a code is helpful. The critical issue is how the code works in practice. We note that the code published on the WAO website was approved in 2014, and was scheduled for review in April 2015. We are not aware that the 2015 review happened and therefore the code should be reviewed in 2019.

*“3. The WAO’s Board requires a non-executive majority for the Board to be quorum. The AGW has suggested this results in the Board being inquorate on a regular basis and leads to inefficiency. Do you think it is important that the WAO has non-executive majority quorum rule and this is set out in legislation.*

*Possible Supplementary:*

*- Can you provide any examples of good practice in Board governance from other bodies.”*

ACCA comment: We suggest investigating why non-executives are not present. Good practice is to disclose board meeting attendance by all board members, with the chair or senior non-executive taking up non-attendance with individuals, and in certain circumstances seeking replacement of non-executives who are unable or unwilling to fulfill their board responsibilities in a satisfactory manner. As suggested in 1 above, the current Board structure, which is 5 non-executive and 4 WAO employees, could be made 6:3 with a non-executive majority.

*“4. The ICAEW noted, in its written evidence in October 2012, that it was disappointed that the 2013 Act did not address the streamlining of audit legislation in Wales. Do you hold this view and if so, can you explain how you feel audit legislation in Wales might be streamlined or where consistency might be improved.”*

ACCA comment: This question should be taken up with the ICAEW to explain their point in greater detail.

*“5. In terms of fee income, the AGW and WAO are currently required to provide a refund where actual resources may be less than estimated resources. Do you think this is appropriate for a public body and would you see benefit to the WAO having additional flexibility in this area.”*

ACCA comment: Yes, we would support the WAO having greater flexibility in this area, perhaps across multiple audited periods, as there is in Scotland and England. There may also be benefit in exploring what happens when an audit issue is identified and needs to be pursued.

***“Aim: To explore differences between public audit legislation throughout the UK***

*6. With your knowledge and experience of working under the different public audit regimes in the UK, are there any aspects that you think work particularly well in any of the individual countries and if so, can you explain why.*

*Possible Supplementary:*

*- Are there any aspects of working in Wales, or with the WAO, that are novel within the rest of the public audit regimes in the UK and what difference do these make to audit arrangements.”*

ACCA comment: See earlier comments on different charging regimes, and on notional fees below.

*“7. Other audit offices in the UK operate a system whereby some bodies receive a notional audit fee, which is funded centrally. How does the process of fee negotiation act as a driver for efficiency for the auditor and audited body. If fees were notional, what impact might this have and would it be desirable.”*

ACCA comment: The primary concern should be the quality of financial information published by bodies subject to audit. High quality information is enabled in an environment where there is high

standards demanded of bodies subject to audit; audit innovation; and high audit quality is enabled by sufficient resources committed to the audit. Notional fees seem to us to be a reasonable solution in such circumstances, while retaining a positive influence on quality. Notional fees are reflected in the entities' budgets, supply estimates and in the accounts and therefore in the era of budget cuts pressure is put on notional fees. The notional fee is more of an efficiency at a government level. Rather than government funding the audited entity with the audit fee, this fee then being transferred to the WAO and the WAO remitting and excess (or funding provided in back) transferred back to the consolidated funds, notional fees would allow the WAO to draw down their costs as needed and in accordance with their budget and supply funding. Notional fees means funding is held at the top level with limited transfers.

***“Aim: To explore whether bodies that have worked with/for the AGW and WAO have experienced any issues with PAWA***

*8. Do you have any knowledge of commercial audit bodies that have undertaken work on behalf of the WAO that have experienced issues with the processes around the WAO's fee regime.”*

ACCA comment: No. The WAO could highlight best practice, and could look to further open up the market place.

*“9. The AGW and WAO are looking to alter the fee regime so that they may equalise certain costs across audited bodies (e.g. if they were to pilot work at a body that cost could be shared across other bodies). How do audit companies roll out changes without unduly affecting the audit fee of specific clients.”*

ACCA comment: Audit firms take into account their costs when charging fees, whether they charge flat fees, or a fee based on hourly rates. Hourly rates are flexed to take account of changing costs. Some of those costs might apply to all audits (for example, additional training in professional scepticism), or to certain groups of audits (for example, training in new Financial Conduct Authority rules for bank audits). We would support a similar approach for the WAO, provided costs were shared only across those audits where certain costs apply, and that there is transparency in the approach.

*“10. The WAO suggested to this Committee that changes to rules around their fee charging would enable them to move away from using detailed time sheets, which would provide efficiencies in terms of staff time. They suggest this would also reflect changes in the commercial sector regarding time sheets. Can you confirm what current best practice is for recording time spent on a project and how does this impact on fee arrangements.”*

ACCA comment: We have seen comments about the potential for aligning fee charging with the private sector, including the possibility of replicating a private sector practice of charging a flat fee without reference to timesheets/hourly rates. It is not clear to us that this would be appropriate. While it is true to say that a practice in the private sector is to charge a flat fee without reference to chargeable hours, it is not a prevalent practice, and in the UK debate about public interest audits there are calls from investors and others to disclose more detail about audit effort, such as proportion of audit hours from senior audit team members and relative audit effort committed to different audit areas. Many firms still use timesheets as a means for assessing costs versus income on particular audits, and as evidence in fee negotiations, for example in the case of cost overruns. If the WAO did not have timesheet evidence, then they would be hampered in discussions with audited entities about fee refunds/overruns. Accurate timesheets are a rich source of management information, and supports the effective operation of an audit body. For example information from timesheets could indicate areas of audit concern, or well-being of WAO staff.

*“11. The AGW and WAO are required to produce Interim Reports in addition to Annual Plans, which demonstrate in-year progress against objectives. What is your view of this provision and the level of parliamentary oversight to which the AGW and WAO are subject.”*

ACCA comment: Interim reports are useful to the extent that they inform parliamentary oversight, and/or serve as a useful discipline to the reporting entity perhaps as an incentive to maintain progress. If parliament doesn't use them and the AGW and WAO get no benefit from the discipline of reporting on an interim basis, then we agree the requirement for interim reports could be removed.

***“Aim: To consider the potential for the WAO to establish its own Terms & Conditions for audit work***

*12. The WAO is looking to acquire more freedom in relation to the terms and conditions for agreement work (non-statutory work bid for on a competitive basis). At present it is prevented from making a profit in these areas by the “no more than full cost” rule. To what extent would you see this as an opportunity for the WAO to generate additional income.*

*Possible Supplementary:*

*- Do you see any ethical concerns for a public organisation, such as the WAO, undertaking work for other bodies on the basis that it may generate profit. What governance and structures would you expect to see the WAO employ to ensure there were no issues in this respect.”*

ACCA comment: While non-statutory work bid on a competitive basis represents an opportunity to generate additional income, we foresee potential for confusion within and without the WAO if it is doing some work under a “no more than full cost rule”, and some work on a competitive basis. The WAO would need controls in place to ensure that its statutory work retained its primacy. Controls would be needed to mitigate risk from non-statutory audit work that is not covered by Parliamentary Privilege. We imagine those controls would include increased oversight from the Board (as with the NAO). In an audit environment where conflicts of interest, perceived as well as factual, are receiving increasing attention, this would be a move in the opposite direction. It could be argued that a move to allow the WAO to bid for non-statutory audit work should only be accompanied by opening up the market for the WAO's statutory work.

*“13. Stakeholders raised concerns that agreement work needs to be genuinely competitive and not subsidised by the WCF. What kind of risks do the AGW and WAO need to be aware of if they were to decide to undertake more non-statutory work, bid for on a competitive basis.”*

ACCA comment: It is unclear why work conducted at “no more than full cost” is perceived to be subsidised. Bidding for audit work on a competitive basis brings risks for the AGW and WAO, and needs to comply with Managing Welsh Public Money. There will be an element of using WAO staff time to prepare bids, and some of those bids will be lost. Some might consider this a waste of WAO resources. The WAO will need to monitor bid success, assess why bids are being lost, and take remedial action if deemed necessary - that monitoring requires reliable data and management time. The WAO will need to decide how much resource goes into competitive work and how much is reserved for its primary purpose. Bidding for competitive work requires a different mindset, which implies a need for staff training and continual access to management for strategic decision making (which bids to go for, at what price, where boundaries lie in a fee negotiation, whether to commit to a flat fee or leave the door open for additional fees in the event of cost overruns). A low fee can act as a disincentive for quality work, so the WAO will need to have training and controls in place which preserve the need for quality work even under fee pressure. The WAO's reputation for quality work will be impaired if the market perceives its competitive work is in some way defective. There will also be operational issues which could include staffing to levels to include bid for work (where bid activity will likely fluctuate over time) and could result in further costs for the tax payer. Competition with firms for work is another issue.

### Wider developments in public sector audit

The finance committee might wish to consider developments in the wider world of audit.

The committee will be familiar with the UK-wide discussions started by the Kingman review, which looks at the role of the audit regulator primarily in safeguarding the quality of private sector audits, and the Brydon Review which considers among other issues whether audit of private companies delivers what users of those audit reports need. The outcome of these discussions may have implications for public sector audit, for example in what the public expects an auditor to do or report (although arguably there is less of an expectation gap in the public sector due to the broader remit of the auditor in the public sector – the regularity opinion, the broader consideration of fraud and the performance audit).

Technology is increasingly impacting many sectors, including audit where individual tasks are becoming increasingly automated as are those at audited entities. It may be worth exploring how the WAO is keeping abreast of these developments, and whether it is sufficiently resourced to train its people and use technology to best effect.

I regret that I am not able to attend the 11 July Finance Committee hearing in person, but I look forward to learning where the discussions get to. Please contact me if I can clarify or expand on any of the points made here.

Yours faithfully

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