



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

Wales Audit Office / Swyddfa Archwilio Cymru

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Deu Sarah

LOCAL AUDIT AND ACCOUNTABILITY BILL: LEGISLATIVE CONSENT MEMORANDUM (LCM)

I understand that the Public Accounts Committee has been asked to consider the Legislative Consent Memorandum for the UK Government's Local Audit and Accountability Bill and that you have sought the Wales Audit Office's view on a number of matters arising from that memorandum to assist the Committee's deliberations.

The LCM summarises the provisions in the UK Bill for which consent is being sought and sets out the advantages of using the UK Bill currently in play rather than an Assembly Bill. In short, the UK Bill would (amongst other things) provide for two cross-border Internal Drainage Boards to be subject to new audit arrangements being made for smaller authorities in England. The LCM states that the two IDBs in question (Lower Wye IDB and Powysland IDB) are "partly in Wales and partly in England".

You asked for our view on three issues.

1. *It would be helpful to know whether these IDBs were mostly in Wales or mostly in England.*

It appears to us from an examination of the areas covered by the two IDBs in question that over 90 per cent of Powysland IDB is in Wales and over 60 per cent of the Lower Wye IDB (including the only town in the IDB, Monmouth) is in Wales.

In addition to the three Internal Drainage Boards wholly or partly in Wales, there are 11 Internal Drainage Districts. A list of these districts is appended to this letter. These are all in North Wales and were administered by the Environment Agency. There is a lack of clarity on whether these Drainage Districts should have been legally constituted as Drainage Boards and therefore subject to individual audit appointments and my officers are looking in to this.

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2. *The LCM also states that these two IDBs are currently audited in accordance with the auditing regime in England. Again, if you had the information, it would be helpful to know the reasons for this.*

When the Public Audit (Wales) Act 2004 (the 2004 Act) was introduced the basic UK Government policy approach to all cross-border bodies was that there should be no change, eg, if a cross-border body had its auditor appointed by the Audit Commission then it should remain appointed by the Audit Commission, rather than being transferred to the AGW.

The 'explanatory memo' to the 2004 Act says that it 'does not impact on audit arrangements for cross-border bodies' (para 4).

3. *Finally, I am sure that PAC would be interested to know whether the WAO has a view as to whether it would be appropriate for these two cross-border IDBs to be subject to the new audit regime for England, or whether they should be part of the audit regime in Wales.*

Allowing any public body to appoint their own auditor is contrary to the Principles of Public Audit. We do not believe such arrangements are good for ensuring proper stewardship of public money.

The Principles of Public Audit are widely accepted and were codified by the Public Audit Forum¹ in 1998 and endorsed by Lord Sharman's report of 2001². The principles are:

- auditors are appointed independently from the bodies being audited;
- the scope of auditors' work is extended to cover not only the audit of financial statements, but also aspects of corporate governance and arrangements to secure the economic, efficient and effective use of resources; and
- auditors may report widely to the public and other stakeholders.

Given the governance issues that emerged in the Caldicot & Wentlooge Levels IDB it would be a matter of particular concern to allow IDBs funded by levies on Welsh local authorities (and Welsh ratepayers) to appoint auditors themselves. Without the safeguard of independent appointment, auditors would face increased pressure to undertake or not undertake certain work, and to report privately – or not at all – rather than publicly as we have done.

¹ The Public Audit Forum is comprised of the five public audit agencies in the UK: the National Audit Office; the Audit Commission; Audit Scotland; the Northern Ireland Audit Office; and the Wales Audit Office.

² *Holding to Account, The Review of Audit and Accountability for Central Government*, Report by Lord Sharman of Redlynch, HM Treasury, 13 February 2001

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I would also note the Caldicot and Wentlooge Levels IDB provides services to the Lower Wye IDB. Although Lower Wye has its own board all the IDB's functions are administered by Caldicot and Wentlooge Levels IDB, including Board secretariat services, finance, HR etc, as well as engineering services. The Caldicot and Wentlooge Levels IDB has also, in the past, provided services to Powysland as well as other IDBs.

Like the Audit Commission the Wales Audit Office also has a limited assurance audit regime. In Wales the threshold between the limited assurance regime and the reasonable assurance is £1million; in England it is £6.5million. Unlike Caldicot and Wentlooge Levels Internal Drainage Board, both Powysland and Lower Wye IDBs fall below the £1million threshold and would, therefore, be subject to a limited assurance audit. So the cost of the normal audit work and the fee charged would be minimal.

If Natural Resources Wales takes on responsibility for the functions of the Internal Drainage Boards then this would be covered by our audit of Natural Resources Wales.

Over the last couple of years my auditors have built up a very good understanding of the complexity of these relatively small bodies. We are, therefore, well placed to undertake audit work on any other drainage boards and would be pleased to do so.

I trust you find this information useful.



HUW VAUGHAN THOMAS
AUDITOR GENERAL FOR WALES

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INTERNAL DRAINAGE DISTRICTS

Afon Ganol IDD

Arduwy Marsh IDD

Borth Bog IDD

Dysynni Valley IDD

Glaslyn - Pencyflog IDD

Harlech & Maentwrog IDD

Llanfrothen IDD

Malltraeth Marsh IDD

Mawddach & Wnion IDD

River Conwy IDD

Towyn IDD