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# Proposed new governance arrangements for the Wales Audit Office – Briefing paper for the Public Accounts Committee

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# Introduction

- 1 Before taking up my appointment as Auditor General, I reviewed the Wales Audit Office's governance arrangements with senior Wales Audit Office staff and my immediate predecessor, Ms Body. I have been fully briefed on the findings of the Wales Audit Office's Due Diligence Review into the activities of the former Auditor General, Mr Colman. Alongside my personal experience as both Non-Executive and Executive of running major public service organisations, I have also considered the recommendations of the International Peer Review of the Wales Audit Office, and the principles of good governance promulgated by the Independent Commission for Good Governance in Public Services.
- 2 In short, I consider the current Wales Audit Office governance arrangements to be flawed and to lack the necessary checks and balances that would need to exist in well-run private or public sector organisations. Improvements are urgently needed, to make the Wales Audit Office more open and accountable. Independent non-executive oversight of how the Wales Audit Office is run must be expanded including scrutiny of Remuneration, Human Resources, Finance, and Information Technology activity in addition to the existing Audit and Risk Management oversight.
- 3 I intend to establish three committees; exclusively non-executive, with members recruited following Office of the Commissioner for Public Appointments' principles, to exercise oversight respectively of Remuneration, Resources, and Audit and Risk Management. Committee agenda and minutes will be published and there will be an annual Wales Audit Office Governance Report.
- 4 I plan to have the new Wales Audit Office governance arrangements fully in place by 1 April 2011. The remainder of this paper gives further detail of the arrangements I am proposing and how they will work in practice.

## Further detail on the proposed new governance arrangements

- 5 Corporate governance is about how organisations are directed and controlled. Corporate governance arrangements are about doing the right things in the right ways at the right time to achieve the organisation's objectives in a transparent and accountable way, minimising risk and maximising performance.
- 6 To function properly I, as Auditor General, must be unambiguously independent of political or other influence over what I audit and how I report my findings. However, I must also be properly accountable for how I audit and for the public money I spend. To do otherwise would be to betray the confidence entrusted to me. My independence and accountability must work side-by-side, and within governance arrangements that are straightforward and transparent.
- 7 The International Peer Reviewers looked at the governance arrangements at 15 audit and inspection bodies worldwide. No two bodies had exactly the same arrangements, but they all had common features of accountability to Government, and the presence of non-executive scrutiny. The Peers did not identify one 'right' model. However, they did specifically discard the 'corporate entity' model as being inappropriate due to the risk of confusing the accountability of the Auditor General to the National Assembly.
- 8 The Wales Audit Office's Due Diligence Review has identified areas where improvements are needed for the Auditor General and Wales Audit Office to be able to demonstrate accountability, transparency and open management. My predecessor, Ms Body as Interim Auditor General, and the Wales Audit Office's Executive Committee (EC) have started work on these issues. I intend to take matters forward, further and quickly.
- 9 I endorse the Independent Commission for Good Governance in Public Services' principles of good governance, which are:

  - focusing on the organisation's purpose and on outcomes for citizen/service users;
  - performing effectively in clearly defined functions and roles;
  - developing the capacity and capability of the governing body to be effective;
  - taking informed, transparent decisions and managing risk;
  - promoting values for the whole organisation and demonstrating good governance through behaviour; and
  - engaging stakeholders and making accountability real.

- 10 In line with the principles of good governance, my proposals enable the benefits of non-executive scrutiny of strategic and business planning and performance to be applied. They address the Peer Review's proposals, they address the findings of the Due Diligence Review, and they are consistent with the principles of good governance.
- 11 The key to the new arrangements is my intention that I, and the Wales Audit Office, will be open and accountable. That openness and accountability will be:
- driven by my leadership of the Wales Audit Office, and with the support of my senior staff; and
  - built on the foundations of much greater non-executive scrutiny, challenge and reporting on my and the Wales Audit Office's activities.
- 12 The Wales Audit Office's current arrangements and the improvements I will be making are described below.

## Current Wales Audit Office governance arrangements

- 13 The Wales Audit Office's current governance arrangements are made up of:
- A The Public Accounts Committee's (PAC) requirements** of me as Accounting Officer for the Wales Audit Office which include:
- ensuring a high standard of Wales Audit Office financial management and the efficient and economical conduct of business whilst safeguarding financial propriety and regularity;
  - having appropriate arrangements, including non-executive contribution in place, to comment and advise on governance arrangements; and
  - keeping proper accounting records, and personally signing the Wales Audit Office's accounts.
- B External Audit:** Consistent with the principle that a public body should not appoint its own auditors, my external auditors are appointed by and report to the National Assembly.
- C The Audit and Risk Management Committee (ARMC)** comprises a Chairman and five non-executive members. The committee comments and advises on the management of risk, control and governance. The ARMC Chairman has access to me and the PAC Chair, and can report matters of concern directly to the PAC Chair, as occurred when Mr Colman resigned.

**D The EC**, which I Chair, with three executive members. This is the Wales Audit Office's primary decision-making body which leads and directs the business. EC members work with me, accepting collective responsibility for EC work and personal responsibility for the areas of the business assigned to them.

**E The Wales Audit Office's Compliance function** which includes delivery of some of my key statutory functions, and management of governance and regulatory arrangements such as internal audit and risk management. The Compliance Partner has access to me and the PAC Chair, and can report matters of concern directly to the PAC Chair, again, as occurred when Mr Colman resigned.

**14** The key deficiency in the current governance arrangements is that they do not provide sufficient independent non-executive scrutiny of, or check across, the breadth of Wales Audit Office executive activity. Too much reliance has been placed on the ARMC whose numbers and responsibilities have been expanded, but whose focus on audit and risk management has arguably been diluted.

**15** In addition, the Wales Audit Office has not been sufficiently transparent or publicly accountable for its executive actions either through public reporting or reporting to the PAC. Crucially, the current arrangements contain the risk that the Auditor General can initiate significant executive actions in the management of the Wales Audit Office without having these subjected to appropriate scrutiny.

## Proposed improvements to the Wales Audit Office's governance arrangements

**16** In light of the above deficiencies, I intend to create the following additional governance arrangements:

### **F Resources Committee** (HR, IT and Finance)

- This committee will provide scrutiny and challenge in the proper management of Human Resources, Information Technology and Financial activities. This will include HR strategy and arrangements that directly affect the Wales Audit Office's ability to recruit, develop and retain the high-quality staff needed for it to achieve its objective; the proper discharge of my Accounting Officer responsibilities; and the effective and secure use of information technology.

### **G Remuneration Committee**

- The Remuneration Committee will provide specific and detailed scrutiny and challenge over all aspects of the remuneration of Wales Audit Office staff. This will include consideration of the application of regulatory requirements, consistent with the expectations upon a public sector organisation.

- 17 All committees (Remuneration, Resources, and Audit and Risk Management) will:
- comprise four suitably qualified non-executive members, one of whom will chair the committee – Chairs will have access rights to me and to the Chair of the PAC;
  - meet four times a year;
  - communicate with other committees to join-up their activities and actions as appropriate (members may sit on more than one committee);
  - give advice on request, or as they feel appropriate, so providing external advice that I would not otherwise have access to;
  - be empowered to co-opt expert contribution as agreed is necessary if particular topics under scrutiny require it; and
  - publish agendas and minutes, and produce an annual report which will form part of an annual Governance Report which I will publish on the Wales Audit Office website.

18 I noted earlier that to uphold the confidence entrusted to me as Auditor General, I must be unambiguously independent in what I audit and how I report my findings; but I must equally be properly accountable for how I audit and for the public money I spend. I agree, therefore, with the Peer Reviewer's conclusion that governance arrangements must not confuse my accountability to the National Assembly, and with their view that a Governance Board arrangement would be inappropriate for the Wales Audit Office.

19 However, to further ensure and demonstrate my accountability, I am proposing that there should be an Oversight Framework comprising: Strategic Oversight, and an Annual Governance Conference. The Oversight Framework will embrace the three Governance Committees together with wider independent contribution, and public reporting.

20 Through its scope and reporting arrangements, the Oversight Framework will guarantee my accountability to the National Assembly, and the clarity of that accountability.

#### **H Strategic Oversight**

- At six-monthly intervals, the Chairs of the three Governance Committees (Audit and Risk Management, Resources, Remuneration), will meet with myself and my EC to review planned and actual delivery over the preceding period, and consider whether Wales Audit Office operations need to be amended going forward so as to improve productivity and efficiency.

#### **I Annual Governance Conference**

- In addition to the six-monthly reviews, there will be an annual Wales Audit Office Governance Conference. All non-executive members and Wales Audit Office Partners will attend together with key stakeholders, and experts from outside Wales/unconnected with the bodies audited by the Wales Audit Office, which will provide an opportunity for a broadly based and two-way dialogue on the future priorities for, and the activities of, the Wales Audit Office. This will result in a Governance Report which will be presented to the PAC for consideration.



**21** Other arrangements:

- I will invite the PAC Chair to update the Accounting Officer letter to me to include the new governance arrangements I am proposing.
- The membership of the ARMC will be reduced to four non-executives, one of whom will chair the committee. The other two members will be invited to serve on one of the other two committees. The ARMC's terms of reference will be amended to concentrate the committee's focus on audit and risk management matters.
- All new and future non-executive members will be recruited using Office of the Commissioner for Public Appointments' principles ie, based on merit, subject to independent scrutiny, equal opportunity, probity, openness and transparency, and proportionality.

**22** I will invite the Chair of the PAC to be involved, alongside me, in the final selection of all new and future non-executive members.