17 April 2015

Accountability, audit and the further devolution of powers - call for evidence

Dear Sir/Madam,

1. ICAS welcomes the subject of this inquiry and the opportunity to comment. We are a leading professional body for chartered accountants with over 20,000 members working across the UK and internationally. Our members work across the private and not for profit sectors.

2. ICAS’s Charter requires its committees to act primarily in the public interest, and our responses to consultations are therefore intended to place the public interest first. Our Charter also requires us to represent our members’ views and to protect their interests, but in the rare cases where these are at odds with the public interest, it is the public interest which must be paramount.

4. We welcome the Public Audit Committee’s early consideration of the audit and accountability arrangements stemming from the draft clauses for the proposed devolution of further powers to the Scottish Parliament. Given the early stage of the inquiry, our key messages set out some high level principles to support the Committee’s consideration of priorities and what information may be required to meet its responsibilities. This is followed by responses to the individual questions. In addition, we support the evidence provided by Audit Scotland to the Public Audit Committee on 1st April 2015 and believe that this offers a clear direction of travel.

Our key messages

5. There is a high volume and wide range of organisations providing services across the UK and for the Scottish tax payer. As part of the Committee’s consideration of priorities, a gap analysis showing where existing audit and accountability arrangements need strengthened following further devolution to meet Committee responsibilities would be a useful starting point. This would also need to reflect the materiality of the gap and whether further action is required.

6. The needs gap across the variety of organisations will vary significantly. Some organisations have a more direct financial or easily identifiable geographical relationship with Scottish citizens than others. For example, a discussion with the BBC on the level of licence fee income from Scottish domiciled payers and how this is spent in Scotland would be productive, whereas a similar break down for OFCOM and OFGEM who provide services across the UK is likely to be much more complex and with a less obvious cost benefit. Some organisations such as Citizens Advice Scotland, who are currently funded by both the UK and Scottish governments, already have in place audit and accountability arrangements to each body. A robust case would therefore need to be developed with reasons for any proposed change.
7. For the most effective use of Parliament’s time, as well as staff resources to implement requirements, a one-size fits all approach is unlikely to be the optimal solution. We believe that a targeted approach will need to be developed on a case by case basis, reflecting the Committee’s priorities. In the interests of best use of resources and better regulation, an objective to place reliance on existing scrutiny arrangements would be appropriate i.e. if it is not broken there is no need to fix it.

8. As a starting point, the identification of clear principles should help to base an assessment on the adequacy of audit and accountability arrangements to accompany the devolution of further powers. We suggest that the following key principles should underpin this assessment:

- Clearly defined purpose and priorities
- Best use of resources
- Better regulation.

These are explained in more detail below.

Clearly defined purpose and priorities

8.1. The first stage would involve an assessment of gaps in the existing framework and evidencing need to ensure additional arrangements are effectively focused on the decisions required and scope reflects the parameters of responsibility:

- Where are the gaps/ weaknesses in the existing lines of accountability?
- Is the gap material?
- What are the options to address this gap and how would this improve accountability?
- What are the information needs - is there a clear link between the responsibilities, accountabilities, decision making requirements and information needs?
- Why is the information required – what accountability gap will this address and how significant is the Scottish contribution?
- Is there evidence that geographical needs are significantly different and that a geographical breakdown would improve the quality of decision making and ability to hold the respective body to account i.e. is this additional information adding value?

Best use of resources

8.2. Building on the content of paragraph 8.1 above, this includes:

- Aligning with priorities and needs
- Considering whether the preferred option is a proportionate response
- Demonstrating that the benefit exceeds the cost to the tax payer
- Ensuring duplication of effort is minimised (and maximising use of the existing framework).

Better regulation

8.3. The Scottish Government promotes better and smarter regulation through applying the following principles to avoid creating regulatory burdens. This aims to develop regulation which is:

- Proportionate
- Consistent
- Accountable
- Transparent
- Targeted.

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1 Scottish Government - better regulation agenda
Responses to questions

1. Should the content of the annual reports relate to UK or Scottish activities?

This depends on the individual organisation, its functions across the UK and the purpose of why additional material broken down at a Scottish level would be needed. As a comparative, International Financial Reporting Standards on Operating Segments (IFRS 8) requires UK listed companies to disclose selected information about an entity’s operating segments and geographical areas in which it operates. The intention here is to reflect segments where separate financial information is available and which are key to the chief decision maker’s judgement on how to allocate resources and assess performance.

IFRS 8 does not require an entity to report information that is not prepared for internal use if the necessary information is not available and the cost to develop it would be excessive. For reasons of proportionality and relevance, this reporting requirement does not exist for small or medium sized companies. In the case of large private companies, who are also subject to the regulations SI 2008/410, the criteria for considering segmental disclosures are whether the geographical markets significantly differ from each other.

Overall, the above criteria may be useful to the Committee to assist its own judgement of whether these additional disclosures are relevant to the economic decision-making needs of users and proportionate to the size of entity.

In line with the principles of better regulation identified in paragraph 8.3 we would also stress the importance of avoiding unnecessarily increasing the burden of reporting. Current opinion is that the annual report and accounts are too long and it would benefit users and stakeholders to “cut the clutter”. A more concise and strategically focused document can make it easier to hold organisations to account.

2. Should those annual reports and accounts include Scottish-specific financial and performance data?

Please see our response to question 1 above.

3. Should those annual reports and accounts be accompanied by audit information at UK or Scottish level, and if so who should undertake that audit function?

The requirement to undertake an audit and when one would be required is set out in legislation. The respective roles of Audit Scotland and the NAO are clearly demarcated. Audit is a regulated activity and all registered UK auditors, including those undertaking public sector audits are required to comply with the International Standards of Auditing (UK & Ireland) to achieve consistency in quality standards across the profession.

In group audit situations, it is normal practice for external group auditors to plan their work to place reliance on subsidiary auditors and in some cases also the work of internal auditors. This serves to streamline audit work and reduce unnecessary burdens on the audited body. For best use of resources, we advocate minimising duplication of effort and maximising reliance on other auditor’s work. Where appropriate this model could be applied for devolved UK functions.

4. Should the above organisations report to the Scottish Parliament and if so, what should they report on (such as their performance and expenditure in delivering their activities in Scotland)?

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2 For large private companies, FRS 102 & SI 2008/410 (schedule 1 para 68 would apply
3 ICAS thought leadership on “How to make corporate reports relevant”, “How to make corporate reports readable” and “Losing the excess baggage”
This would need to be determined on a case-by-case basis given the volume and wide ranging type of organisations involved. We suggest that it might assist the Committee’s deliberations to identify its priorities, information needs and agreeing principles for decision making, as illustrated in paragraphs 5-8.

5. Should the joint oversight of DWP development and delivery of Universal credit be extended to include DWP specifically reporting to the Scottish Parliament on its Scottish activities and if so, what should they include in such reports?

This would depend on what implementation model is agreed.

6. If the Scottish Parliament agrees that DWP should continue to deliver devolved benefits, should DWP report to the Scottish Parliament on their performance in administering those benefits; and if so, what performance measures should they report on?

Please see our response to question 5.

7. In considering the audit arrangements for each of the issues addressed in questions 1-6 what should be the role of the National Audit Office and/or Audit Scotland?

Please see our response to question 3.

8. Where should any agreed audit and accountability arrangements for the proposed new powers be set out (such as through the Fiscal Framework, Memorandums of Understanding or explicitly set out within the UK Bill)?

Audit arrangements and powers relating to the Auditor General of Scotland or Comptroller and Auditor General are set out in legislation.

9. Are there any other areas of the draft clauses where you consider that the audit and accountability arrangements need to be strengthened?

We have set out above where we believe the Committee could concentrate its efforts at this point in time. We look forward to seeing the outcome of the legislative process.

We hope this is helpful and please do not hesitate to get in touch if we can be of further assistance.

Yours sincerely,

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ICAS