

## Budget Module Self-Test

### Unit 5: Parliament and the Audit of Public Accounts

**1. In what ways do the auditor general and court models of public sector auditing differ? Which audit model is used in your country?**

Unit 5 describes the two basic types of supreme audit institutions: the court model and the auditor general model. The major features/distinctions identified are as follows:

1. The auditor general model is based on closer interaction with the legislature than the court model.
2. The court model has tended to focus on the legality of spending while the auditor general model has proven innovative in developing different types of audit.
3. The court model has judicial and administrative authority and is independent of the legislative and executive branches of government. The institution is an integral part of the judiciary.
4. The audit court is used in particular in the Latin countries of Europe (France, Italy, Spain, Portugal), Turkey, and many Latin American and francophone African countries.
5. The office of the auditor general is an independent body that reports to parliament. It serves no judicial function but its findings may be passed to legal authorities for further action.
6. The auditor-general model has its origins in the United Kingdom and is most prevalent among Commonwealth countries.

In the UK, the Resource Accounts for each financial year are prepared and laid before Parliament. Signed by Accounting Officers from the departments concerned, the Resource Accounts show the extent to which the resources granted by Parliament have been used. They are audited by the Comptroller and Auditor General (C&AG), the head of the National Audit Office (NAO).

The C&AG enjoys complete discretion in the discharge of his functions, although he must take account the views of the Public Accounts Committee (PAC). The C&AG is an Officer of the House of Commons of the UK Parliament. This was a result of the National Audit Act 1983 – a private member's bill - which created an independent NAO and ensured the position of C&AG is independent and accountable to Parliament. The C&AG is appointed by the Crown in consultation with the Chair of the Public Accounts Committee, but can only be dismissed following resolutions of both Houses. The 1983 Act also created a statutory Public Accounts Commission to examine the NAO Estimates and to consider reports from the appointed auditor of the NAO.

**2. What is the difference between financial audit and value for money audit? What types of reports are produced in your country?**

The unit describes financial audit as:

- the traditional focus of public sector spending
- focusing on the accounts of government departments in order to present a judgment about the accuracy and fairness of an organisation's financial statements (in the auditor general model); certifying the legality of spending, to see whether government revenue and spending have been authorized and used for approved purposes, and whether departments and agencies have conformed to all the pertinent laws and regulations
- requiring knowledge of accountancy (auditor general tradition) and legal skills (court model)

The UK's NAO defines the term value for money audit on their web site<sup>1</sup> as follows:

- Economy: minimising the cost of resources used or required – **spending less**
- Efficiency: the relationship between the output from goods or services and the resources to produce them – **spending well**; and
- Effectiveness: the relationship between the intended and actual results of public spending – **spending wisely**.

Once public money has been spent by a central government body in the UK, the C&AG is free to report to Parliament on the regularity, propriety and value for money with which this has been done. The NAO audits the accounts of all central government departments and agencies, as well as a wide range of other public bodies, and reports to Parliament on the spending of central government money (a separate body, the Audit Commission, is responsible for the audit of local government spending). About 75 per cent of the C&AG's work in the UK involves value for money audits<sup>2</sup>.

### **3. To what extent would you say that public audit in your country complies with the Lima Declaration?**

Public audit in the UK largely complies with the Lima Declaration. For example, in response to Lord Sharman's 2001 report on audit and accountability in central Government<sup>3</sup>, the government agreed that the C&AG (or the public sector auditors associated with devolved administrations) should carry out public sector audits of the accounts of certain non-departmental public bodies that are registered companies, as well as their subsidiary companies. Yet there are gaps in the system: one public organization which is not accountable to the NAO (and therefore to the PAC) is the BBC, an organisation which benefits from a tax on virtually every household in the country. The civil list (the annual grant of money by Parliament to the royal family) is also not covered.

One guideline refers to the need of providing SAIs with the financial means to enable them to accomplish their tasks. The Public Audit Commission, with the Chair of the PAC as a member, recommends the funding to be provided for the NAO before the government's estimates are provided to Parliament. Resources to the NAO have increased in recent years. In 2007 the NAO's budget was £90 million almost double its budget in 2001. A report can cost more than £100,000 each to produce, but it is estimated that more than 600 accounts are audited by the NAO each year with estimated savings amounting to an average of £512 million each year<sup>4</sup>.

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<sup>1</sup> www.nao.org.uk.

<sup>2</sup> David McGee (2002) *The Overseers*, Pluto Press, London p37.

<sup>3</sup> Lord Scarman of Redlynch (February 2001), "Holding to Account: The Review of Audit and Accountability for Central Government",

<sup>4</sup> J. McEldowney and C. Lee (2005) "Parliament and Public Money" in Giddings, P (ed.) *The Future of Parliament*, Palgrave Macmillan, p.82.

The C&AG reports to Parliament and his reports are certainly informative and independent; of greater concern is follow-up from reports and implementation of recommendations by the Government coupled with the timeliness of reports. On average, the time between the initiation of the NAO report and the Treasury response to a PAC report is 18 months. It is possible for the government to dismiss a PAC report for being out-of-date – when a government department is to blame for delaying the whole process. On the other hand, it is difficult for the government to say it does not accept PAC recommendations because NAO reports are agreed with departments.

The NAO publishes a value-for-money report every six days for the PAC to consider. The C&AG, or his deputy, attends all PACs meetings, both deliberative and evidence-taking, and his staff draft the committee's reports. The support given to the PAC by the NAO clearly enhances the Committee's authority and effectiveness and is so comprehensive that the PAC rarely needs to use the services of the Scrutiny Unit in the committee office.<sup>5</sup>

There is some debate within parliament about the wide variance of institutional design of “ethical watchdogs” within the UK. The Select Committee on Public Administration describes the current situation as “unsatisfactory.”<sup>6</sup> The core concern identified by the Committee is the balance between independence (especially from the Executive) and accountability (especially to Parliament). However, the arrangements for funding and scrutiny of the NAO and C&AG were described by the committee as a model for those regulators who are appointed by the House.

The C&AG is designated as an Officer of the House of Commons (along with, for example, the Parliamentary Ombudsman and Parliamentary Commissioner for Standards). This emphasises the C&AG's independence from the executive whilst remaining at arms length from the House administration. The core characteristics of a statutory Officer of Parliament are

- Parliamentary involvement in appointment and dismissal
- A statutory committee which is responsible for budget approval and oversight
- A specific select committee to which the Officer is bound to report (the PAC)
- Staffing independent of the civil service<sup>7</sup>.

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<sup>5</sup> An exception is when the PAC may review the NAO's estimates.

<sup>6</sup> Public Administration Committee, *Ethics and Standards: The Regulation of Conduct in Public Life*, Fourth Report of Session 2006-07, HC-121-1, HMSO, April 2007, pp. 42-29.p.23.

<sup>7</sup> Oonagh Gay, Officers of Parliament – A Comparative Perspective, *House of Commons Library*, Research Paper 03/77 p.12.