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11<sup>th</sup> September 2015

Dear Ms Bardwell

### Report of the Independent Supervisor of Auditors General

I am writing to thank you for providing me with a copy of your annual report. I note that the Auditor General for Wales has not needed to enter into arrangements with the FRC in respect of statutory audit work as he does not undertake currently any statutory audits under the Companies Act 2006. I also note your confirmation that the Auditor General for Wales did not need to notify the Independent Supervisor of any other information under Section 1232 of the 2006 Act and that the FRC issued no enforcement notices and made no applications for compliance orders during the period covered by your report. This gives me assurance about the compliance of the Auditor General for Wales with the requirements of the 2006 Act in the discharge of his duties.

I acknowledge that receipt of this report fulfils your statutory responsibility under the Companies Act 2006 Section 1231 to report to me at least once in each calendar year. I will now arrange for your report to be laid before the National Assembly for Wales in accordance with my own statutory responsibility under the Companies Act 2006 Section 1231 (3A).

Yours sincerely

A handwritten signature in black ink, appearing to read 'Carwyn Jones', written in a cursive style.

**CARWYN JONES**

May 2015

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# Report of the Independent Supervisor of Auditors General

Year to 31 March 2015

This report meets the requirements of Section 1231 of the Companies Act 2006, in respect of 2014, to report, at least once in each calendar year, to the Secretary of State, the First Minister in Scotland, the First Minister and deputy First Minister in Northern Ireland, and to the First Minister for Wales where, pursuant to section 1231(3A) of the Companies Act 2006, it is laid before the National Assembly for Wales

This report is also included as an Appendix to the Annual Report of the Financial Reporting Council for the year to 31 March 2015, which is laid before each House of Parliament (Paper HC495). The Annual Report is available at: <https://www.frc.org.uk/Annual-Reports-and-Plans.aspx>

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## **1. INTRODUCTION**

- 1.1. The Statutory Auditors (Amendment of Companies Act 2006 and Delegation of Functions etc.) Order 2012 names the FRC as the Independent Supervisor of the Comptroller and Auditor General (C&AG) and the other Auditors General, in respect of their work as statutory auditors of companies under the Companies Act 2006 (2006 Act).
- 1.2. Section 1228 of the 2006 Act requires the Independent Supervisor to report on the discharge of its responsibilities at least once in each calendar year to the Secretary of State, the First Minister of Scotland, the First Minister and the Deputy First Minister in Northern Ireland, and to the First Minister for Wales. This report meets the statutory reporting requirements.
- 1.3. The Comptroller and Auditor General (C&AG) and the other Auditors General are eligible for appointment as the statutory auditors of companies under the 2006 Act, subject to meeting certain conditions.
- 1.4. One of those conditions is that an Auditor General is subject to oversight and monitoring by an "Independent Supervisor" in respect of statutory audit work. To date only the C&AG has entered into the necessary arrangements with the FRC and undertakes statutory audits under the 2006 Act. The year to 31 March 2014 was the sixth year in respect of which staff at the National Audit Office (NAO) undertook statutory audit work, auditing the accounts of 24 companies. This is a minor part of the NAO's work but enables the NAO to undertake the statutory audit of companies that are owned by Government Departments and other public bodies whose financial statements it audits. The responsibilities of the Independent Supervisor do not extend to the other work of the C&AG.

## **2. SUPERVISION ARRANGEMENTS**

- 2.1. Section 1229 of the 2006 Act requires the Independent Supervisor to establish supervision arrangements with any Auditor General who wishes to undertake statutory audit work, for:
  - Determining the ethical and technical standards to be applied by an Auditor General;
  - Monitoring the performance of statutory Companies Act audits carried out by an Auditor General; and
  - Investigating and taking disciplinary action in relation to any matter arising from the performance of a statutory audit by an Auditor General.
- 2.2. These supervision arrangements are set out in a Statement of Arrangements and Memorandum of Understanding (MOU) between the FRC and the C&AG, and include a requirement for the monitoring of the C&AG's statutory audit work by the FRC's Audit Quality Review (AQR) team, on behalf of the Independent Supervisor.

### 3. REPORTING REQUIREMENTS

3.1. We report below in accordance with the requirements of Part 4 Appointment of the Independent Supervisor, Article 19 (a) to (e), Article 20 and Article 21 of SI 2012/1741 Statutory Auditors (Amendments of Companies Act 2006 and Delegation of Functions etc.) Order 2012 which came into force on 2 July 2012.

#### (a) *Discharge of Supervision Function*

3.2. The supervision arrangements require that the C&AG and relevant NAO staff follow technical and ethical standards prescribed by the FRC when conducting statutory audits and sets out the investigation and disciplinary procedures that would apply were there a need to discipline the C&AG in his capacity as a statutory auditor. The relevant standards are those set by the FRC for auditors generally.

3.3. We meet periodically with senior staff responsible for the audit practice of the NAO on behalf of the C&AG. We have familiarised ourselves with the NAO procedures to discharge these responsibilities and keep abreast of any changes.

#### (b) *Compliance by Auditors General with duties under 2006 Act*

3.4. As noted above, to date only the C&AG has undertaken statutory audits, all of which have been of companies within the public sector.

3.5. The AQR inspection in 2014/15 of the C&AG's statutory audit work comprised:

- Reviewing the processes and procedures supporting audit quality that applied to these audits; and
- Reviewing the performance of 2 of the 24 statutory audits carried out by NAO staff in respect of financial periods ending on 31 March 2014.

3.6. Progress has been made in addressing the prior year inspection findings. There are, however, areas where further action is required.

3.7. The audits that we reviewed this year were larger and more complex than those in previous inspections and the issues we identified were of more significance than in the prior year.

3.8. On the basis of the findings of the AQR, and subject to the NAO's action plan to deal with those findings, in our view the NAO has policies and procedures in place that are generally appropriate to the conduct of its Companies Act statutory audits.

3.9. We found no evidence that any Auditor General was in breach of duties under the 2006 Act.

#### (c) *Notification by Auditors General under Section 1232 of the 2006 Act*

3.10. No Auditor General was required to notify the Independent Supervisor of any other information under Section 1232 of the 2006 Act.

*(d) Independent Supervisor's Enforcement Activity*

3.11. We issued no enforcement notices and made no applications for compliance orders in 2012.

*(e) Account of Activities relating to the Freedom of Information Act*

3.12. We received no requests for information under the Freedom of Information Act in our role as the Independent Supervisor.



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