



# PROFESSIONAL OVERSIGHT BOARD

## REPORT OF THE INDEPENDENT SUPERVISOR OF AUDITORS GENERAL

YEAR TO 31 MARCH 2010

This report meets the requirements of Section 1231 of the Companies Act 2006, in respect of 2010, 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.

This report is also included as Section 5 of the Report of the Professional Oversight Board to the Secretary of State for Business, for the year to 31 March 2010, which is laid before each House of Parliament (Paper HC349 for the 2010/11 Parliamentary Session published by The Stationery Office). It will also be available at <http://www.frc.org.uk/pob/publications/index.cfm>.

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# REPORT OF THE INDEPENDENT SUPERVISOR OF AUDITORS GENERAL

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## Introduction

1.1. 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.

1.2. One of the conditions in the 2006 Act is that Auditors General who wish to audit relevant companies are subject to oversight and monitoring in respect of that audit work by the "Independent Supervisor". The Independent Supervisor Appointment Order 2007 (SI 2007/3534), which came into force on 6 April 2008, appoints the Professional Oversight Board as the "Independent Supervisor". To date only the C&AG has indicated that he wishes to undertake statutory audits under the Act.

1.3. The C&AG's relevant staff in the National Audit Office (NAO) completed the first such audits in respect of accounts for financial years that ended on 31 March 2009 and the Audit Inspection Unit (AIU) monitored this work on behalf of the Independent Supervisor. Section 1228 of the 2006 Act requires that the Independent Supervisor report on the discharge of his 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.

## Supervision Arrangements

1.4. Section 1229 of the 2006 Act requires that the Independent Supervisor establishes arrangements for:

- Determining the ethical and technical standards to be applied by an Auditor General in their statutory Companies Act audit work;
- 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.

1.5. The responsibilities of the Independent Supervisor do not extend to the other audit work of the C&AG.

## Reporting Requirements

1.6. We report below in accordance with the requirements of Article 4(a) to (e) of the Independent Supervisor Appointment Order 2007.

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

1.7. Our Memorandum of Understanding (MOU) requires that the C&AG and relevant NAO staff follow prescribed technical and ethical standards 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. We would enter into similar arrangements with other Auditors General as necessary.

1.8. As part of the supervision arrangements, the AIU completed its first review of some of the statutory audits undertaken by the C&AG in the first quarter of 2010.

1.9. 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*

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

1.11. The AIU inspection of the C&AG's statutory audit work comprised:

- reviewing the performance of 2 of the 24 statutory audits carried out by NAO staff; and
- reviewing the procedures that applied to these audits.

1.12. None of the issues the AIU identified on the statutory audits reviewed were considered to be significant.

1.13. The AIU identified areas for improvement based on its review of the NAO's firm-wide procedures. The number and nature of these was consistent with the AIU's experience when first visiting other firms and audit organisations. The NAO has prepared an action plan in response to the AIU findings.

1.14. On the basis of the AIU's work and the NAO's action plan, we conclude that the NAO has policies and procedures in place that are generally appropriate to its size and the nature of its Companies Act statutory audit client base, and thus to undertake such audit work to an acceptable standard. We have identified no matters that would call in question the C&AG's eligibility for appointment as a statutory auditor.

1.15. 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*

1.16. The C&AG notified the Independent Supervisor of a change of address and a change of the Audit Compliance Officer, as required by Section 1232. No Auditor General was required to notify the Independent Supervisor of any other information.

*(d) Independent Supervisor's Enforcement Activity*

1.17. We issued no enforcement notices and made no applications for compliance orders in 2008.

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

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

## **Financial Information**

1.19. Article 5 of the Independent Supervisor Appointment Order 2007 requires that the Independent Supervisor prepare and publish financial information of its expenditure in such manner as it sees fit at least once in each calendar year.

1.20. In the financial year 2009/10 the core operating costs of the Professional Oversight Board (including an allocation of the central overheads of the FRC) were £1.4 million. We estimate that less than 5% of those costs related to our role as the Independent Supervisor.