

Professional Oversight Board

Report of the Independent Supervisor for 2008

Presented to Parliament pursuant to section 1231 of the Companies Act 2006

Ordered by the House of Commons to be printed on 22 January 2009

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Report of the Independent Supervisor under Section 1231 of the Companies Act 2006

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” for the purposes of section 1228 of the Companies Act 2006 (the 2006 Act). Section 1231 of the 2006 Act requires that the Independent Supervisor reports on the discharge of its responsibilities at least once in each calendar year to you, to 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 fulfils that remit in respect of 2008.

Introduction

The broader background is that the 2006 Act for the first time provides that the Comptroller and Auditor General (C&AG) and the other Auditors General are eligible for appointment as statutory auditors. The purpose is to allow Auditors General to audit public sector companies and other public sector entities that require a statutory audit. To date only the C&AG has confirmed that he wishes to undertake statutory audits. We expect that the relevant staff in the National Audit Office will undertake the first such audits in respect of accounts for financial years ending on 31 March 2009.

Supervision Arrangements

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 audit work;
- monitoring the performance of statutory audits carried out by an Auditor General;
- investigation and discipline in relation to any matter arising from the performance of a statutory audit by an Auditor General.

Reporting Requirements

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

- (a) We have entered into a supervision arrangement with the Audit Inspection Unit (AIU) of the Professional Oversight Board, who will monitor any statutory audit work undertaken by Auditors General. The AIU is currently formulating the scope of the work that they will carry out and we expect that the first AIU review of statutory audits undertaken by the National Audit Office will take place towards the end of 2009 or early in 2010.

We have also entered into a memorandum of understanding, initially with the C&AG, which requires the C&AG and relevant NAO staff to follow prescribed technical and ethical standards. The memorandum also provides for investigation and disciplinary procedures that would come into force were there a need to discipline the C&AG in his capacity as a statutory auditor.

We will enter into similar arrangements with other Auditors General as necessary.

- (b) As noted above, to date only the C&AG has expressed an intention to undertake statutory audits. No Auditor General is in breach of duties under the 2006 Act.
- (c) No Auditor General was required to notify the Independent Supervisor of any information under section 1232 of the 2006 Act.
- (d) We issued no enforcement notices and made no applications for compliance orders in 2008.
- (e) We received no requests for information under the Freedom of Information Act in relation to our role as the Independent Supervisor.

Financial Information

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.

In the financial year 2007/08 the core operating costs of the Professional Oversight Board together with an allocation of the central overheads of the Financial Reporting Council (of which the Board is a part) were £1.3 million. We estimate that less than 5% of those costs related to our role as the Independent Supervisor.

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