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17 January 2008

Dear Accounting Officer

COMPANIES ACT 2006: AUDIT OF NDPBs

This letter is about arrangements for the Comptroller and Auditor General (C&AG) to audit non-departmental public bodies (NDPBs) and their subsidiary companies. Action is initially for departments though clearly these arrangements also affect NDPBs and their subsidiaries.

Contacts

2. If you have any questions about this letter, please follow them up with:

Dave Barton at david.barton@hm-treasury.x.gsi.gov.uk or 020 7270 5365

or

Adrian Baxter at adrian.baxter@hm-treasury.x.gsi.gov.uk or 020 7270 5498.

The government's policy

3. In 2002 the government accepted in principle Lord Sharman's recommendation that the C&AG should audit NDPBs¹ and their subsidiaries. While the concept is straightforward, in law it is not easy to apply since there is no accepted definition of an NDPB.

4. So far the Treasury has implemented this policy by:

- ensuring that legislation establishing new NDPBs provides for C&AG audit; and
- taking orders under the Government Resources and Accounts Act 2000 (GRAA) to appoint the C&AG as auditor.

5. These measures alone cannot cover all corporate NDPBs. The Companies Act 2006 now makes it possible to do so from financial year 2008-09.

The Companies Act (CA 2006)

6. The CA2006 has separate provisions for auditing profit making and non-profit making NDPB constituted as companies:

¹ CM5456: Audit and Accountability in Central government: the Government's response to Lord Sharman's report "Holding to Account".



- s482 allows non-profit making companies to be audited by the C&AG under the GRAA instead of the normal discipline of statutory company audit. So future GRAA orders will be able to appoint the C&AG as the auditor of non-profit making NDPB companies (provided no companies within the group are profit making);
- ss1226-1238 allow the C&AG to carry out statutory company audits of NDPBs which are profit making companies or have profit making subsidiaries (whether they are companies themselves or not). These companies will remain responsible for appointing their own auditors. The government expects that in practice they will appoint the C&AG. Where there is a legal requirement to put the audit out to tender, companies should routinely invite the C&AG to bid when audit contracts are due for renewal. If they do not appoint the C&AG as auditor, they will need to be able to account for their reasons for preferring another auditor.

Implementation

7. The Department of Business, Enterprise and Regulatory Reform (DBERR) has laid an order inviting Parliament to agree to commence the relevant sections of CA2006 from 6 April 2008. So from financial year 2008-09, the C&AG will be eligible to audit all companies in the public sector.

8. To activate these powers for non-profit making companies, the Treasury plans to invite Parliament to approve an order under GRAA 2000. To make sure that the list is complete, it would be helpful if Accounting Officers for companies that fall into this category could contact the people on the first page of this letter by Friday 22 February.

9. And in future Accounting Officers should similarly contact the Treasury to make sure that the necessary arrangements for audit of NDPBs are in place whenever a new NDPB is merged, revised or created.

10. It is in everyone's interest to make these new audit processes work. They bring to fruition a long-standing government promise to which the Public Accounts Committee attaches importance. NAO staff stand ready to provide Accounting Officers, finance directors and finance divisions with whatever help is necessary to implement these arrangements.

The devolved administrations

11. There will be separate arrangements for implementing CA2006 in Scotland, Wales and Northern Ireland.

Paula Diggle
Treasury Officer of Accounts