



Public Bodies: A Guide for Departments

Chapter 6: Financial Management - Accountability



FINANCIAL MANAGEMENT - ACCOUNTABILITY

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1. Introduction

Improved accountability is an important aim for all Public Bodies. As accountable units of management within the public sector, all Public Bodies are required to demonstrate that they are conducting their operations as economically, efficiently and effectively as possible. Annual reports and accounts are the main vehicles for discharging this “stewardship” function and enabling Parliament, the taxpayer and customers to judge whether the body is securing value-for-money in its operations.

2. Organisation

2.1 Board Responsibility

2.1.1 The Board of a Public Body has a collective responsibility for the proper conduct of the body’s affairs and for ensuring that staff maintain the strictest standards of financial propriety. Where the Public Body has been set up by statute, the Board has a duty to ensure that the requirements of propriety, regularity and value-for-money are met in its use of public funds.

2.1.2 The Board must ensure compliance with any appropriate financial requirement laid upon them by the sponsor department in the management statement/ financial memorandum (MS/FM) or by other means.

2.1.3 All public bodies are required to have in place a **Code of Practice** to which members should adhere. The Code should be publicly available and should set out the conduct expected of board members. Guidance on Codes of Practice for Board Members of Public Bodies and Model Codes of Practice for Board Members of Executive and Advisory NDPBs are available at:

<http://www.publicappointments.gov.uk/>

2.1.4 Sponsor Departments should be aware of the guidance on Corporate Governance provided in Chapter 4: Setting up a New Executive NDPB – The Practical Tasks, paragraph 8. The Treasury Code of Practice on Corporate Governance provides useful guidance on the role of the board and independent non-executive members.

2.2 Accounting Officer

2.2.1 The Chief Executive of the NDPB is normally designated as its Accounting Officer. The designation is usually made by the Permanent Secretary of the sponsor department, the Principal Accounting Officer, although an Additional Accounting Officer within the sponsor department may do so if they have responsibility for the body in question. The letter of designation, which should be accompanied by a copy of the NDPB Accounting Officer Memorandum and the Treasury guidance document *Regularity, Propriety and Value for Money*, http://www.hm-treasury.gov.uk/media/28A/48/Reg_Prop_and_VfM-November04.pdf, should make clear that the designation can be withdrawn in

certain circumstances. See Annex A of this document for further information. Annex B provides a model Designation Letter endorsed by HMT for use by sponsor departments. The Accounting Officer's designation letter should be copied to the Comptroller and Auditor General (C&AG), the clerk to the Committee of Public Accounts (PAC) and the Treasury Officer of Accounts.

2.2.2 Please refer to the following Treasury guidance for detailed advice about the responsibilities of the Accounting Officer including appearance before the Public Accounts Committee:

http://www.hm-treasury.gov.uk/documents/financial_management/governance_government/aaa_accountingrole_index.cfm

The Government's Financial Reporting Manual provides a model Statement of Accounting Officer's responsibilities:

[http://www.financial-reporting.gov.uk/ANNEX 3 ACCOUNTING OFFICERS RESPONSIBILITIES.pdf](http://www.financial-reporting.gov.uk/ANNEX_3_ACCOUNTING_OFFICERS_RESPONSIBILITIES.pdf)

2.3 Finance Posts

Public Bodies will normally appoint a finance officer or finance director whose duties are likely to include advising senior managers on financial policy and management and to run the financial management systems. The post will generally be separate from the management line which has responsibility for budgeted money and manpower.

3. Annual Reports and Accounts

3.1 Executive NDPBs produce annual reports and accounts that are either formally laid before Parliament or placed in the Library of the House of Commons. In the case of NDPBs with their own founding legislation, there should be provision for the preparation of an annual report and of annual accounts in accordance with directions issued by the Secretary of State with the approval of the Treasury, the audit of the accounts and their presentation to Parliament. For 2005/06 onwards, the statutory requirement for the preparation of an annual report will be satisfied by the preparation of a Management Commentary which forms part of the accounts (see Chapter 7 of the government Financial Reporting Manual www.financial-reporting.gov.uk). The Treasury should be consulted on the format of the direction. In straightforward cases, the direction will require compliance with the Government Financial Reporting Manual, but the direction may need to refer to any unusual aspect of the accounting or reporting arrangements.

3.2 If this is adopted, obtaining Treasury approval is straightforward. However, due allowance must be made for any discussion over any unusual aspect of the accounting or reporting arrangements. Public Bodies established under the Companies Acts prepare their accounts in accordance with the requirements of the Companies Acts.

3.3 Where a NDPB is to be set up under statutory powers the legislation should normally provide for the body's audited accounts to be laid before Parliament by a specified date. This is not always the case as far as the Annual Report is concerned and when departments are seeking new legislation which covers accounts, consideration should be given to making provision for the preparation and presentation to Parliament of an Annual Report together with the Annual Accounts.

3.4 The accounts should be produced on an accruals basis following, as far as appropriate, private sector practice based on generally accepted accounting practice in the UK (UK GAAP), i.e. the requirements of the Companies Act and on the accounting standards issued or adopted by the Accounting Standards Board. The accounting and reporting requirements are set out in:
http://www.hm-treasury.gov.uk/media/754/8C/ndpb_guidance_261104.pdf

3.5 The incumbent Accounting Officer of the public body will normally be expected to sign its accounts. The Public Accounts Committee attaches great importance to the responsibilities of the signatories of public accounts prepared by public bodies and any of them are liable to be summoned before the Committee, alongside the departmental Accounting Officer concerned. They should therefore be notified by the sponsor department of that liability.

3.6 Advisory and Tribunal NDPBs do not normally prepare separate accounts, but are accounted for as part of their sponsoring department's resource account. They should, however, prepare an annual report that for the large majority of Advisory NDPBs should be prepared in a proportionate way and need only be one or two pages long. It might include the following:

- 3.6.1 a brief history of the body;
- 3.6.2 terms of reference for the body;
- 3.6.3 a description of how the body's work supports the government's objectives and policies;
- 3.6.4 details of membership of the body, including any changes which have taken place during the year;
- 3.6.5 details of the remuneration, if any, of the chair and members;
- 3.6.6 the frequency of meetings;
- 3.6.7 a list of reports issued during the year and a summary of the reports if practicable; and
- 3.6.8 a point of contact in the sponsor department or body from where further information about the body can be obtained.

3.7 It is recommended that the Annual Report is laid in the House Libraries and the department should consider making a ministerial statement if deemed appropriate. Alternatively, the requirement to publish an annual report could be met by including a section in the sponsor department's report. Please note, Advisory NDPBs with a separate legal identity should comply with the guidance relating to Executive NDPBs in respect of accountability requirements.

4. Performance targets

4.1 All NDPB Annual Reports should provide full details of the extent to which financial and other performance targets have been achieved over the past year.

4.2 All NDPB's key financial and quality of service targets should be published **before** the start of the period they are intended to cover. NDPBs should agree with their sponsor department how this should be done. See Chapter 7: Financial Management – Planning, Funding and Control for further information.

5. Internal audit

5.1 NDPBs should make arrangements for internal audit in accordance with the Treasury's *Government Internal Audit Standards* (GIAS). The sponsoring department in its turn is required to ensure that an NDPB makes effective arrangements for internal audit, and should arrange for its own internal auditors to have access to the NDPB. Where practicable an NDPB should have its own internal audit unit but may buy in a service from a private firm or sponsor department provided this complies with GIAS, and does not lead to a conflict of loyalties. Internal audit should maintain links with the NDPB's and other review services as well as with the sponsor department's own internal audit unit. Information on GIAS is available at:

http://www.hm-treasury.gov.uk/documents/financial_management/governance_government/pss_aud_gias.cfm

5.2 The NDPB should set up an Audit Committee as a committee of its Board in accordance with the Cabinet Office's Guidance on Codes of Practice for Board Members of Public Bodies and the Treasury's Audit Committee Policy Principles which are set out in the Audit Committee Handbook. The Handbook is available at:

http://www.hm-treasury.gov.uk/documents/financial_management/governance_government/pss_aud_achandbook.cfm

5.3 A checklist for evaluating the audit committee arrangements is available from the National Audit Office:

http://www.nao.org.uk/guidance/checklists/auditcommittee_checklist.pdf

5.4 The NDPB's Accounting Officer is personally responsible for making suitable arrangements for the provision of internal audit in a manner which represents best value for money.

5.5 If requested to do so the sponsor department should assist in setting up such arrangements, especially where the NDPB does not have the resources to provide a comprehensive internal audit service that conforms to GIAS.

5.6 The sponsor department should also have a right of access so that its own internal auditors or other representatives can carry out any additional work required to provide an assurance to the department's Accounting Officer on the exercise of his responsibilities in relation to the NDPB.

5.7 The sponsor department must obtain details of the internal audit arrangements and monitor the effectiveness of a NDPB's internal audit provision. The Management Statement and Financial Memorandum should set out the arrangements for the NDPB to provide to the department (regularly or on request) information about the NDPB's internal audit strategy, the annual programme, and copies of final audit reports selected by the department, including the NDPB's Head of Internal Audit's opinion on risk management, control and governance. Arrangements should be made by sponsor departments for their own internal auditors to see these documents

6. External audit

6.1 The expenses of most advisory and judicial bodies will be audited by the Comptroller & Auditor General (C&AG) as they are borne on the Estimates of sponsoring departments and included as part of the department's resource accounts. The C&AG has been given powers to audit all executive NDPBs except for the time being those established under the Companies Act.

6.2 The C&AG is separately empowered to carry out value-for-money examinations of NDPBs which meet the criteria in the National Audit Act 1983, irrespective of whether or not he audits those NDPBs accounts.

6.3 The auditing arrangements below reflect the decisions announced in the Government's response of March 2002 to Lord Sharman's review of audit and accountability in central government.

Appointment of Auditors

6.3.1 New Executive NDPBs that are being set up with their own founding legislation, the statute should provide for the appointment of the C&AG as the external auditor.

6.3.2 There is different treatment for NDPBs that are set up under old legislation that does not include statutory provision for C&AG audit, or for bodies that have been or are being reclassified by the Cabinet Office as NDPBs. In these circumstances, the Treasury has the power under the Government Resources and Accounts Act 2000 to give the C&AG statutory audit responsibility by taking an Affirmative Order (SI) through Parliament. Departments should speak to the relevant Treasury contacts for further information.

6.3.3 For the time being, NDPBs established under the Companies Acts will continue to appoint their own external auditors in accordance with the requirements of the Companies Acts. However, once the Company Law Reform Bill comes into force, the C&AG will be eligible to be appointed auditor of NDPB companies and NDPB subsidiaries that are companies.

6.3.4 In approaching the audit of a NDPB, the C&AG will consult the sponsoring department and other relevant stakeholders as well as the NDPB itself and consider their views on whom – the National Audit Office or a commercial auditor – should undertake the audit. The final decision will rest with the C&AG but he will of course explain its basis.

6.3.5 Sponsoring departments have a range of interests in the audit of their NDPBs. Where they have hitherto appointed the auditor they will have agreed, in advance of the audit, requirements which might include clarity as to what is being covered by the audit and appropriate documentation surrounding it, and the audit reports and any other outputs will have been addressed to the sponsoring departments. This has enabled the departments to require, as part of the audit, an assurance on the financial systems within the NDPB.

6.3.6 The C&AG has made clear that as statutory auditor of an NDPB he will share with the sponsoring department and other relevant stakeholders the kind of information noted above, subject to appropriate agreement between himself and the department, and also between the department and the NDPB, to allow such disclosure. These arrangements will normally include agreement that information identified during the audit process will be shared with the department at the end of the audit. Such arrangements will apply in particular to issues which impact on the department's responsibilities in relation to financial systems within the NDPB.

6.3.7 Where the C&AG is the statutory auditor, the management letter is addressed to the NDPB and the audit certificate is addressed to Parliament. Where asked, however, the C&AG will provide departments with Regulatory Compliance Reports and other similar reports that the departments may request at the commencement of the audit and which are compatible with the independent auditor's role.

6.3.8 For NDPBs which are established under the Companies Acts and which therefore for the time being appoint their own external auditors, the Management Statement and Financial Memorandum needs to provide for audit reports to be supplied to the sponsor department.

Right of Access to Documents

6.4 Under the Government Resources and Accounts Act 2000 the C&AG has, for the purposes of statutory audit, a right of access to documents held or controlled by the audited NDPB itself, as well as to relevant documents held both by recipients of grants from the NDPB and by the NDPB's contractors and subcontractors.

6.5 In addition, for the purposes of conducting a value for money study of a NDPB the C&AG has access to relevant documents held by the bodies noted above (i.e. recipients of grants from the NDPB and the NDPB's contractors and subcontractors).

ACCOUNTING OFFICERS

Introduction

1. The decision to appoint a Chief Executive of a NDPB normally rests with the Board. In making the appointment, the Board will be acting in the knowledge that the Chief Executive will have to carry the responsibilities of the Accounting Officer, but the decision to designate the chief executive as the NDPB Accounting Officer is the responsibility of the sponsor department's Accounting Officer alone. For this reason, it is highly desirable that the departmental Accounting Officer, or his representative, should be involved in the process of appointing the Chief Executive and consulted about any actions that might lead to his or her removal as such.
2. In June 1995 the Permanent Secretary of the Department of National Heritage, as the Department's Accounting Officer, withdrew Accounting Officer status from the Chief Executive of the National Heritage Memorial Fund (NHMF). As a direct consequence, the NHMF trustees then dismissed the Chief Executive. Against that background, and with the aim of preventing a re-occurrence of the NHMF case, this note discusses the steps that departmental Accounting Officers should take to increase the NDPB Accounting Officers' understanding of their responsibilities. Although the expectation is that cases such as the NHMF one should be extremely rare, the note also sets out the procedures a departmental Accounting Officer should follow if he or she faces a similar decision in the future. These are based on those followed in the NHMF case.

Increasing NDPB Accounting Officers' understanding of their responsibilities

3. Departmental accounting officers should:
 - make it clear in the letter designating a NDPB Accounting Officer, which should enclose the Treasury memorandum 'The Responsibilities of an NDPB Accounting Officer'¹, that their status can be withdrawn in certain circumstances;
 - make sure that Accounting Officers in NDPBs are well briefed on their responsibilities. Accounting officers should normally be required to attend the National School of Government course 'An Introduction to Public Accountability for Chief Executives', which is specifically designed for newly

¹ Annex 8.2 of Government Accounting

appointed Chief Executives of Executive Agencies and NDPBs or to undertake similar training provided by the department itself. The 'menu' of the National School of Government courses includes accountability, Government Accounting, regularity and propriety, accounting officers, the roles of Parliament, Treasury, C&AG and PAC in financial control, corporate governance and current issues on standards, ethics etc in the delivery of public services;

- newly designated Accounting Officers should discuss their role with either the Permanent Secretary or the Principal Finance Officer of the sponsor department;
- as standard practice, newly designated Accounting Officers should have a general discussion with staff in NAO to obtain a better understanding of its role. This will augment the session on the role of the C&AG, which forms part of the course above. A talk with the NAO would be worthwhile even in those cases where they are not the financial auditors of the NDPB, since NAO still have the right to conduct value for money audits in such bodies;
- if a department is designating as Accounting Officer someone from outside the civil service, consider the need for additional induction training (see Appendix A); and
- where this has not been done already, draw the attention of Accounting Officers in NDPBs, who have not been formally designated as such, to the Treasury memorandum.

Procedures for handling the withdrawal of accounting officer status in an NDPB

4. Circumstances leading to the withdrawal of Accounting Officer status are likely to be ones in which the Board of the NDPB would also wish to take disciplinary action which may lead to dismissal of the individual concerned. There may be circumstances in which the Board of a NDPB might take the initial decision to suspend the Chief Executive, with suspension or withdrawal of Accounting Officer status following. Where the Board consults the Department first and then takes the appropriate investigative and disciplinary action (including prompt suspension if necessary), separate departmental action to consider withdrawal of Accounting Officer status will not be required, as withdrawal will be the automatic consequence of the Board's action. Where separate action is needed the following procedures will be followed.

5. Although the relationship between a departmental Accounting Officer and the Accounting Officer of a NDPB is governed by public rather than employment law, the departmental Accounting Officer has a duty to act fairly and rationally when making a determination which affects the Accounting Officer of the NDPB, notably as to his or her continued employment. If the loss of Accounting Officer status leads to dismissal, the dismissing employer will need to show, as a matter of employment law, that he acted reasonably in all the circumstances and these may include the fairness of any decision to remove that status.
6. If a department has more than one Accounting Officer, it may be possible to offer an appeal; the original decision could be taken by an additional accounting officer, leaving the principal accounting officer to hear any appeal. Otherwise there is no scope for an appeal.

The procedures

7. If a NDPB Chair is considering the suspension of a Chief Executive, the Chair should consult his finance and internal audit committees.
8. If a departmental Accounting Officer is considering the withdrawal of Accounting Officer status from the Chief Executive of a NDPB, he or she will normally:
 - advise the Chief Executive and the Chair of the board immediately of the concern, the procedures that will be followed and the possible consequences. The Chairman should be informed of all subsequent developments;
 - if the allegations are sufficiently serious to require the suspension of the Accounting Officer, work closely with the board of trustees to identify a temporary replacement. The decision on the designation, however, rests with the departmental Accounting Officer;
 - invite someone from the sponsor department to carry out an initial investigation. The Chief Executive has the right to legal or trade union representation;
 - allow the Chief Executive the opportunity to comment on the results of the initial investigation;
 - inform the Chair of the results of the initial investigation and the Chief Executive's response. and allow him or her the opportunity to comment on them;

- consider all the evidence, advise the Chair of the probable decision, and take account of any representations he or she may make; and
 - formally advise the Chief Executive and the Chair of the decision.
9. The department has a duty to report such matters to the Treasury and to the National Audit Office, or the Department of Finance and Personnel and the Northern Ireland Audit Office in Northern Ireland, and to respond to any questions they may put. The department also has to respond to any subsequent questioning by the Public Accounts Committee. The departmental Accounting Officer might also wish to draw the attention of other departments to what has taken place to help prevent a re-occurrence elsewhere, but will not otherwise discuss the case publicly.

Cabinet Office
July 1999 (updated June 06)

Appendix to Annex A

Induction arrangements for senior staff who are new to the Civil Service and other public offices including NDPBs

Training

Training for senior staff (chief executives and others) joining the Government from outside the Civil Service is available from the National School of Government. The School provides the following programmes:

- Senior Entrants Programme for staff at Grade 7 (or equivalent) and above who join the Civil Service from outside;
- 'An Introduction to Public Accountability for Chief Executives' – designed for new Accounting Officers and those who support them in their role e.g. Finance Directors. It is relevant to those recently appointed from outside the Civil Service and also those who wish to update themselves and focus on their new responsibilities.
- Individual training packages tailored to the particular needs of Chief Executives or equivalent (arranged through the Executive Development Unit);
- 'Appearing before the Public Accounts Committee' provides tailored preparation for Accounting Officers and their supporting witnesses when required to appear before the Committee;
- Training for newly-appointed members of the Boards of Non-Departmental Public Bodies which senior staff may attend, run both as open courses on the School's own premises and in versions tailored to the needs of single client organisations. The course covers matters of accountability, ethics and propriety, and the role of the Accounting Officer.

Contact Details

For more information please contact the Course Director, Jane Foulsham (jane.foulsham@nationalschool.gsi.gov.uk) or the Course Administrator, Jeff Linsdell on 01344 634622 (jeff.linsdell@nationalschool.gsi.gov.uk).

Mentoring

The availability of informal advice from an experienced person in the early stages of a public service appointment, and later as new issues arise, may add value and directness to formal training and guidance material. Departments and NDPBs will wish to consider this.

**MODEL LETTER OF DESIGNATION AS A NDPB ACCOUNTING OFFICER – AS
ENDORSED BY HM TREASURY MARCH 2006**

I am writing to formally appoint you as the Accounting Officer for [name of body] for the grant-in-aid account of that body from [date].

I enclose a copy of the Treasury Memorandum “*The Responsibilities of an NDPB Accounting Officer*” which explains your relationship with me as principal Accounting Officer for [name of department], and the specific responsibilities that are placed on you as Accounting Officer for [name of body].

Please also refer to the Treasury handbook “*Regularity, Propriety and Value for Money (Nov 2004)*” which is designed primarily for Accounting Officers and which explains the high standards of propriety expected of those involved in the stewardship of public funds, and the importance of public accountability. The electronic version of the handbook is available from the Treasury website:

http://www.hm-treasury.gov.uk/documents/financial_management/governance_government/pss_aud_regprop04.cfm

These themes are further developed in the National School of Government training course *An Introduction to Public Accountability for Chief Executives*. It is essential that you receive training at the earliest opportunity. You should initially contact Jeff Linsdell (Programme Manager) at the School on 01344 634622. I should be grateful if you will write and confirm when you have completed this training.

I should also explain that your designation as Accounting Officer may be withdrawn if I conclude that you are no longer a fit person to carry out the responsibilities of an Accounting Officer or that it is otherwise in the public interest that your designation be withdrawn. I would not take such a decision without full and careful examination of the facts which you would have a suitable opportunity to contribute to and to add your viewpoint. Nor would I take such a decision without giving your Chair a full account of my reasons as well as a chance to make representations. [Your Chair has a note detailing the procedures I would follow in these circumstances.] Withdrawal of Accounting Officer status would obviously bring into question your fitness for the position of Chief Executive generally.

If you ever have any concerns about the course of action you should follow, please do not hesitate to contact me or my colleagues here.

A copy of this letter (without enclosures) goes to your Chair, to [] the Comptroller & Auditor General, to the Clerk of the Public Accounts Committee, to [] Principal, National School of Government and to the Treasury Officer of Accounts.

[Signed: Permanent Secretary]