



National Audit Office

Experience of Public Internal Control and Audit Committees in the United Kingdom

*Seminar on Public Internal Control,
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Introduction: Maintaining public trust....

***‘Every government needs credibility.** Without it, no government can raise the funds it needs for its policies – from taxpayers, from charge payers, or from borrowers. Recent international events have provided object lessons in how fragile sovereign credibility can be.*

*[Managing Public Money] helps the UK government **maintain public trust.** It explains how to handle public funds with probity and in the public interest.*

The origins of this document trace back through the Bill of Rights to Magna Carta. These events brought the monarchs of their day up against the demands of those they governed that the funds they provided should be used wisely...

...the common thread of integrity

*...In modern times it is the elected government that must account to parliament; but the theory is the same. **Integrity is the common thread.** Transparency and value for public money are the essential results.*

The Treasury has long regarded upholding standards of public administration as one of its fundamental responsibilities. ‘

Forward to ‘Managing Public Money’

Danny Alexander, Chief Secretary to the Treasury

July 2013

The Experience of Public Internal Control and Audit Committees in the United Kingdom

Improving corporate governance in the UK public sector:

- 1 Private sector practice: origins and evolution
- 2 Adopting private sector practice in the public sector
- 3 Understanding current governance practice in the UK public sector

1 Private Sector: origins and evolution

Origins:

Late 1980s and early 1990s – series of corporate failures

1992 The Cadbury Report

- **relationships** (chairman and chief executive),
- **roles** (non-executive directors) and
- **transparency** (reporting on internal control and the company's position).

Requirement added to London Stock Exchange Listing Rules
(**'comply or explain'**)

1 Private Sector: origins and evolution

Evolution:

- 1995** recommendations on the remuneration of directors
- 1998** single code (**Combined Code**, now the **UK Corporate Governance Code**).
- 1999** guidance on risk management and internal control systems (**The Turnbull Report**)
- 2003** updated on non-executive director and audit committee roles
- 2010** lessons from the problems in the UK's financial services sector.

2 Public Sector: adopting private sector practice

Transparency – reporting on internal control:

1998 - systems of internal financial control

2000 - widening of scope to **all** controls (post Turnbull)

2011 – the Governance Statement

Audit and accountability

2001 - Holding to Account – The Review of Audit and Accountability for Central Government (**the Sharman Review**)

Increase in independent challenge

Departmental Boards, Non-Executive Directors, Audit Committees

3 Public Sector: understanding current UK governance practice

Six key areas:

1. **Accountability** - Ministers and Civil Servants
2. **Good governance** - why it is important
3. **Independent challenge** - the role of the Audit Committee
4. **Long-term outcomes** - understanding risks and controls
5. **Well informed** - independent and capable internal audit
6. **Transparency** -the Governance Statement (external reporting and audit)

Accountability - Ministers and Civil Servants

Two key roles:

Minister - in charge of the department

- responsible and answerable to Parliament
- accountable for all the policies, decisions and actions in the exercise of departmental powers

Departmental Accounting Officer

- personally responsible and accountable to Parliament for the organisation and quality of management in the department
- use of public money and the stewardship of its assets.

Operating in a clear framework

- Parliamentary authority – legislation and financial appropriations
- Treasury authority - ‘Managing Public Money’

Good governance - why it is important

Precepts of good governance :

Leadership –giving clarity about how policy activities contribute to achieving the department’s vision (including risk appetite and managing risk);

Effectiveness – bringing a wide range of relevant experience to bear, offering rigorous challenge and scrutiny;

Accountability –transparency through clear and fair reporting; and

Sustainability – taking long-term view about what the department is trying to achieve and what it is doing to get there.

Independent challenge - the Audit Committee

All departments required to have a formally constituted audit committee.

- Chaired by a non-executive director
- To consist solely of independents (or at least a majority)
- Accounting Officer and the Principal Finance Officer attend meetings
- Consider whether **all** risks faced by the department
- Approve IA's work programme and receive reports
- Prepare an annual report to the Accounting Officer on its work

Long-term outcomes – understanding risk and control

Risk management is concerned with developing the business as well as with preventing 'disasters'. **Turnbull guidelines (1999)**

- **look forward**, and not just consider past performance
- **keep shareholders informed** about risks
- **think strategically**, and recognise the need to adapt to the changing environment.
- **review risks regularly**
- **evolve risk control procedures** as the environment changes

Adopted early in UK public sector and the assessment of risk control processes is now a key function of the Audit Committee role.

A well informed governance processes

– the role of internal audit

- Information is vital to the governance process
- An independent and capable internal audit is essential
- National Audit Office report on **the effectiveness of internal audit in central government (June 2012)**, identified the need for:
 - clearer expectations for an effective IA service
 - consistency in standards and less variation in quality
 - greater focus on key risks, and
 - stronger central leadership and performance monitoring

Strengthening IA leadership and capabilities

- A single, integrated internal audit service

April 2013 – established central government internal audit service into a set of shared services

December 2014 – Financial Management Review

April 2015 - a single, integrated internal audit service

- sharing resources, specialist skills and talent
- maintain responsive and flexible service to departments.
- strengthen cross-government view of risk and assurance
- Head of Government Internal Audit – leadership and a holistic view of resource needs and capabilities.

Transparency -The Governance Statement

Introduced in 2011

Prepared by the Accounting Officer and reviewed by the Audit Committee, it aims to give the reader

- a clear understanding of the dynamics of the organisation and its control structure,
- recording the stewardship of the organisation,
- providing a sense of how vulnerable the organisation's performance is or might be; and
- of how successfully the organisation has coped with the challenges it faces

The Experience the United Kingdom: in conclusion

- Origins in the private sector over 20 years ago and continues to evolve
- Key reforms reflected in the public sector, without changing the long-standing accountabilities to Parliament
- Early focus on historical performance is now balanced against the organisations vision and risks to its delivery
- Audit Committees are now a part of our governance DNA, contributing significantly to financial and risk management in government
- But we are still working on improvements
- appointment of NEDs and increased presence on departmental boards (understanding the business),
- strengthening the independence and skills of internal audit (a single integrated service)
- Beware over reliance on governance and structures, skills and behaviours count

Thank you

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