

AUDIT AND ACCOUNTABILITY IN CENTRAL GOVERNMENT

The Government's response to Lord Sharman's report *"Holding to Account"*

EXECUTIVE SUMMARY

Accountability

1. Lord Sharman's report observes that "accountability in central government is based on an intricate web of relationships". The report summarises a number of key means by which departments, agencies and Non Departmental Public Bodies (NDPBs) are held accountable and notes that "different forms of accountability are best suited to different purposes".
2. The Government agrees with those observations. Much of the variation in the relationship between public sector bodies and Parliament results from a legitimate need to recognise the interests of Parliament and other stakeholders and the different relationships that the wide variety of public sector bodies have with each other. Accountability arrangements need to reflect that variety of interests and relationships.
3. Although public accountability is appropriate to a wide range of bodies, the manner in which that accountability is achieved can vary significantly from body to body. Bodies may need to be publicly accountable even if they deal with private money, while bodies that deal with public money may have quite different accountability arrangements from one another because of their different status and relationships (for example arrangements for central government departments differ from those for public corporations). The Government's response recognises such differences and variations whilst accepting that a greater degree of consistency is possible in some areas.

Stakeholder interests

4. The Government welcomes the recognition by Lord Sharman of the need to provide for the interests of stakeholders through the provision of concordats and other practical measures to underpin new audit and access arrangements.
5. The Government response sets out arrangements agreed with the Comptroller and Auditor General (C&AG) which will help to ensure that those changes do not lead to any reduction in the quality of audit or the level of assurance provided to the various stakeholders. For instance, the response includes proposals for a new client care facility within the National Audit Office (NAO), the establishment of a high level Audit Liaison Group, consultation with NDPBs on the appointment of auditors and involvement of NDPBs' sponsor departments in the audit coverage and outcome. Similarly, the arrangements which are set out in the response surrounding the C&AG's statutory access to documents held by third party bodies will provide

assurance to those affected about the extent of such powers and the way in which they will be used.

Audit

6. In the light of the above arrangements, the Government agrees that the C&AG should be eligible to be appointed the auditor of all NDPBs. The Government intends, therefore, to use powers in the Government Resources and Accounts Act 2000 (GRAA) to appoint the C&AG as the statutory auditor of those NDPBs where the auditor is currently appointed by the Secretary of State or the NDPB Board. The Government will also consider how the Companies Act may be amended in order for the C&AG to be appointed auditor of those NDPBs which are also companies.

Access

7. The Government agrees that where access for financial audit purposes is currently provided, or would hitherto have been provided, on a non-statutory basis it should in future be provided on a statutory basis. The only exceptions would be where there are legal barriers or where such arrangements would have an adverse effect, for example, where it would undermine the body's ability to perform its functions. The Government will provide such access using powers in the GRAA, both to the four categories of bodies listed specifically in Lord Sharman's report and also to other bodies, including contractors. The Government will also explore how to provide statutory access to the same bodies for the C&AG's value for money studies.

Innovation and risk

8. The Government supports Lord Sharman's comments about the need to ensure audit arrangements do not discourage innovation, change and well managed risk taking. The Government is promoting measures to develop a robust structure of risk management and internal control in departments and is keen to ensure that due recognition is given to well managed risk.

Performance validation

9. The Government agrees that the introduction of regular performance reporting is a very important step in improving accountability. It is committed to ensuring that this information that underpins reporting on Public Service Agreement (PSA) targets is reliable, and accepts the recommendation that there should be some form of external validation of data systems which relate to these targets. The Treasury-led working group set up to consider this issue has now reported, and the Government proposes to invite the C&AG to take responsibility, under his existing powers, for the validation of data systems used in reporting on PSA targets.