

**Audit Liaison Group**  
**Meeting of 23 March 2004**

**Those present:**

Sir John Bourn, Comptroller and Auditor General  
Gus O'Donnell, Permanent Secretary, HM Treasury } Joint chair

Tim Burr, Deputy Comptroller and Auditor General, NAO

Sir Kevin Tebbit, Permanent Under Secretary, Ministry of Defence

John Gieve, Permanent Secretary, Home Office

Caroline Mawhood, Assistant Auditor General, NAO

Sir Andrew Likierman, Managing Director, FMRA HM Treasury

John Coombe, Finance Director, GlaxoSmithKline

Rob Molan, Second Treasury Officer of Accounts, HM Treasury  
Gabrielle Cohen, Director of Communications and Corporate Affairs, NAO } Joint secretaries

**1. The implications of the professionalisation of the finance function**

Rob Molan introduced paper ALG 1/04 The recent decision to replace Principal Finance Officers (PFOs) with Finance Directors (FDs) had sent out a strong message about the professionalisation of the finance function. FDs will either be qualified accountants themselves, or have qualified accountants of sufficient stature to operate in their own right at the most senior levels of their departments. The Treasury was working on an expanded definition of the role and the paper set out some ideas on the functions, behaviours and personal characteristics needed to get the most value out of the role.

The paper also discussed the relationship between the FD and the Accounting Officer (AO). On one view the AO's responsibility for financial management in the Department should be vested in the FD. Another view was that the AO should continue to carry personal responsibility for financial management with the benefit of the higher quality support which a FD would bring. The role of the AO would be addressed in the review of corporate governance in central government and the implications of empowering the FD was one dimension to be considered in the review.

In discussion the following points were made on the definition of the FD's role:

- the professionalisation of the finance function was welcome. There was likely to be a transitional period during which individual Departments would respond in differing ways to this agenda. But in ten years time this would no longer be a matter for discussion.
- the role of the FD should not be defined too widely. In some Departments it would be impractical for functions such as procurement to come under finance. There could be no single template for the role of the FD. Some variations were needed to reflect different Departmental structures.
- the analogy drawn with FDs in the private sector should not be taken too far. For example in the private sector the FD would be responsible for growing the business - a function with no analogue in Departments.
- if Departments recruited FDs from FTSE 100 they would have to pay a premium for skills which were not relevant to the public sector, for example mergers and acquisitions. Deputy FDs from the private sector would often have the skills which Departments needed, at a lower rate of remuneration.
- the Civil Service should equip its brightest staff with financial skills at an early age to train tomorrow's FDs. Fast track qualifications agreed with the three accountancy bodies could provide an opportunity to do this.
- there was a debate in some Departments as to whether the finance function should sit alongside performance or strategy.

On the relationship between the FD and AO, the following points were made:

- in some Departments it would not be practical for the FD to stand in the hierarchy between the AO and other senior managers. The AO would have to remain in overall charge of the Department.
- when appearing before the PAC AOs could be supported by their FD or other officials, as was the case at present.
- the corporate governance review would provide an opportunity to look at the role of the AO in the round, including the relationship between the AO and the board.

Summing up the discussion, Gus O'Donnell said **there was support for the professionalisation of the finance function but there was desire for some flexibility over the definition of the role and the sources from which FDs were recruited.**

## **2. Stock-take of feedback on the National Audit Office's work**

Caroline Mawhood introduced paper ALG 2/04. The NAO had a wide range of mechanisms in place to obtain feedback on its work. Some focused on both financial and VFM audit, for example liaison with clients by senior managers and Directors. Some focused mainly on financial audit, including the review by the Joint Monitoring Unit (JMU) . Others mainly addressed VFM audit work, notably the reviews undertaken by the LSE.

The JMU had conducted two years of external reviews. The overall conclusion in the 2003 review was that the audit files reviewed were generally of a high standard and no issues had been identified which suggested that an incorrect audit opinion had been expressed. The message from the LSE last year was that the technical, methodological and presentational quality of reports had improved in comparison with the previous year. Also, the NAO had an extensive training and professional development programme in place for VFM staff which they were constantly updating and developing.

In discussion, the following points were made:

- the quality of some of the data received through feedback may not be robust and may not provide a full picture of the NAO's performance. Some "safe space" was needed to get views on matters which might not come out through feedback on particular pieces of work. For example, on areas of Departmental performance which the NAO had overlooked. The moderated interviews now being piloted should help. Focus groups would be another option.
- A backlog had built up at the LSE which had delayed their assessments of VFM studies. The NAO had recently let a new contract to two suppliers, the LSE and Oxford University which should help to avoid this in future.
- there was scope to get more value out of external evaluation by revisiting the criteria used, particularly those focusing on report rationale, methodology, and report conclusions.
- the NAO should consider inviting some non-academic bodies to evaluate their VFM work. Management consultancy firms would be one option though conflicts of

interest would have to be avoided as some of these firms already did work for the NAO.

- the Government's response to the Sharman report had said that "*the NAO would share JMU conclusions with Departments*" but the Treasury would like to see the full report as this might better demonstrate to Departments how the NAO were responding to the external review of its financial audit function.
- in releasing the executive summary of the findings of the JMU's review (attached as an annex to the paper) the NAO was conforming with the general practice in the audit profession. These reviews were undertaken for the benefit of the auditor, not of its clients. The detailed findings were not shared with the auditor's clients.
- The NAO would be happy to produce for members of the Group a short paper setting out the assessment criteria used by the LSE and a distillation of the feedback.

Summing up the discussion, Gus O'Donnell said **the NAO and Treasury would have further discussions about releasing more detail of the JMU's review. The NAO would consider the use of non-academic bodies to carry out evaluations and whether focus groups would add value to existing feedback mechanisms. The Treasury would discuss with the NAO some possible ways of improving the criteria used in the external evaluation of VFM studies. A report should be made back to the Group at its next meeting.**

### **3. How the National Audit Office's VFM Programme aligns to departmental priorities**

Caroline Mawhood introduced paper ALG 3/04. A "balanced scorecard" approach had been adopted for evaluating study proposals to ensure they evenly focused their studies across four main areas – service delivery improvement, efficiency, risk and Parliamentary interest. The proposed programme for 2004-05 broadly reflected the breakdown of expenditure across Departments. The NAO's work also cut across government. Reports on PFI construction performance and the refinancing of PFI deals were recent examples of this area of work. Other cross-government work had tackled further issues which were government priorities including the regions and regulatory performance.

In discussion, the following points were made:

- the NAO recognised the importance of explaining the purpose of each study, and was taking steps to ensure that the findings in each report were expressed as clearly as possible.
- there was a drive within Government to reduce the burden of inspection on delivery bodies. The NAO sought to coordinate their work and share information with other bodies, such as the Audit Commission, who were investigating or had investigated the bodies subject to a VFM study.
- the Gershon review had identified prospective scope for very large efficiency savings by taking a cross-cutting look at similar functions across Departments and this was being followed through in the 2004 Spending Review. The NAO's emphasis was on actual savings realised through its work, and it was keen to assist in following through with the Gershon proposals
- the Treasury would welcome the opportunity to comment on the NAO's draft programme each year, and to suggest additional issues that might be worth investigating.
- in considering VFM studies of new initiatives it was important to confirm that sufficient evidence would be available to meet the study objectives.
- the FD clearance stage was an important part of the process of clearing VFM studies and if done well would help to minimise the potential burden on the AO at the final stage.
- there may be scope for the NAO to undertake more one off studies for Government, such as that carried out for the Chancellor on the pensions cap.
- the Public Accounts Committee was an important stakeholder in the process and it was important to produce reports which helped the Committee to understand the issues and take the evidence needed to inform their own reports.

Summing up the discussion, Gus O'Donnell said **it was agreed that the NAO would give the Treasury the opportunity each year to comment on the draft VFM programme but the final decision on the coverage lay with the C&AG.**