

AUDIT LIAISON GROUP

MEETING OF 10 MARCH 2005

Those attending

Sir John Bourn	Comptroller and Auditor General	} Joint Chairmen
Gus O'Donnell	Permanent Secretary, HM Treasury	
John Coombe	Finance Director, GlaxoSmithKline	
Mary Keegan	Managing Director, HM Treasury	
Martin Sinclair	Assistant Auditor General, NAO	
Caroline Mawhood	Assistant Auditor General, NAO	
Peter Brook	Director of Finance, National Offender Management Service, Home Office	
Gabrielle Cohen	Director of Communications and Corporate Affairs, NAO	
Paula Diggle	Second Treasury Officer of Accounts, HM Treasury	
Arni Narain	Treasury Officer of Accounts Team	

Note of the meeting 23 March 2004

The note of the previous meeting was agreed. In introducing this item the C&AG commented that the Progress Report on action points arising from that meeting was slightly dated. Agreement had been reached on sharing the results (Summary and Conclusions) of the QAD review of NAO's financial audit and the NAO undertook to provide the most recent documents to Treasury. Also, the NAO had agreed to provide Treasury with a copy of the vfm programme which had now been agreed by the C&AG. The NAO would welcome comments or suggestions on the programme. It was agreed that it would be helpful for future meetings for the Progress Report to be agreed in advance of the meeting.

Financial Management Reviews

Mary Keegan introduced a short presentation covering the Financial Management Agenda. This was an integrated programme of change covering professional skills for government, corporate governance and effective and efficient corporate services and was aimed at improving financial management.

On professional skills, three professional categories had been established: policy, operational delivery and corporate services. Career progression would depend on management and leadership competence, professional expertise, a mix of experience and core business skills all of which would be underpinned by financial management skills. This part of the Agenda involved cross government working parties which were considering recruitment and training of accountants and career development in the finance function. The professionalisation of the Finance Director's role was also relevant. The key challenges identified so far were to enhance the finance function and to develop financial management skills more widely across management.

On corporate governance, the Treasury had now completed the review and the draft Code had been endorsed by the Civil Service Management Board and was now with Ministers with a view to it being launched in the Spring of 2005.

On efficient corporate services, the aim was to drive down cost and increase the value added, the key aim being to develop a framework for services that was “future proof”. The Treasury were working with independent consultants, the e Government Unit and the Office of Government Commerce to develop a shared services framework.

The Spending Review 04 White Paper had announced a department by department review of financial management and diagnostic reviews were nearing completion on the six major departments, a further 5 would be completed in April/May and the other larger departments by the end of the summer. 30 smaller departments would be completed by the end of the year. Each review team had included the department, volunteers from other departments and the Treasury, NAO and private sector. The outputs would be short action plans to be agreed with the Permanent Secretary. Each review had covered the accountability structures, integrated corporate and financial planning, delegation of budgets, management data, the effectiveness of the finance function and the efficiency of finance systems.

Key issues arising in the reviews included the extent of the Board overview of the overall budget, relationships with NDPBs, the financial literacy of budget holders, the capacity and organisation of the finance function, the nature and timeliness of management information, the management of risk beyond the spending review period, and the link between inputs and outcomes. For Treasury emerging themes included the need for better communication of financial management goals, the need to strengthen and simplify routine data collection and to promote cross departmental balance sheet management.

In discussion the following points were made:

- the work of the external auditor would be aided by the increased financial sophistication of the client, not least in enabling a better understanding of the role of external audit.
- the reviews had been successful and action would be essential in the coming period when resources were likely to be more constrained.
- similar issues were under consideration in the private sector but there was a particular challenge in the public sector where measuring the link between inputs, outputs and outcomes was more complex.
- the ability to measure this link was essential given the targeted nature of public spending.
- improved systems that produced both management and accounting information were essential and would enable the accounts to be produced in good time leading to greater accuracy at less cost. It was also important to monitor the position beyond the period of the PSA target for cash management purposes.

Summing up the discussion, the C&AG noted the progress so far and offered continued NAO support as appropriate.

Late submission of 2003-04 Departmental Resource Accounts

Martin Sinclair introduced paper ALG 2/05. This issue needed to be considered against the background of the significant improvement in the overall position although a couple of departments had failed to meet the statutory deadlines without sanction or redress and one departments accounts had still to be laid six weeks after the deadline. The major problem seemed to be in cases where there was no statutory timetable in place and NAO were concerned that legislation setting up new bodies did not contain such provisions, for example the Rail Passengers' Council to be established in the Railways Bill. NAO therefore hoped it would be possible to address this concern and more generally issue clearer guidance for bodies where there was no statutory timetable.

In discussion the following points were made:

- these difficulties often arose where bodies were being wound up and this was an important point in the context of the likely changes arising from the review of regulation and more generally following the Gershon Review;
- it would be helpful if NAO could alert Treasury to any cases at an early stage and they would take the appropriate action in terms of setting clear guidance;
- there were some 150 NDPBs with no statutory deadlines;
- sponsoring departments also had a responsibility to grip this issue in the context of improving financial management generally.

In summing up, the C&AG welcomed the offer of further dialogue with the Treasury as and when cases arose.

Performance systems validation

Caroline Mawhood introduced paper ALG 3/05. She set out the results of the NAO's validation of 64 underlying data systems that supported a total of 56 Public Service Agreement targets (2003-06). These covered seven departments and the cross-cutting Sure Start programme. 20 per cent of departmental data systems were not operational at the time of NAO's validation exercise and for a further 30 per cent of cases NAO found weaknesses in design and/or operation. NAO also found that when the outcomes were reported the limitations in the data systems were not mentioned. Data quality issues were not addressed by sufficiently senior staff.

The three areas to consider were: the interaction between target design and data systems, where greater integration would ensure the target was measurable and provide a clear baseline from the outset; integration with business planning, where reporting against targets as part of operational planning and monitoring would raise the priority of data quality issues; and, target churn, where the refocusing of attention to meet new Spending Review targets can lead to a loss of interest in monitoring progress against existing targets. The NAO had recently held a successful conference for 400 delegates on performance measurement and was willing to do more, they had recently established a dedicated team to take this work forward.

In discussion the following points were made:

- the problems identified in the paper were important and it was acknowledged in government that there was a need to focus targets on the big issues;

- the NAO were undertaking work on targets shared by more than one department and partly in response to concerns raised by senior staff in departments;
- more cross cutting targets were probably necessary if they were to cover the key policy areas;
- some targets were inherently difficult to measure, for example, reducing prisoner re-offending and it was important to be wary about changing them too frequently;
- the private sector was grappling with similar issues in setting targets for corporate social responsibility where there was much work in hand to define targets and to assess how to measure whether they were being achieved.

In summing up the C&AG commented on the importance of this work and reiterated the NAO's willingness to work with the Treasury on the key points coming from NAO's work.

Any other business

Freedom of Information – Gabrielle Cohen reported to the meeting on the NAO's experience in the first two months of the operation of the Act. Over 40 requests had been received of which about a quarter were from journalists. For requests which concerned NAO's audit of departments, agreement had been reached on the way forward.

The following points were made in discussion:

- there was a legitimate concern about the damage disclosure might do to the audit relationship which in the private sector was seen as confidential; the legislation required each case to be considered individually and the NAO would continue to consult departments before information was released;
- there was some evidence from Canada that freedom of information could change behaviours, for example in the way internal audit reports were written, with detriment to the overall control regime;
- similar issues were arising in the private sector where there was a concern about disclosure during legal proceedings.

Outcome of the pilot exercise on moderated feedback on NAO's work – Caroline Mawhood briefly introduced the report produced by Mori in response to the ALG's earlier suggestion that the NAO should commission an independent feedback exercise (Paper ALG 4/05). The NAO had found the exercise useful and was encouraged by its generally positive findings. NAO had decided to roll the exercise out to 90 of its major clients over a three year period and would report back to the ALG in due course.

Closure and accuracy of pension accounts – Paula Diggle introduced Paper ALG 5/05 which considered recent qualifications of pension accounts which had not met the accounting standards covering pensions liabilities.

The following points were made in discussion:

- NAO applies auditing standards and already works closely with the Government Actuaries Department, there were particular concerns about the

quality of data available and its ability to meet the needs of the financial reporting standards.

- this was an important issue and it would be helpful for the NAO and Treasury to continue the dialogue.

Accounting treatment for PFI Projects and road repairs – following recent media coverage these issues had been raised with the C&AG by the Public Accounts Commission and he had agreed to raise them with the Treasury. It was agreed that Treasury would respond to these concerns to the C&AG, so that he could advise the Public Accounts Commission.