



# HM TREASURY

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**DAO (GEN) 09/05**

**Dear Accounting Officer**

**28 July 2005**

## **CORPORATE GOVERNANCE IN CENTRAL GOVERNMENT DEPARTMENTS**

### **Purpose**

1. **This letter introduces a code of good practice for corporate governance in central government departments. The code is attached at Annex A and comes into use from August 2005.**

### **Contact**

2. A published version of the code in PDF format is available on the Treasury's public website at policy area "**Public Spending and Services**" in the "**Audit, Accounting and Accountability**" section within it. Questions about the code should be addressed to Arni Narain, phone: 020 7270 5361, [Arni.Narain@hm-treasury.gsi.gov.uk](mailto:Arni.Narain@hm-treasury.gsi.gov.uk)

### **Action**

3. Accounting Officers should consider how the principles of good practice in corporate governance as set out in the code should be applied in their departments' own circumstances. As set out in the code the main board of each department should give a clear account of how far it has complied with key aspects of the code, including an explanation of why any alternative approaches have been chosen; specific reporting requirements attach to provisions 2.14, 4.2, 5.3 and 6.6. This report on the department's corporate governance will form part of the material accompanying its annual resource accounts beginning with the financial year 2005/06.



4. Accounting Officers are asked to draw the code to the attention of their boards, agencies and other management units within their departments and encourage the application of the principles in the code with any necessary adjustments to suit their scale, responsibilities and accountability chains.
5. The code does not apply to NDPBs because of their different governance structures but it does contain guidance on best practice in a number of areas that are of relevance to NDPBs. Accounting Officers are therefore asked to draw the code to the attention of their NDPBs so that they can consider whether they would wish to adopt any elements in their own circumstances. In addition, section 6 of the Code sets out good practice governing the relationships between departments and the NDPBs with which they conduct their work.

### **Genesis of the code**

6. The Treasury launched a review of corporate governance in central government departments in March 2004. The review was led by Sir Andrew Likierman and steered by a high level advisory group. This included representatives from the private sector, the professional institutes, Cabinet Office and other departments, the NAO and, in an observing role, the devolved administrations. In addition there were consultations with a wide range of departments.
7. It is important to note that the key relationships between ministers, officials and Parliament are unchanged. The code does not cut across any legal obligations or constitutional requirements of departments. The role of Accounting Officers and Parliamentary accountability remains unaltered and is an essential part of the code. In essence the code clarifies the functioning of departmental management boards and their relationship to Ministers and Accounting Officers. It also clarifies the role of non-executive board members and provides guidance on departments' relationships with Arm's Length Bodies such as NDPBs.
8. The code leaves a lot of scope for departments to make pragmatic decisions against a framework of principles to suit their own responsibilities and circumstances. Some provisions are also necessarily different for non-ministerial departments.

### **Developing the code**

9. The code is a live document with potential for development to reflect changes and improvements departments make as they become more familiar with using their boards effectively. Some possible future adjustments which departments may wish to consider are already outlined

in the annex to the code. However, departments should not make any adjustment that affects the established role and responsibilities of the Accounting Officer without prior approval of the Treasury. The Treasury intends to review the progress departments make in implementing the code with a view to consulting them in due course on how to take forward the development agenda.

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