



HM TREASURY

Financial Reporting Advisory Board Paper

Review of Corporate Governance in Central Government Departments

Issue:	Progress report on the review of corporate governance in central government departments.
Impact on guidance:	NO
UK GAAP adaptation?	NO
IAS/IFRS compliant?	NA
IPSAS compliant?	NA
Impact on budgetary regime?	NO
Recommendation:	Note the progress review has made.
Timing:	2005-06

DETAIL

Background

1. The review of corporate governance in central government was launched in March 2003. Its terms of reference are at **Annex A**.
2. The review was led by Sir Andrew Likierman and steered by a high level advisory group, including representatives from the private sector, the professional institutes, Cabinet Office and other departments, the NAO and in an observing role the devolved administrations.
3. Following a number of meetings of the advisory group and with stakeholder departments the Civil Service Management Board considered a draft code on 7 December 2004. A number of adjustments to the code were made in the light of the feedback from the meeting. The Chief Secretary to the Treasury is currently consulting the Cabinet on the code with the view to introduce it from 1 April 2005.

Once the Cabinet has agreed the code it will be issued to departments under the cover of a Dear Accounting Officer letter from the Treasury Officer of Accounts.

Content of the code

4. The code largely draws together established (and published) practice in central government departments, together with some advisory guidance reflecting private sector practice set out in the Combined Code for listed companies. It is essentially a snapshot of best practice. It does not alter officials' relationship with ministers. Departments' responsibilities to report to Parliament also remain unchanged.
5. The code is intended to guide central government departments on their internal management arrangements, the focus is on the role of departmental management boards and how they can support heads of departments and ministers. Nor does it spell out in detail how departments should approach every aspect of their governance since it is more appropriate for them to make pragmatic decisions against a principled framework to suit their own responsibilities and circumstances. In particular, the code is not intended to cut across any legal obligations or constitutional requirements of departments, nor the special position of the devolved administrations. Some provisions are also different for non-ministerial departments.
6. In essence it clarifies the functioning of departmental management boards and their relationship to Ministers and Accounting Officers. It also clarifies the role of non-executive directors of such boards and provides guidance on skills and relations with Arm Length Bodies (ALBs) such as Non Departmental Public Bodies (NDPBs). Key features of the code are summarized at **Annex B**.

Summary and recommendation

7. With the increased focus on delivery and demands on the civil service to be fit for purpose, good practice in the way departments are directed and controlled is more important than ever. Departmental boards have grown up on an ad hoc basis and those involved – especially non-executive board members (NEBMs) - need clarity about their role. In providing a code, Civil Service practice will be in line with other parts of the economy.
8. The Board is invited to note the outcome of the review.

Annex A

Review of Corporate Governance In Central Government Departments

Terms of reference

To review the arrangements for corporate governance in central government departments (including in non-Ministerial Departments) with particular regard to:

- how Ministers' responsibilities relate to officials' responsibilities within the governance structures in departments
- the role of the Accounting Officer
- the roles and responsibilities of departmental and agency management boards and the relationship between them
- the role and responsibilities of non executives on boards and audit committees
- the relationship between (a) departments and (b) their executive NDPBs and other central government bodies with which they have an arm's length relationship

And to make recommendations to Ministers for establishing a high level set of principles for departments which promote good performance, accountability and transparency.

Corporate Governance in Central Government Departments **Code of Good Practice**

A summary of key features of the code:

- it does not cut across any legal obligations or constitutional requirements of departments, nor the special position of the devolved administrations;
- it does not suggest that one size fits all and encourages departments to experiment with different models to meet their particular needs;
- it uses relevant aspects of private sector practices, to existing civil service discipline – with particular regard to needs and circumstances of government.
- it does not alter ministers' powers and responsibilities;
- it does not alter accountability to parliament and maintains a continuing role for Accounting Officers;
- it makes clear that ministers and boards should work together to define strategy and lead the department;
- it emphasizes the need for a strong presence on the board of both executive members and independent non-executive members possessing a balance of appropriate skills and a greater openness and transparency in their appointment;
- it emphasises the need for effective arrangements for providing assurances on risk management, governance and internal control;
- it leaves some latitude for departments to define and manage their relationships with their arm's length bodies;
- it requires the board of each department to give a clear account of how far it has complied with key aspects of the code within any overriding legal constraints;
- it requires the report to be included within the material accompanying its annual resource accounts, much of this is already covered in departments' publications;
- It is a live document with sufficient potential for development in the future and for reflecting evolving corporate governance practices in public and private sector.