



ACCOUNTABILITY WITHIN PUBLIC BODIES

Issued 28 June 2024

ICAEW welcomes the opportunity to respond to the [consultation on accountability within public bodies](#) issued on 25 March 2024 by the Committee on Standards in Public Life.

The Nolan principles are a strong foundation, but need to be built on

- Greater emphasis is needed on duties to exercise reasonable care and diligence and to look after public money and resources.
- Looking after the pennies needs to be balanced with looking after the millions and billions.

Accountability doesn't happen by accident

- Parliamentarians, stakeholder groups, and the public need to be more engaged.
- Formal accountability events, such as results presentations and AGMs, are missing.
- Independent 'broker' reports would help inform government and other key stakeholders.

Corporate governance needs to be core to how public bodies operate

- We recommend a Public Governance Code to bring core guidance into one place.
- Public bodies should be required to 'comply or explain' how they have applied the code.
- An 'air accident investigation' type body should routinely examine governance failures.

Transparency and a clear line of sight in the numbers is essential to good governance

- Budgeting and fiscal targets need to be aligned with accounting and financial reporting.
- Supply Estimates need to explicitly set out the amounts allocated to public services.
- A financial reporting review panel for public bodies would strengthen accountability.

For questions on this response please contact us at representations@icaew.com quoting REP 57/24.

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KEY POINTS

INTRODUCTION

1. ICAEW is a world-leading professional body established under a Royal Charter to serve the public interest. In pursuit of its vision of a world of sustainable economies, ICAEW works with governments, regulators and businesses and it leads, connects, supports, and regulates more than 170,000 chartered accountant members in over 146 countries. ICAEW members work in all types of private and public organisations, including public practice firms, and are trained to provide clarity and rigour and apply the highest professional, technical, and ethical standards.
2. This response has been prepared by ICAEW's Public Sector team in consultation with ICAEW's Public Sector Advisory Group. ICAEW's Public Sector team supports members working in and with the public sector to deliver public priorities and sustainable public finances, including over 13,000 in ICAEW's Public Sector Community.
3. ICAEW engages with policy makers, public servants, and others to promote the need for effective financial management, audit and assurance, financial reporting and governance and ethics across the public sector to ensure public money is spent wisely.
4. We would be very happy to discuss our feedback in more detail if the Committee believes that would be of assistance.

YOUR REVIEW TOPICS

5. The consultation sets out five specific topics that your review will consider:
 1. How the Nolan Principles can guide decision-making within public bodies.
 2. How public bodies can support Parliament, regulators and other bodies to hold them to account on behalf of the public, including but not limited to making available the information necessary for them to do so effectively.
 3. Best practice in managing risk within public sector organisations. How organisations can use data to analyse patterns, identify early warning signs, and escalate issues of concern in a timely manner.
 4. The role of boards of public bodies, including how they can maximise their effectiveness at providing timely challenge to the organisation.
 5. How a healthy organisational culture can help public bodies to learn from their mistakes and take action swiftly to put things right.
6. We welcome the review and support its objectives – and we hope that you will be able to gather evidence from across the public sector that will assist in addressing these topics.
7. Our evidence touches on the Nolan Principles but relates primarily to the second and fourth topics: holding public bodies to account and the role of boards of public bodies.
8. We have not answered your specific consultation questions as these are principally directed at public bodies rather than other respondents.

THE NOLAN PRINCIPLES ARE A STRONG FOUNDATION, BUT NEED TO BE BUILT ON (REVIEW TOPIC 1)

Greater emphasis is needed on duties to exercise reasonable care and diligence and to look after public money and resources

9. We reiterate our support for the Nolan Principles as set out in [The Seven Principles of Public Life](#): Selflessness, Integrity, Objectivity, Accountability, Openness, Honesty, and Leadership.
10. We also support the principles set out in the [Model Councillor Code of Conduct 2020](#) issued by the Local Government Association that build on the Nolan Principles to give more specific guidance for elected representatives:
“In accordance with the public trust in me, on all occasions: I act with integrity and honesty; I act lawfully; I treat all persons fairly and with respect; and I lead by example and in a way that secures public confidence in the role of councillor.
*“In undertaking my role: I impartially exercise my responsibilities in the interests of the local community, I do not improperly seek to confer an advantage, or disadvantage, on any person; I avoid conflicts of interest; **I exercise reasonable care and diligence**; and **I ensure public resources are used prudently in accordance with my local authority’s requirements and the public interest.**”*
11. We believe that the above principles (adapted to cover all public bodies and not just local authorities) should apply to elected representatives, public servants and others with responsibility for the management, governance or oversight of public bodies.
12. We believe that greater emphasis is needed in any update of the guidance accompanying the Nolan Principles on the final two points in the above list exercising reasonable care and diligence and ensuring public resources are used prudently.
13. We also believe that there should be a greater emphasis on these points in the Ministerial Code, the Civil Service Code and other codes of conduct across the public sector, as well as in our proposed Public Governance Code (see below).

Looking after the pennies needs to be balanced with looking after the millions and billions

14. A key feature of the management of public money is based on the probity of each item of expenditure incurred. This includes requirements to disclose costs incurred that are immaterial in the context of public spending across the UK of more than £1tn each year. For example, public bodies are required to publish details of some individual purchases of as little as £500 or even less if claimed as expenses by ministers or senior civil servants.
15. While there are strong reasons to support transparency over individual items of expenditure in this way that transcends how small the amounts involved are, there is also a need to balance this effort directed towards ‘looking after the pennies’ with the appropriate level of scrutiny over how the millions and billions of pounds of public money disbursed by public bodies are managed.
16. We believe there needs to be a more explicit requirement for public bodies to explain in their annual financial reports how they have sought to obtain value for money from the expenditure they incur on our behalf. For example, this might include outlining the legal and commercial due diligence processes undertaken to ensure that large contracts are negotiated to protect the public interest, or investment in the project management capabilities of staff to ensure major projects meet their objectives and are delivered cost effectively.

ACCOUNTABILITY DOESN’T HAPPEN BY ACCIDENT (REVIEW TOPIC 2)

Parliamentarians, stakeholder groups, and the public need to be more engaged

17. Similar to how the [UK Stewardship Code](#) places a duty on institutional investors to engage with listed companies, there is a need for a duty on Parliamentarians, members of devolved

administrations, councillors and stakeholder groups to be involved in holding public bodies to account. Accountability is a process that requires people to engage.

18. There is also a need for public bodies to make it easier for the public to engage in the work that they do, for example by holding regular online events at which the public can get involved, ask questions and participate in debates.

Formal accountability events, such as results presentations and AGMs, are missing

19. The primary purpose of annual financial reports that include audited financial statements is to enable the leadership and management of organisations to be held to account for their stewardship of the public resources to which they have been entrusted.
20. Annual financial reports are also the vehicle through which management report on their compliance with reporting requirements, the operation of financial controls and their management of risk, and through which external auditors report on the truth and fairness of the financial statements.
21. Annual results presentations and AGMs in organisations outside the public sector provide forums at which boards provide an account to their key stakeholders of their performance and at which stakeholders can ask questions and receive answers on how boards have discharged their duties.
22. Unfortunately, government departments, local authorities¹ and most other public bodies do not hold annual general meetings (AGMs) at which they present their annual financial report for adoption or submit themselves to the scrutiny of stakeholders, nor do they present their annual results to their stakeholders. While there are meetings with ministers and officials (or equivalent) these may or may not be public and not necessarily focused on accountability.
23. Annual results presentations and AGMs are both a way of engaging stakeholders but – perhaps even more importantly – a way of ensuring boards and management teams hold themselves to account for their performance in running a public body.
24. We think nominated elected representatives and peers² (separate and additional to select committee members) should attend annual result presentations and annual general meetings or equivalent of public bodies alongside ministers and officials (or councillors and officials for local public bodies). We believe relevant stakeholder groups should also be able to attend such events and question the leadership of public bodies.
25. We further believe that the public should be able to attend remotely, providing a forum for those who are interested to participate in a way that is open and transparent but that is at the same time manageable for individual public bodies.
26. We believe such accountability events should complement the oversight role played by select committees over departments and the public bodies for which they are responsible, or by the Committee of Public Accounts (PAC) – or equivalent committees in the devolved administrations.

Independent ‘broker’ reports would help inform government and other key stakeholders

27. Government should consider employing independent analysts to produce the equivalent of ‘broker’ notes on public bodies.
28. In the private sector, analyst or ‘broker’ reports draw on annual financial reports and other available information, as well as discussions with senior management, to provide insights into the strategic, operational and financial position of the organisations concerned and the challenges they face.
29. While a ‘buy/sell/hold’ recommendation will of course not apply to public bodies, this type of analysis would be very helpful in providing a strategic financial assessment of how individual public bodies are performing, supporting the government, Parliamentarians,

¹ Local authorities usually have ‘annual general meetings’, but these are the same as an AGM that includes the adoption of an annual financial report or questioning by stakeholders on the contents of the audited financial statements.

² Or elected members for devolved administrations, or councillors for local public bodies.

other stakeholders, and the public in holding public bodies and their management teams to account.

CORPORATE GOVERNANCE NEEDS TO BE CORE TO HOW PUBLIC BODIES OPERATE (REVIEW TOPIC 4)

We recommend a Public Governance Code to bring guidance into one place

30. We believe there would be significant benefit to bringing together core corporate governance and conduct guidance from across the public sector into a Public Governance Code, similar to the [UK Corporate Governance Code](#) that applies to listed companies.
31. The Public Governance Code should apply to all public bodies, including government departments, devolved administrations, agencies, quangos, regional assemblies and combined authorities, local authorities, town, village and parish councils, and public corporations.
32. The Public Governance Code should either incorporate or be accompanied by a stewardship code (similar to the [UK Stewardship Code](#) applicable to investors in listed companies) setting out duties on Parliamentarians, members of devolved parliaments and assemblies, councillors and other elected representatives to actively engage in holding public bodies to account.
33. Such a code or codes should encompass the Nolan Principles, Managing Public Money, the code of good practice on corporate governance in central government departments, statutory guidance on Best Value in local authorities, the Green Book and other relevant existing guidance on how public bodies should operate.
34. There may also be elements of the [UK Corporate Governance Code](#) that could be usefully incorporated.

Public bodies should be required to ‘comply or explain’ how they have applied the Public Governance Code

35. We recommend that all public bodies should be required to confirm annually their compliance with the Public Governance Code or explain and give reasons for any divergences.
36. The best location for such a statement of compliance would in their annual financial report to be presented to stakeholders at an annual accountability event such as an AGM.

An ‘air accident investigation’ type body should routinely examine governance failures

37. Governance failures have happened and will continue to happen in the future.
38. We believe a standing body should be created to routinely examine governance failures within public bodies and make recommendations to address such failures.
39. While this would not eliminate the need for formal public inquiries in egregious cases, a standing body with the appropriate multidisciplinary expertise already available would enable investigations to be commenced, reported on, and resolved much more quickly than through formal public inquiries.
40. With a lower threshold for referral than for public inquiries, such a body would be able to investigate governance issues when they first emerge and before they become major failures.
41. Such a body would complement the role played by external auditors, providing a route for escalation where a public body is not able or willing to address concerns that external auditors may raise.

TRANSPARENCY AND A CLEAR LINE OF SIGHT IN THE NUMBERS IS ESSENTIAL TO GOOD GOVERNANCE (REVIEW TOPICS 2 AND 4)

Budgeting and fiscal targets need to be aligned with accounting and financial reporting

42. A key challenge in the ability of public bodies to be held to account is a lack of transparency in the numbers used to budget and monitor performance.
43. This is partly a systemic issue arising from the use of three different accounting frameworks: resource accounting (DEL and AME) in central government departments (or statutory overrides in local authorities) for budgeting and planning, International Financial Reporting Standards (IFRS) for accounting and financial reporting, and the National Accounts for fiscal targeting. Revenues, expenditures, assets and liabilities are measured differently in each framework, with complex reconciliations required between them that can make it difficult for those holding public bodies (particularly government departments) to account to understand what is going on.
44. While the Public Administration and Constitutional Affairs Committee inquiry [Accounting for Democracy](#) led to a reduction in the differences between parliamentary supply using resource accounting and the financial results and position reported in departmental accounts in accordance with IFRS, there remains significant differences between the two bases involving complicated reconciliations. Similarly, there are significant differences between the statutory budgets and financial accounting for local authorities.
45. We believe holding public bodies to account would be significantly easier if there was a single accounting framework for budgeting and planning, accounting and financial reporting and fiscal target setting, similar to the approaches adopted by Canada, Australia and New Zealand.

Supply Estimates need to explicitly set out the amounts allocated to public services

46. It is not easy to understand how the total expenditures reported to ministers, Parliament and the public link to amounts spent on individual public services. This lack of a 'line of sight' between how public money is allocated and what it is spent on makes it very difficult to manage the public finances effectively or to hold departments or other public bodies to account.
47. This is exemplified by supply estimates presented to Parliament that provide at best very high-level categories of expenditure and in many cases almost no detail at all.
48. The lack of transparency in the funding received by government departments and how they plan to spend it makes it more difficult to hold government departments to account.
49. We believe that accountability would be enhanced significantly by greater transparency in supply estimates, with a sufficiently detailed list of public services provided by each department and how much is budgeted for each public service. At the very least, the 20 largest budget headings for each department should be listed, together with smaller budget line items of public interest.

A financial reporting review panel for public bodies would strengthen accountability

50. The [Corporate Reporting Review](#) function of the Financial Reporting Council (FRC) (formerly the Financial Reporting Review Panel) is an established element of the accountability framework for listed and larger private companies. The function reviews the annual financial reports of companies in scope for compliance with legislative and other reporting requirements, engages with preparers where concerns have been identified (and can require changes where appropriate), and identifies and encourages best practice.
51. There is no equivalent financial reporting review panel for public bodies in the UK.
52. We believe the accountability framework for public bodies would benefit from a review panel in order to actively improve the quality of annual financial reports.