

Regularity, Propriety and Value for Money

Treasury officer of accounts

November 2004



HM TREASURY



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ABOUT THIS HANDBOOK

This handbook is designed primarily for **Accounting Officers** in government departments, **Next Steps Executive Agencies** and **Non-Departmental Public Bodies (NDPBs)**, together with their equivalents in the **National Health Service**. But it will also be of interest to **NDPB board members**, who also have an important role in ensuring that these bodies operate with propriety and regularity. Indeed, given the extensive delegation of financial authority in public sector organisations, and the fact that **Accounting Officers** and board members will often look to their staff for advice on these matters, the handbook should be of value to public servants at many levels.

Written guidance cannot be a substitute for experience or for training, particularly for people whose previous experience has not been in the public sector, and who may not be familiar with the standards expected of public servants. Relevant induction training is available at the **Centre for Management and Policy Studies** (formerly the **Civil Service College**).

The handbook, which was last issued **July 1997**, has been revised by the **Treasury Officer of Accounts (TOA)** team in the Treasury. The **Treasury Officer of Accounts** team also produces “**Government Accounting**” which incorporates “**The Responsibilities of an Accounting Officer**” and “**The Responsibilities of a NDPB Accounting Officer**”.

If you have any questions about the handbook, call **020 7270 5361** or **5365**.

2

INTRODUCTION

2.1 All public servants are expected to observe the highest standards of conduct. Public servants must act with propriety, particularly in the care and management of public funds. This handbook explores what propriety means in a financial context. It is a concept with many facets, and experience has shown how important it is to understand the concept fully and to keep it at the forefront of the mind when making decisions.

2.2 Parliament's concern for regularity and propriety in the stewardship of public funds is particularly reflected in the work of the Public Accounts Committee (PAC), and hence the Committee's work features heavily in this handbook. The Committee is invariably very critical of any breaches of propriety or regularity, and their comments are reported widely in the media. At the close we suggest there is one final test to apply if there is any question mark over whether a proposed course of action meets the requirements of propriety:

Could this be satisfactorily defended before the Public Accounts Committee?

The Public Accounts Committee is only one element of accountability, which is ultimately to the public. On that basis, the test could simply be worded:

Could this course of action be satisfactorily defended in public?

2.3 The fact that what is involved is responsibility for public funds means that the standards of behaviour expected of public servants in financial matters are different, and in some respects more demanding, than those which may be accepted for equivalent activities in a private context. Achieving good results is important, but these results must not be achieved by cutting corners.

2.4 The aim of this handbook is to illustrate what is and is not "proper" behaviour in the stewardship of public funds. There are some basic "dos and don'ts":

- Don't bend or break the rules
- Don't deceive or knowingly mislead
- Don't allow a conflict of interest to affect, or appear to affect, decisions
- Don't use public money for private benefit or for others
- Do comply with the law, including international law and treaty obligations and uphold administration of justice
- Do put in place and follow clear and up to date procedures
- Do seek approval, if needed, first from the right person
- Do record the reasons for decisions
- Be honest, impartial and even-handed

2.5 If in your stewardship of public funds you have any doubts as to whether a proposed course of action meets the requirements of propriety, you should think again and seek advice from the sponsoring department, the Treasury or NHS Executive (or the equivalent department in Wales or Scotland).

3

ACCOUNTING OFFICER RESPONSIBILITIES

3.1 There are repeated references to regularity and propriety in “The Responsibilities of an Accounting Officer¹”, the memorandum directed by the Treasury at Accounting Officers in government departments and agencies. To quote a couple of the most important references (emphasis added in bold):

“The essence of an Accounting Officer’s role is a **personal responsibility** for the propriety and regularity of the public finances for which he or she is answerable...”

“The Accounting Officer must... ensure that in considering proposals relating to the expenditure or income for which he or she has responsibilities as Accounting Officer, **all relevant financial considerations are taken into account... and full regard is had to any issues of propriety or regularity...**”

3.2 Note the fact that this responsibility for propriety is personal. There is similar wording in the Treasury memorandum on the “Responsibilities of an NDPB Accounting Officer²” and in the guidance to accountable officers in the National Health Service. And to avoid misunderstanding here, a NDPB Accounting Officer’s responsibilities extend to all the resources in his or her care, irrespective of the source of funding.

3.3 The Treasury memorandum goes on to say that an Accounting Officer “has particular responsibility to see that appropriate advice is tendered to Ministers on all matters of financial propriety and regularity...”. If a Minister in charge of the department is contemplating a course of action which the Accounting Officer considers would infringe the requirements of regularity or propriety (including where applicable the need for Treasury authority), the Accounting Officer should set out in writing his or her objections to the proposal, the reasons for those objections and his or her duty to inform the Comptroller and Auditor General should the advice be overruled. If the Minister decides, nonetheless, to proceed, the Accounting Officer should seek a written instruction to take the action in question.

3.4 The NDPB Accounting Officer has the same responsibility:

“The Board of a NDPB should act in accordance with the requirements of propriety or regularity... if the Board or the Chairperson is contemplating a course of action involving a transaction which you as Accounting Officer consider would infringe these requirements, however, you should set out in writing your objection to the proposal, the reasons for this objection, and your duty to notify the Comptroller and Auditor General should your advice be overruled. If the Board decides nonetheless to proceed, you should seek a written instruction to take the action in question. You should also inform your sponsoring department’s Accounting Officer... so that the department, if it considers it appropriate, can intervene with the Board and inform the Treasury...”

¹ www.government-accounting.gov.uk/current/content/ga_04_4.htm

² www.government-accounting.gov.uk/current/content/ga_08_8.htm

Accounting Officers

Accounting Officers are normally the senior most official in an organisation – the permanent head of a government department, or chief executive of an executive agency or NDPB. Sometimes, operational or financial management considerations may make it appropriate for other very senior managers, responsible for particular activities, to be appointed as Additional Accounting Officers (AAOs). In some cases a senior official may be appointed an AAO in their parent department, and in one or more other departments, to enable clear accountability arrangements to be put in place for joined-up operations.

The appointment as Accounting Officer reflects the fact that he or she has responsibility for the overall organisation, management and staffing of the body, and for its procedures in financial and other matters. The essence of an Accounting Officer's role is a personal responsibility for the propriety and regularity of the public finances for which he or she is answerable; for the keeping of proper accounts; for prudent and economical administration; for the avoidance of waste and extravagance; and for the efficient and effective use of all the available resources. An Accounting Officer has to ensure that a sound system of internal control, that includes risk management, is maintained in the organisation and regularly reviewed for its effectiveness.

Accounting officers may be called to give evidence before the Public Accounts Committee on the basis of reports by the Comptroller and Auditor General. There is more background on this in a later insert.

3.5 Alongside these specific responsibilities, the Accounting Officer has a leadership role as regards propriety: his or her actions and behaviour must set a high standard for the organisation, and the Accounting Officer must communicate these standards to the organisation's staff.

4

REGULARITY

4.1 Regularity is defined in “Government Accounting!” (see chapter 4 of which, and also the glossary) thus:

Regularity is the requirement for all items of expenditure and receipts to be dealt with in accordance with the legislation authorising them, any applicable delegated authority and the rules of Government Accounting.

4.2 Key here is the reference to authorising legislation and delegated authority: regularity is about compliance with appropriate authorities.

“Authorised by Parliament”

4.3 A central requirement is that expenditure must be properly authorised by Parliament. According to the Accounting Officer memorandum (emphasis added in bold):

“An Accounting Officer has a particular responsibility for ensuring compliance with Parliamentary requirements in the control of expenditure. **A fundamental requirement is that funds should be applied only to the extent and for the purposes authorised by Parliament...**”

4.4 This wording harks back to the Exchequer and Audit Departments Act 1921. The modern equivalent – section 6 of the Government Resources and Accounts Act 2000 – calls for the Comptroller and Auditor General to examine (on behalf of Parliament) any resource accounts, which he receives from a department under section 5(5) of the Act, with a view to satisfying himself:

- That the accounts present a true and fair view;
- That the **money provided by Parliament has been expended for the purposes intended by Parliament;**
- That **resources authorised by Parliament to be used have been used for the purposes in relation to which the use was authorised;**
- That the department’s **financial transactions are in accordance with any relevant authority.**

4.5 There are thus two facets to Parliamentary control. First, expenditure must be consistent with the specific legislation providing for the activity or service. The legislation expresses Parliament’s intentions as to when and how public money should be used. Transactions should also be in accordance with any regulations issued under the governing legislation. Secondly, expenditure must fall within the ambit of the department’s Estimate². The ambit records Parliament’s intentions as to the purposes of the expenditure. Expenditure that is outside the ambit is automatically “illegal”.

¹ www.government-accounting.gov.uk

² Departments’ resource consumption is authorised from amounts voted annually by Parliament through Supply Estimates (Estimates). Each Estimate has one or more Request for Resources (RfRs) and each RfR has a voted net resource requirement. Each Estimate also sets an annual ceiling on the department’s voted net cash requirement (NCR). When approved by the House of Commons, Estimates form the basis of statutory authority for expenditure which is provided annually by means of Consolidated Fund Acts and by an Appropriation Act. These arrangements are known as the “Supply procedure” of the House of Commons.

Expenditure can be “irregular” when the related service does not have a statutory authority.

“The authority of the Treasury”

4.6 Leading on from this, a second key aspect is the requirement to have the necessary Treasury authority for expenditure.

4.7 If, during the examination of a resource account, it appears to the Comptroller and Auditor General that a material use of resources required, but did not receive, the authority of the Treasury, the C&AG is statutorily required to inform the Treasury.

4.8 This is a requirement set out in Government Resources and Accounts Act 2000. As you will see from some of the cases described later in the handbook, the fact that a department has acted outside the authority delegated from the Treasury, or without the necessary Treasury approval, will often result in Public Accounts Committee (PAC) criticism. Again such expenditure is “irregular”. While the PAC regards irregular expenditure as a serious matter, often its deeper concern is with what was done. The failure to seek the required external approval for a course of action is seen as a signal that the course of action was dubious.

4.9 The Committee takes the same approach in other situations where the necessary approval for expenditure has not been gained – for example, where a NDPB acts outside the authority delegated to it in the financial memorandum, or a NHS Trust ignores the requirement for approval by the NHS Executive. Parliament’s expectation is that public bodies will observe such requirements when spending public money: this too is part of compliance with the appropriate authorities.

5

PROPRIETY

5.1 The “Government Accounting” definition of propriety is linked to that of regularity, with an emphasis again on Parliamentary control:

Propriety is the further requirement that expenditure and receipts should be dealt with in accordance with Parliament’s intentions and the principles of Parliamentary control, including the conventions agreed with Parliament (and in particular the Public Accounts Committee).

5.2 This definition of propriety is obviously not a conventional one. “Fitness; rightness; correctness of behaviour or morals” is one dictionary definition. Behaviour is also included in the definition used in the Nolan Committee’s First Report, “Standards in Public Life”, published in May 1995 (emphasis added in bold):

“We take propriety to encompass not only financial rectitude, **but a sense of the values and behaviour appropriate to the public sector.**”

5.3 And in practice the Public Accounts Committee takes a very similar approach. Its report in early 1994, “The Proper Conduct of Public Business” (Eighth Report, Session 1993-94), uses phrases such as “the standards of public conduct”, “care for the honest handling of public money” and “traditional public sector values”.

5.4 What this implies is that the reference to “Parliament’s intentions”, in the “Government Accounting” definition of propriety, needs to be interpreted in a wide sense. As the Auditing Practices Board puts it (emphasis added in bold):

“**Propriety is concerned with Parliament’s intentions as to the way in which public business should be conducted**, including the conventions agreed with Parliament, and in particular, the Committee of Public Accounts.

“Whereas regularity is concerned with compliance with appropriate authorities, propriety is concerned more with standards of conduct, behaviour and corporate governance. **It includes matters such as fairness, integrity, the avoidance of personal profit from public business, even-handedness in the appointment of staff, open competition in the letting of contracts and the avoidance of waste and extravagance.**” (Practice Note 10, “Audit of Central Government Financial Statements in the United Kingdom”, April 2001)

5.5 A consultation paper “Propriety and Audit in the Public sector” for the Public Audit Forum in May 2000 said:

“...While the concept of propriety is underpinned by compliance with authorities [for which read regularity], and in particular with legislation, it goes wider than this and covers conduct and behaviour unconnected with authorities. Non-compliance with authorities may not always be improper. Where it is inadvertent it may or may not be improper, depending on the circumstances. Impropriety more usually carries an assumption of a deliberate act of or a willfully careless one”.

5.6 All of these “proper” behaviours are of course reflected in “Government Accounting” or other guidance documents.

5.7 For example, the NHS Code of Conduct for Primary Care Trust Boards¹ refers to “... three crucial public service values ...”

Accountability	Everything done by those who work in the NHS must be able to stand the test of parliamentary scrutiny, public judgements on propriety and professional codes of conduct.
Probity	There should be an absolute standard of honesty in dealing with the assets of the NHS: integrity should be the hallmark of all personal conduct in decisions affecting patients, staff and suppliers, and in the use of information acquired in the course of NHS duties.
Openness	There should be sufficient transparency about NHS activities to promote confidence between the NHS authority or trust and its staff, patients and the public.

5.8 Similar expectations about behaviour are expressed in the Civil Service Code²:

“Civil servants should conduct themselves with integrity, impartiality and honesty... [they] should not misuse their official position... to further their private interests of those of others...”

5.9 And the Model Code (of conduct) for Staff of Executive NDPBs³ says:

“Key members of staff, such as the Chief Executive, Finance Director... should ensure that any possible conflicts of interest are identified at an early stage and that appropriate action is taken to resolve them...”

5.10 When it authorises expenditure Parliament expects the public servants responsible for its care to behave in these ways: Parliament’s intention when authorising expenditure is that the funds should be managed with impartiality, honesty, the avoidance of personal gain, waste, and extravagance. In short, propriety in a financial context embraces a wide range of proper behaviours.

5.11 The way in which our Public Service goes about its business, including the way in which individual public servants go about theirs, is of prime importance to every head of department, chief executive, and public servant. The public expects official decisions to be made fairly and impartially, public money to be spent wisely, and public assets to be used and cared for responsibly. They expect the conduct of officials to be above reasonable reproach, and official duties to be performed conscientiously and competently at all times. We therefore need to be careful about the way we go about our business.

¹ On page 30 of the Primary Care Trusts (PCTs) Corporate Governance Framework, which can be downloaded from: www.dh.gov.uk/PolicyAndGuidance/OrganisationPolicy/PrimaryCare/PrimaryCareTrusts/PrimaryCareTrustsArticle/fs/en?CONTENT_ID=4000579&chk=NAzQg6

² www.cabinetoffice.gov.uk/propriety_and_ethics/civil_service/civil_service_code.asp

³ Annex A to part G of ‘NDPB’s: A Guide for Departments’, which can be downloaded from: www.civilservice.gov.uk/improving_services/agencies_and_public_bodies/guidance_for_departments/non_departmental_public_bodies_guidance/index.asp

5.12 To summarise then...

We are concerned with regularity and propriety in a financial context. A key element is conformity with the requirements of Parliamentary control and Parliament’s intentions as regards the use of public funds. In respect of propriety, “Parliament’s intentions” has a broader meaning – its expectations about the way in which public business should be conducted, or should not be conducted; its expectations about the way public servants should and should not behave when managing public funds.

The Public Accounts Committee and the National Audit Office

The **Public Accounts Committee** was set up in 1861 as one of the measures to give Parliament a better control over the expenditure of public funds. Under House of Commons Standing Order No.148 the Committee examines and reports on “...the accounts showing the appropriation of the sums granted by Parliament to meet the public expenditure and... such other accounts laid before Parliament as the Committee may think fit.” The Committee is nominated by Members of the House of Commons for the duration of each Parliament. It consists of 16 members, drawn from all parties. Traditionally the Chairman is provided by the Opposition and is usually a former Treasury Minister. It works on the basis of reports by the Comptroller and Auditor General, either as a result of his certification (financial) audit or value for money examinations. It takes evidence in public on the basis of these reports, with the main witnesses being Accounting Officers: the Comptroller and Auditor General and the Treasury are also witnesses at each hearing. After deliberating on the evidence, the Committee reports to Parliament, with the Government responding in the Treasury Minutes.

The **Comptroller and Auditor General** (C&AG) is appointed by the Crown and is responsible to Parliament rather than the Government. As auditor his statutory duties are to certify the accounts of all government departments and a wide range of other public bodies such as NDPBs; to examine revenue and store accounts; and to report the results of his examinations to Parliament. These duties are set out in the Government Resources and Accounts Act 2000, and the earlier Exchequer and Audit Departments Acts of 1866 and 1921. Under the National Audit Act 1983 – which created the National Audit Office to replace the Exchequer and Audit Department – he has wide powers to carry out examinations of the economy, efficiency and effectiveness of the use of resources by those bodies he audits or to which he has access – value for money examinations. In these examinations the C&AG may not question policy objectives.

The staff of the **National Audit Office** (NAO) are appointed by the Comptroller and Auditor General and are not civil servants. Each year the NAO audits over 550 accounts and publishes around 60 value-for-money reports. Its primary concern is helping to deliver accountability to Parliament, and ultimately to taxpayers – to assure them that public funds and resources are used properly and to good effect.

The audit arrangements in Wales have changed with the creation of a "Wales Audit Office" headed by the Auditor General for Wales with responsibility for the work currently undertaken by the National Audit Office and the Audit Commission in Wales. The Comptroller and Auditor General for Northern Ireland and the Northern Ireland Audit Office do a similar job in respect of the Northern Ireland Assembly. If the NI Assembly is not in operation, reports go directly to the Westminster Parliament. Scotland has its own Audit arrangements.

Reports by the Audit Commission – which is responsible for the audit of local authorities in England and Wales – are not presented to Parliament.

5.13 Later on, the handbook attempts to illustrate how this works in practice by looking at situations which have led to criticism by the Public Accounts Committee. Some of these examples featured in the Committee's Eighth Report, Session 1993-94, "The Proper Conduct of Public Business". At the end of this handbook we have included the checklist that forms part of the report, but the whole of the report is recommended reading. It is true to say that the report, together with the work of the Nolan Committee, has given issues of regularity and propriety a much higher profile.

6

FIRST REPORT OF THE COMMITTEE ON STANDARDS IN PUBLIC LIFE - SEVEN PRINCIPALS OF PUBLIC LIFE

6.1 Below is a section from the First Report¹ of the Committee on Standards in Public Life². These “Seven Principles of Public Life” capture the key characteristics of propriety and is a reminder that issues of propriety and corporate governance are closely linked.

The Seven Principles of Public Life	
Selflessness	Holders of public office should take decisions solely in terms of the public interest. They should not do so in order to gain financial or other material benefits for themselves, their family, or their friends.
Integrity	Holders of public office should not place themselves under any financial or other obligation to outside individuals or organisations that might influence them in the performance of their official duties.
Objectivity	In carrying out public business, including making public appointments, awarding contracts, or recommending individuals for rewards and benefits, holders of public office should make choices on merit.
Accountability	Holders of public office are accountable for their decisions and actions to the public and must submit themselves to whatever scrutiny is appropriate to their office.
Openness	Holders of public office should be as open as possible about all the decisions and actions that they take. They should give reasons for their decisions and restrict information only when the wider public interest clearly demands.
Honesty	Holders of public office have a duty to declare any private interests relating to their public duties and to take steps to resolve any conflicts arising in a way that protects the public interest.
Leadership	Holders of public office should promote and support these principles by leadership and example.

The Seven Principles of Public Life were endorsed in “Spending Public Money: Governance and Audit Issues”, Cm3179, March 1996.

¹ www.archive.official-documents.co.uk/document/parlament/nolan/nolan.htm

² www.public-standards.gov.uk

7

VALUE FOR MONEY

7.1 In addition to regularity and propriety there are repeated references to value for money in “The Responsibilities of an Accounting Officer¹” and in Government Accounting². The Public Accounts Committee (PAC) explores matters related to economy, efficiency and effectiveness that are set out in National Audit Office (NAO) value-for-money reports. The Committee has on a number of occasions criticised departments for failing to obtain value for money in major procurement projects.

7.2 All public procurement of goods and services, including works, must be based on value for money, having due regard to propriety and regularity. Value for money is not about achieving the lowest initial price: it is defined as the optimum combination of whole life costs and quality. This policy is set out in guidance issued by Office of Government Commerce (OGC) to departments and is reproduced in Chapter 22 of Government Accounting. Further guidance is available on OGC website (www.ogc.gov.uk).

7.3 Goods and services should be acquired by competition unless there are convincing reasons to the contrary. The form of competition should be appropriate to the value and complexity of the procurement and barriers to the participation of suppliers should be removed.

7.4 In relation to the balance between propriety and regularity, and value for money, you should seek to satisfy yourself that existing controls, and their cost, are appropriate in relation to the potential for achieving value for money benefits.

7.5 There are a number of ways of achieving value for money in procurement, such as by:

- Reducing the cost of purchasing and the time it takes – the processing overheads;
- Getting better value for money for goods and services purchased and improved quality of services;
- Improving project, contract and asset management;
- Making procurement decisions on the basis of a long term view of value for money so that the focus is not on the lowest price;
- Combining competition with innovative ways of procurement while managing the risks effectively;
- Drawing on latest advances in electronic commerce and good procurement practice; and
- Using a range of tools available which promote and can measure value for money gains.

¹ www.government-accounting.gov.uk/current/content/ga_04_4.htm

² www.government-accounting.gov.uk

8

LEARNING FROM OTHERS' MISTAKES

Case I **MPS CALL £1.2 MILLION JUNKETS ARRANGED BY CIVIL SERVANTS 'INEXCUSABLE'**

8.1 This was one headline for the PAC report on a relatively straightforward case. The case illustrates the links between regularity and propriety and how all embracing is the Committee's view of propriety. The incident is described in the Public Accounts Committee's 28th Report, Session 1992-93 – "**Ministry of Defence: Irregular Expenditure under an Efficiency Incentive Scheme**".

8.2 As part of a strategy to achieve efficiency savings, in the late 1980s the Ministry of Defence introduced a trial efficiency incentive award scheme. It was designed to reward groups of staff for their part in contributing to efficiency. But some members of staff went beyond the department's guidelines for the scheme, spending money on go-carts, bicycles, cameras, golf-club furnishings, televisions and the like. There was also expenditure on what the PAC Chairman described as "jollifications". Here are some of the things the Committee said in its report (emphasis added in bold):

"We are concerned that **expenditure was incurred by the Department outside the ambit of the Votes concerned and that some was incurred on gifts and donations for which specific Supply Estimates provision had not been made.** This expenditure cannot be regarded as having been authorised by Parliament and should not have occurred."

"We are also concerned that the Department incurred expenditure on novel and contentious items which fell outside their delegated authority and required specific prior Treasury approval. **We are dismayed that they did not seek Treasury approval before making these payments.**"

"We remain critical of the lavish scale of unauthorised expenditure to mark the 25th Anniversary celebrations of the Royal Naval Supply and Transport Service **and find the cost of up to £70 a head incurred in holding these events to be completely unjustified. In future we expect the Department to act in line with the Accounting Officer's duty to avoid waste and extravagance...**"

"We endorse the Accounting Officer's acknowledgement that he is ultimately responsible, and we regard such personal accountability as a cardinal principle of Parliamentary control over public expenditure."

8.3 So the starting point for the Committee's concern was that the expenditure was irregular: it was outside the ambit of the relevant Vote and the department's delegated authority, and the department failed to get the necessary Treasury approval.

8.4 But clearly the Committee's concerns went wider than this. The people involved went beyond the rules of the scheme – as we will see in other examples, acting outside the rules is an immediate trigger for the Committee's concern. Some of the expenditure was, in the Committee's view, excessive: it went beyond Parliament's expectations of how much public money it is reasonable to spend on entertainment for public servants. And there was an underlying concern that public money had been spent for what might be regarded as private benefit.

8.5 Each year there is a Parliamentary debate on the past year's reports by the Public Accounts Committee. Speaking in the 1993 debate, the Committee's Chairman commented:

"Public money should not be spent in such a way. We were uneasy about the way in which the spending of it had been authorised, which we thought was a most serious matter..."

Case 2 **"WE ARE DISQUIETED TO LEARN OF THE REAL CONFLICTS OF INTEREST THAT AROSE..."**

8.6 The next example concerns the 2nd Report in the 1994-95 Session, "The Sports Council: Initiatives to Improve Financial Management and Control and Value for Money".

8.7 The Sports Council was an executive NDPB whose principal source of income was grant aid (it has now been superseded by UK Sport, and the Home Country Sports Councils). From 1989 the Council took a number of steps designed to strengthen its commercial activities. These included the creation of a charitable company to replace the Council's charitable trust; the acquisition of a company wholly owned by the charitable company; and the formation, jointly by the acquired company and a private sector company, of a joint venture. The Council and these three companies formed the Sports Council Group. The Council's Accounting Officer and its Director of Finance held positions on, or worked on behalf of, the Sports Council while simultaneously holding positions on one or another of the three companies in the Sports Council Group: for example, the Finance Director became the chief executive of one of the companies. The result was what the Committee's report described as "conflicts of duty and interest", which had financially disadvantaged the Council in various transactions with the companies: for example, the contracts between the Council and one of the companies required the Council to pay in advance, whereas payments by the company to the Council under the contract terms were considerably in arrears. Here is a selection of the Committee's comments in its report:

"Responsibility for public funds... entails maintaining the expected standards of propriety. This includes not only avoiding actual or potential conflicts of interest but also any doubt that such conflicts might exist. We are therefore disquieted to learn of the real conflicts of interest that arose, which disadvantaged the Council financially in contractual arrangements with [the company] and which did not conform with Treasury guidance or with government best practice..."

"We are particularly concerned that the former Director General and Accounting Officer, and the former Finance Director had conflicts of interest, despite numerous reports by this Committee drawing attention to such dangers..."

"We are very concerned that the Council and the Trust Company took actions on several occasions which they knew were opposed by the sponsoring department..."

"We note that on his retirement the Trust Company appointed the former Director General of the Council as their part-time Chief Executive without the post being advertised..."

“We are very concerned that the Council awarded a contract... for twenty years to manage the Council’s annual exhibition and seminar as this does not allow the Council regularly to test the market...”

“We consider that it was clearly unsatisfactory for the Council to award the contract... to a management buy-out company which had not submitted a tender. **We note that the Council and the Department have accepted that this was an improper procedure...**”

8.8 Avoidance of conflicts of interest is a fundamental principle. A comment by the PAC Chairman during the Committee’s hearing is of particular interest here:

“Potential conflicts of interest are very serious matters indeed. We do not have to prove that something wrong has happened as long as the potentiality for that wrongdoing exists...”

8.9 The underlying concern here was that public officials had taken actions that appeared to benefit private interests at a cost to public funds. The quotes also illustrate the point that the various rules about how public business should be conducted – for example, that posts should be filled by open competition, that contracts should be periodically re-tendered and should be let using even-handed tendering procedures – are safeguards against impropriety.

Case 3 **“...THE STANDARDS REQUIRED FOR THE EXPENDITURE OF THE TAXPAYER’S MONEY ARE RATHER DIFFERENT...”**

8.10 In its 47th Report, Session 1992-93 – “Welsh Development Agency: Accounts 1991-92” – the Committee found a number of causes for concern. Here are some quotes from the report’s conclusions:

“...It seems self-evident to us, however, that the redundancy arrangements adopted by a public sector body should relate to its own pension scheme. **It is clearly not acceptable that a public sector body should pick and choose the best terms on offer from superannuation schemes they do not belong to...**”

“**We consider it unacceptable that the Agency should have provided cars to their Board members and senior executives without requiring them to pay for private motoring...** We criticise the Agency for the breakdown in financial controls which led to their incurring... irregular expenditure on their car scheme...”

“We are deeply concerned at the artificiality of the arrangements made for his retirement settlement, and at the total cost of the package which the Agency put at over £228,000...”

“We recognise the need for the Agency to seek confidentiality undertakings on certain operational matters from staff who leave their employment. However, we consider the agreement which they had required [the International Director] to sign is **excessively restrictive and potentially damaging to public accountability in its application of confidentiality undertakings to the circumstances and terms of his retirement.** We are therefore concerned at the steps the Agency took to ensure [his] silence and regard this as an unacceptable development in personnel management in the public sector.”

“We note the explanations by... the Agency’s Chairman... **It is clearly important that persons in high public office should ensure that circumstances do not arise which can give cause to any allegations of abuse of position...**”

“We note that **neither approval nor progress of Operation WIZARD** [a study of policy options for the future of the Agency] **was formally minuted by the Agency’s Board** and that its existence was not publicly revealed, even after it was shelved...”

“We... note the degree of freedom which non-departmental public bodies enjoy to manage their own affairs, but **we stress that it is the responsibility of the Agency’s Chairman and other Board members to act in a way which conforms with the high standards expected of those who handle public finance...**”

8.11 Some of these concerns are familiar from the earlier cases: some are new or differently expressed. In both the redundancy payments and the car scheme the agency had acted outside the relevant rules, without seeking the necessary authority to do so. As regards the car scheme, there had been expenditure of public funds for private benefit. Additionally there is the concern about “confidentiality undertakings” – what the Committee sometimes refers to as “gagging clauses” – where these are designed to limit public scrutiny and accountability. Likewise, there is the concern that the proper procedures to record decisions had not been followed. And returning again to the issue of conflict of interest, there is the concern about possible “abuse of position”.

8.12 One quotation from the PAC Chairman during the hearing is also worth noting:

“**The standards required for the expenditure of the taxpayer’s money are rather different from the standards required when one is dealing with one’s own money**”.

Case 4 “DETAILED REASONS SHOULD ALWAYS BE RECORDED...”

8.13 The importance of keeping records also featured in the 6th Report of the 1994-95 Session, “**Wolds Remand Prison**”. Wolds Remand Prison was the first to be contracted out, and the NAO report examined that process. The Committee’s report commented:

“**To avoid any question of impropriety, detailed reasons should always be recorded** whenever a contract is not awarded to a tenderer who submits the lowest bid and is judged capable of meeting the key performance criteria...”

8.14 Failure to record the reasons for decisions, establishing a clear audit trail, may lead to the suspicion that there is something to hide. The Treasury Minute in response to the report agreed with the Committee’s conclusion and said that the Prison Service did record such information.

Case 5 “I DO NOT THINK THAT ENTHUSIASM TO BE ENTREPRENEURIAL SHOULD LEAD TO A FAILURE TO CARRY OUT ESSENTIAL CONTROLS”

8.15 Another short entry, from the 48th Report, Session 1992-93, “Irregularities in the 1991-92 Accounts of Forward Civil Service Catering”. The irregularities were primarily in purchasing. Forward has since been privatised, but at the time was part of the Treasury. The Committee commented as follows:

“We consider that this case, involving poor control, mismanagement, irregularity, malpractice and fraud, represents a serious failure in the proper conduct of public business in what is – or should have been – a straightforward trading operation. We regard it as particularly unsatisfactory that this situation was allowed to develop in a body which is the direct responsibility of the Treasury and should have been the subject of more effective oversight...”

“The main weaknesses and irregularities disclosed [included]... failures to comply with laid-down purchasing procedures. There was a general lack of competitive tendering, substantial contracts were rolled forward without re-tender or any search for alternative suppliers... European Community directives were breached; requirements were poorly specified; and there were weaknesses in local purchasing arrangements, in the receipt, storage and issue of goods, and in invoice certification; certain records had been destroyed at four locations...”

“One element of the deterioration of control in Forward caused us particular concern... In the course of re-letting contracts without competition – including a contract with an individual value of £4.25 million – a senior member in Forward apparently entered into discussions with some of the contractors to seek their financial support for a management buy-out for Forward. He had also established, without informing the Accounting Officer, a company... which was apparently intended to be the vehicle for such a buy-out...”

The heading quotation is from the Accounting Officer during the PAC hearing.

Case 6 “THERE WERE SERIOUS FAILINGS HERE OF AN ASTONISHING KIND...”

8.16 To return to rather longer extracts, this example is from the 63rd Report in the 1992-93 Session, “Wessex Regional Health Authority: Regional Information Systems Plan”.

8.17 In May 1984 the Wessex Regional Health Authority launched its regional information systems plan to provide systems which would optimise the use of information in clinical and other health services. By April 1990, when the plan was abandoned, the RHA had spent some £43 million. But it was not simply the poor value for money on which the Committee commented:

“We note with dismay that not only did the Regional Health Authority’s management strenuously contest the auditors’ criticisms, they were also able to conceal vital information from the Members of the Authority and from the Management Executive...”

“...The evidence presented to us depicted [the Regional General Manager] as a man with strong vision, and such a determination not to be deflected off course,

that he presided over a series of actions incompatible with the proper handling of public money and without regard to clear evidence that the project was going badly wrong.”

“We note that Anderson Consulting do not believe there to have been a conflict of interest. However, it is essential for the proper conduct of business that public bodies should be free, and be seen to be free, from any relationships which could materially interfere with their ability to take open and fair decisions aimed at securing value for money in the public interest, and we endorse the Regional Health Authority’s view that it is clearly wrong for somebody who is tendering for National Health Service business also to be advising the National Health Service as their consultant.”

“We are concerned that the Regional Health Authority allowed [an individual], while on secondment from IBM, at the request of the Chairman of the Regional Health Authority to advise them on the purchase of an IBM computer for £3.3 million, at which time it could have been purchased for £0.5 million to £1 million less than the price paid.”

“We are also disturbed that the contract for the computer was signed by..., [the] Regional Treasurer, on the instructions of... [the] Regional General Manger, without reference to the Chairman or to the Authority and without competitive tendering, contrary to the Authority’s standing orders... As we have pointed out in previous reports, competition... is a key element in demonstrating that public business has been conducted properly.”

“It is also important in our view to ensure that all health service staff respect the fundamental principles of public business in this country, and are judged, in their own performance, by the standards of honesty, openness and fair dealing that are expected in public life.”

8.18 The PAC report referred to “...a series of actions incompatible with the proper handling of public money...” and, indeed, the list of concerns is a long one. Again there is the concern as regards conflict of interest, with officials in a public body acting in ways which led to private benefit, at a cost to the public purse. Again there is the emphasis on procedures such as competitive tendering as a safeguard against impropriety. There are also concerns that the proper procedures for taking decisions in the body were not followed, and that information was concealed. The quotation opening this section is from the PAC Chairman during the hearing. The case is also a good illustration of the close relationship between propriety and good governance. Indeed, the Treasury Minute in response to the PAC report featured a number of steps to improve governance in the NHS, including the work on the NHS Codes of Conduct and Accountability.

Case 7 **“THERE WERE FAILURES OF GOVERNANCE OF THE MOST SERIOUS KIND...”**

8.19 In its 19th Report, Session 1996-97 – **“Inquiry commissioned by the NHS Chief Executive into matters concerning the former Yorkshire Regional Health Authority”** – the Committee commented on what it described as “the catalogue of breaches of process, internal controls and national regulations” discovered in the inquiry commissioned by the NHS Chief Executive. There are, in all, 21 conclusions in the report. These are a selection:

“The Committee consider it unacceptable that the former Yorkshire Regional Health Authority made irregular payments of relocation expenses totaling £447,847 to its employees... We criticise the former Authority, in particular, for three payments to its senior officials under a scheme agreed in 1994...”

“We also think it unacceptable, that the former Authority made severance payments to two of its senior staff without the necessary approval, and improperly employed three senior staff on general manager contracts. We are appalled that, in one of these cases, the Director of Personnel... had in 1994 been switched from a General Manager’s to a Senior Manager’s contract, simply to enhance her redundancy terms; and that, in another case, a District General Manager had, in 1993, been paid, although he had no job to do and no requirement to attend the Office...”

“We are concerned that, in 1994, the former authority agreed to provide the Chairman of the successor Authority with a Range Rover at their expense with a loss of £10,000 to public funds when the car was subsequently withdrawn and sold, and that they also provided a second car to the Assistant Regional General Manager...”

“We consider it unacceptable that in the two years up to April 1994 a division led by the Personnel Director of the former Authority... awarded contracts valued at £43,000 to a company owned by her husband; and that [the Personnel Director] failed to declare an interest...”

“We are appalled that the former Authority spent some £695,000 on functions and dinners at hotels between April 1992 and March 1994. These included events which clearly should not have been paid from public funds, such as two “Super Sleuth” weekends at a cost of £10,000, and excessive hospitality in top quality hotels including expensive wine. We are extremely concerned that a lack of proper certification and coding procedures concealed much of what had been going on...”

“While we recognise that this was a period of unprecedented change in the NHS and managers were being encouraged to adopt a more business-like approach, we cannot accept that this entitled senior managers to anticipate changes in the rules or to put the former Authority’s and public funds at risk...”

“There were failures of governance of the most serious kind which have resulted in the loss of public funds of millions of pounds which should have been spent on treating patients.”

8.20 There is no need to add a commentary here. But one point worth noting, from the Committee’s reference to “proper certification and coding procedures”, is the contribution of basic financial procedures in meeting the requirements of propriety.

Case 8 **“WE EXPECT EACH ACCOUNTING OFFICER FULLY TO UPHOLD THE PRINCIPLES AND PRACTICES OF PROPER CONDUCT AND TO DEMONSTRATE GOOD STEWARDSHIP OF PUBLIC FUNDS.”**

8.21 This next case concerns the authorisation of travel expenses. It is described in the 25th Report, Session 1996-97, “**Plymouth Development Corporation: Regularity, Propriety and Control of Expenditure**”.

8.22 The Corporation was an Executive NDPB sponsored by the then Department of the Environment. In 1995 the Department’s Government Office for the South West raised a number of concerns about the way the Corporation was being run. These were investigated by the Department’s internal audit service, Management Audit Services. In May 1995, the Corporation’s external auditors discovered, during their audit of the 1994-95 financial statements, two invoices for travel costs that appeared irregular. Further investigation by the DoE’s Management Audit Services found other examples of personal expenses incurred by the Chief Executive on international visits and paid for by the Corporation. The Chief Executive was suspended and his designation as Accounting Officer withdrawn in June 1995; he resigned in September 1995. The auditors estimated that he had authorised the charging to the Corporation of £9,210 of his own private expenditure, which was subsequently repaid.

8.23 These are among the conclusions in the Committee’s report:

“The Committee considers that [the Chief Executive’s] conduct... **did not meet the standards expected of those entrusted with the use of public funds, notably in his handling of travel and personal expenditure...**”

“We consider it unacceptable that there were deficiencies in key financial controls at the Corporation, though these have since been remedied. **There was a lack of proper budgetary control; a lack of basic checks on invoices and supporting documentation; acceptance of inadequately specific invoices; a high level of duplicate payments; and inadequate management information for the Board...**”

“It is now three years since the Committee reported on the need to maintain the principles and standards required to ensure the proper conduct of public business. **We continue to attach the highest importance to these standards at all levels in the public services. We expect each Accounting Officer fully to uphold the principles and practices of proper conduct, and to demonstrate good stewardship of public funds.**”

8.24 Again there is a reminder here of the importance of basic financial controls. As the Accounting Officer memorandum records, the Accounting Officer must “ensure that proper financial procedures are followed and that accounting records are maintained in a form suited to the requirements of management as well as in the form prescribed for published accounts.”

Case 9 **“THE CENTRAL REASON FOR THE REMOVAL OF ACCOUNTING OFFICER STATUS WAS THAT THE CONFLICT OF INTERESTS WHICH HAD OCCURRED... WAS THEN PERSISTED IN...”**

8.25 Conflicts of interest is at the heart of this example, which is from the Committee’s 23rd Report, Session 1995-96, “**National Heritage Memorial Fund Account 1994-95: Replacement of the Accounting Officer**”. The National Heritage Memorial Fund is an Executive NDPB that gives assistance towards the cost of acquiring, maintaining and preserving items of national heritage. It is grant-aided, the sponsoring department at that time being the Department of National Heritage (DNH). In June 1995 the Department’s Accounting Officer concluded, after investigation, that the Accounting Officer of the Fund had allowed a conflict of interest to arise in breach of her basic responsibilities as an Accounting Officer. After informing the Chairman of Trustees, he therefore revoked her designation as Accounting Officer. The Trustees of the Fund then terminated her appointment as Director. One quotation from the Committee’s report is central:

“We view the responsibility of Accounting Officers for ensuring that the highest standards of propriety are maintained in the conduct of public business as being of fundamental importance. We therefore regard it as unacceptable that... the Accounting Officer of the National Heritage Memorial Fund... allowed a clear conflict of interest to arise by permitting her partner’s firm... to tender for a contract to be let by the Fund... This compromised her role as the Fund’s Accounting Officer...”

8.26 The Treasury Minute in response to the report said, amongst other things, “It is a key responsibility of Accounting Officers to safeguard the financial propriety and regularity of an organisation...”. The heading quotation is from the DNH Accounting Officer at the PAC hearing.

Case 10 **“A CLEAR FAILURE IN THE PROPER CONDUCT OF PUBLIC BUSINESS”**

8.27 Breach of standards of integrity and trust for public accountability are at the heart of this example, which is from the Committee’s 7th Report, Session 1997-98, “**Resignation of the Chief Executive of English Heritage**”. English Heritage is an Executive NDPB sponsored by the Department for Culture, Media and Sports (DCMS) and is the leading body in England for the preservation of the built environment that includes ancient monuments and historic properties. The incumbent Chief Executive and Accounting Officer of English Heritage in 1996 resigned in July of that year, and the Committee looked into the events that led to his resignation. The Committee’s main conclusions were:

“We are seriously concerned that the Chief Executive submitted inaccurate expense claims and that as a result he was overpaid... We note the view of English Heritage external auditors that these claims were mistakes and that there was no suspicion of fraud. We emphasise, however, that senior public servants should lead by example and should be particularly careful to avoid the sort of mistakes which could lead to their benefiting personally out of public funds.”

“We are also concerned that the Chief Executive negotiated with his own staff at English Heritage on the sale of his own furniture brought with him from his previous occupation. We agree with the Department that his action in relation to the purchase of furniture was a case of unacceptable conflict of interest which should properly have been avoided.”

“We consider that the Chief Executive’s deception of the Chairman of English Heritage over an advertising contract let under his instruction, contrary to a decision agreed by the Commissioners of English Heritage, breached the standards of integrity and trust essential for public accountability and amounted to a breach of his fundamental duty. We consider that, overall, the Chief Executive’s actions represented a clear failure in the proper conduct of public business.”

“We consider that this case at English Heritage raises important issues relating to internal control and corporate governance at the most senior levels within a publicly funded body. We consider it unsatisfactory that the Director of Finance recognised that things were clearly wrong but did not inform the Chairman.”

8.28 The Committee also emphasized the need for Accounting officers to have timely training and advice on what was proper, right and sensible. It noted that the Departmental Accounting Officer had met the Chief Executive and had suggested that he should attend the Civil Service College course for new Accounting Officers, and that he had received other briefings and advice. The Committee was surprised that the Chief Executive told the National Audit Office that it was not until he had attended the course, over 14 months after his appointment, that he fully appreciated the more stringent interpretation of standards of public accountability expected in the non-departmental public body environment. The Treasury now, as a matter of routine, informs the Civil Service College of all new Accounting Officer appointments that it makes.

Case 11 “IT IS A MATTER OF SHAME FOR THE DEPARTMENT THAT PREVIOUS EFFORTS TO ENSURE THE EFFECTIVENESS OF FINANCIAL CONTROLS AND CHECKING PROCEDURES SHOULD HAVE FAILED AGAIN...”

8.29 This is what the Accounting Officer for the Foreign and Commonwealth Office said to the Committee when giving evidence at a hearing on the 34th Report, Session (1997-98) “Foreign and Commonwealth Office: Irregular Payments at the British Embassy in Amman, Jordan”. The Foreign and Commonwealth Office Account for 1996-97 recorded a cash loss estimated at £109,000. This loss resulted from irregularities, allegedly committed by an accountant at the British Embassy in Amman, Jordan, involving duplicate payments of bills and the presentation of false invoices. This was the second loss at this Embassy to come to the attention of this Committee and its predecessors within twelve months. On 19 February 1997 the predecessors heard evidence of how the post's previous accountant had forged life certificates, and en-cashed £333,000 payable orders, in respect of dead pensioners of the former Overseas Development Administration (now the Department for International Development). The Committee concluded:

“This turn of events is particularly unacceptable, since the Department told the previous Committee of Public Accounts that the improvement of financial

controls and financial awareness throughout the Diplomatic Service had been made a top priority... it is clear that the Service has some way to go in achieving this important objective.”

“We regret that the full extent of these irregularities remains unknown and that it could be twice the amount established or more. Moreover, we are disturbed that the irregularities should have persisted for at least five years.”

“The Senior Management Officer should have challenged any expenditure that reflected an unreasonable level of consumption or which exceeded the relevant budgets.”

“We emphasise that it is the Department's responsibility to operate financial control systems and internal inspection systems that are sufficiently effective to detect fraud. It is fundamental to such arrangements that **any irregularities that do take place should be detected and dealt with quickly.**”

“This situation would not have come about had staff at the Embassy, the Senior Management Officer in particular, done their jobs properly. We consider it entirely unsatisfactory that, as a consequence of his compulsory early retirement, the Senior Management Officer received up to £31,600 more in lump sum payments than if he had remained in the service until normal retirement age. In view of the seriousness of the shortcomings attributable to the Senior Management Officer, we consider this outcome as totally unacceptable.”

8.30 One point worth noting here is the need for good financial control systems for meeting the need of propriety. There should be robust monitoring arrangements to ensure instructions are carried out.

Case 12 **“WE ARE DEEPLY CONCERNED AT THE EXTRAVAGANT SPENDING...”**

8.31 This case relates to irregularities at Halton Further Education College. It is described in the 36th report, Session 1998-99, “**Investigation of Alleged Irregularities at Halton College**”. Halton College based in Widnes, near Liverpool, is one of the largest of England's further education colleges. Following correspondence from a member of the public, copied to the Comptroller and Auditor General, the Funding Council investigated fourteen allegations about extravagant and irresponsible use of public funds at Halton College. Although the majority of the allegations were unsubstantiated, the Funding Council found inadequacies in the stewardship of public funds and in the governors' supervision of the College's activities. Some of the Committee's conclusions were:

“Halton College was able to claim almost £14 million more in grant from the Funding Council than was justified, despite a range of controls for ensuring the accuracy of funding claims including audit by the College's external auditors.”

“One particular area of concern was the extent and cost of travel by the Principal and Deputy Principal. Investigations had found that over a period of five years, they had spent between them nine days short of a whole year out of the College on College business and £210,000 on travel and subsistence. The Principal and Deputy Principal had accompanied each other on almost all trips abroad, so that at these times the two most senior managers had both been absent from the College. The Committee were astonished at the proposition that trips by seven

governors to Kansas and Miami were necessary to allow them to get to know staff, when this enabled them to meet only 24 of the college's staff.”

“The Principal and Deputy Principal were suspended in May 1998, but it took almost a year before any further disciplinary action was taken against them. During that time, they continued to receive full pay totaling £200,000.”

“We view with serious concern the fact that the Funding Council and the College misled the Committee by agreeing in evidence that the Board of the College had made no contribution to the Principal's and Deputy Principal's legal costs, when in fact they had agreed to pay £12,000.”

“The Funding Council accepted that the Principal had misled everybody, not just the internal and external auditors but also the Board.”

“Another area of concern was the purchase, by the Principal, of etchings at a cost of £31,000. **The Funding Council concluded that the procedures that led to it fell short of acceptable minimum standards.** The Chairman of the Board told us it had been completely and utterly a surprise to any of the Board, that etchings of this value had been bought. The Board learnt of the cost of the purchase from consultants it had appointed to help investigate the allegations. It came as a total shock, and they could not defend it in any way whatsoever. At the time purchases of this level were within the Principal's delegated spending limit without reference to the Board.”

“Internal and external audit services to Halton College were provided by the same firm. We queried the acceptability of auditors carrying out both for any one college. The Funding Council explained that from inception they had taken the view that this was an appropriate practice in accordance with Government guidance. In future, however, it would not be allowed, and the two audits would be done by separate organisations.”

8.32 The key message here is that Departments have a duty, to ensure that the organisations they fund have sufficient and appropriate management and financial controls, to safeguard public money. This entails a need for adequate monitoring procedures, including suitable arrangements for internal audit, to provide timely and regular assurances on compliance.

Case 13 “**VERY WORRYING LAPSE OF NORMAL ADMINISTRATION STANDARDS**”

8.33 Government departments have a legal responsibility to ensure that any information they provide to citizens, on their activities and services, is accurate and complete. However, for nearly 10 years from 1986, the then Department of Social Security (now Department for Work and Pensions) did not adequately publicise a very significant change to the arrangements for the inheritance of the State Earnings-Related Pension (the change was introduced in 1986, but was not due to come into force until April 2000). Nor did they ensure that staff provided the public with correct information on this change between 1986 and 1999. As a result, many thousands of people are likely to have made decisions about their future pension provision, based on an incorrect understanding about the pension that would be inherited by their spouse after their own death. The details of the case are in the 34th Report, Session 1999-2000, “**State Earnings-related Pension Scheme: The Failure to inform the Public about Reduced Pension Rights for Widows and Widowers**”.

8.34 The Committee's main conclusions were:

"The failure... was an appalling administrative blunder. It has caused confusion and distress to many thousands of people and will cost the taxpayer billions of pounds."

"The problem arose, mainly, from a lack of end-to-end responsibility within the Department for the whole process from Ministerial policy decision to official implementation, a lack of customer focus, and fundamental weaknesses in systems and processes. As a result, the systems were not robust enough to withstand the incidence of a simple error."

8.35 This example goes to the heart of public service ethos. Public servants are expected to perform their duties conscientiously and competently at all times and to have regard to public interest.

Case 14 **"THE CORRUPTION WAS MADE POSSIBLE BY WEAK INTERNAL CONTROLS..."**

8.36 In April 2000 two former employees of Focus Housing Association, and a property dealer, were sentenced at Birmingham Crown Court to prison terms ranging from 9 months to 18 months, for corruption relating to the purchase by Focus of homes from the property dealer. Between 1991 and 1995 Focus had bought at least 47 houses from the property dealer for £1.8 million, in many cases at prices above market value. Some of these homes also required substantial repair, despite having been certified as "satisfactory" prior to purchase by an architect engaged by Focus. The Focus employees received money for the favourable treatment shown to the property dealer.

8.37 The details are in the 11th Report of the Committee, Session 2000-01, "**The Housing Corporation: Overseeing Focus Housing Association**". The Committee concluded that:

"Suspected impropriety or irregularity should be investigated promptly and thoroughly to protect public funds. This corruption was discovered as a result of an investigation prompted by allegations received by Focus, but only after Focus and the Housing Corporation had between them received no fewer than six earlier indications of possible impropriety. The corruption might have been discovered earlier, and the losses arising reduced, if Focus and the Corporation had investigated allegations properly."

"The Corporation's action in delaying the National Audit Office enquiry is unacceptable. The Corporation took six months before agreeing that the National Audit Office should have access to Focus, thus impeding Parliamentary scrutiny of corruption involving public funds."

"Acknowledged weaknesses in the Housing Corporation's oversight of Focus... allowed the corruption to go undetected. Regulatory procedures failed to recognise the lax management culture and poor standards of internal control at Focus, nor did the Corporation ascertain whether corrective action had been taken by Focus to address the procedural weaknesses which regulatory supervision had identified. The Corporation took appropriate action to supervise Focus closely once the corruption was discovered, but too late, leaving Focus's tenants to bear the losses."

“The Corporation's actions fell below the standards expected of a regulator in other respects. It handled allegations of impropriety received in 1993 and 1994 in an unsystematic and informal way.”

“The Corporation should provide its staff with clear guidance on the action to be taken when allegations of impropriety are received, and ensure that all allegations are properly investigated.”

8.38 The key message here is that the corruption was made possible by weak internal controls, poor supervision by management, a general disregard in parts for proper standards of conduct and control.

Case 15 **“THE CHIEF EXECUTIVE DID NOT DISCHARGE HIS RESPONSIBILITIES AS ACCOUNTING OFFICER IN AN ADEQUATE MANNER”**

8.39 So concluded the Committee in its 57th Report, Session 2001-02, “**The Operation and Wind-up of Teesside Development Corporation**”. Teesside Development Corporation was the largest of the twelve Urban Development Corporations, set up in England between 1981 and 1993 to achieve sustainable physical, environmental and economic regeneration of urban areas experiencing long-term industrial and economic decline. It was established in September 1987, and wound up on 31 March 1998.

8.40 However, in November 2000, three Members of Parliament representing constituencies in the North East of England, and a former contractor, passed concerns to the National Audit Office about the operation and wind-up of the Corporation and possible impropriety and mismanagement of public funds. The Comptroller and Auditor General examined the issues raised, and on the basis of his Report the Committee took evidence from the former Department for Transport, Local Government and the Regions (DTLR) and the Corporation's former Chief Executive. The following main conclusions emerged:

“The Corporation did much of lasting benefit for the Teesside area, but the same benefits could still have been achieved with greater regard to the principles of the proper conduct of public business and sound corporate governance. Instead, the business approach adopted by the corporation resulted in additional cost for the taxpayer... through transactions **representing poor value for money**, and transactions outside the authority of the Corporation, leaving a substantial deficit.”

“The Chief Executive did not discharge his responsibilities as Accounting Officer in an adequate manner. Explanations for some of the more unconventional transactions entered into by the Corporation were not convincing, and there was evidence of poor risk taking, for example entering into leases for Corporation premises at above market rates, and for periods well beyond the expected life of the Corporation. The Chief Executive appeared to disregard guidance issued by the Treasury and the Department, for example granting a mortgage even though the making of loans was not allowed.”

“The Department failed to take rigorous and timely action to ensure the Corporation's regeneration activities were brought into line, despite warning signals from a number of sources including the Corporation's external auditors, and creditors of the Corporation. The Department put the emphasis on the need to maintain confidence in the Corporation, rather than on ensuring that the Corporation operated within a sound corporate governance framework.”

“Departments should take a close interest in the governance framework of their sponsored bodies, and satisfy themselves that Boards represent an effective check on Chief Executives, with an appropriate balance between executive and non-executive representatives on the Board. In establishing public bodies Departments should consider whether the financial and regulatory framework is appropriate to the bodies' aims, objectives and activities, and adapt it if necessary, but they should not allow the framework to be ignored once in place.”

“As Accounting Officer for the Corporation, **the former Chief Executive was responsible for the propriety and regularity of the public finances for which he was answerable.** His performance objectives, however, did not cover the discharge of these responsibilities.”

“The Department delegated to Corporations' Boards the authority to pay Chief Executives a bonus depending on their performance, subject to consultation on the bonus but without power to reduce the amount of an award if performance made this appropriate. Departments should retain the ability to influence the bonus paid to an Accounting Officer of a sponsored body where the Accounting Officer has not satisfactorily discharged his or her responsibilities to the Department.”

“There are important lessons to be learned from this case. Departments should review the effectiveness of their oversight of other sponsored bodies, and strengthen it where necessary. More generally, departments should target oversight on those sponsored bodies that pose the greatest risk, based on a periodic risk assessment. These assessments should reflect, for example, the nature of the body's activities; the public monies at stake; the body's corporate governance arrangements; its financial performance; internal and external auditors' reports; and the openness of communications between them.”

Case 16 “INAPPROPRIATE ADJUSTMENT TO DATA AND STATISTICS TO HIDE FACTS...”

8.41 In January 2002, the Committee took further evidence on the basis of its preceding 44th Report, to produce its 46th Report, Session 2001-02 “Inappropriate Adjustments to NHS Waiting Lists”. It looked at the extent and causes of inappropriate adjustments made by some NHS Trusts, how investigations into the adjustments were handled and what action was taken, the impact on patients and the steps being taken to prevent a recurrence.

8.42 In the light of this examination, the Committee drew four overall conclusions:

In at least 10 hospitals, managers and staff made **inappropriate adjustments** to their waiting list data and statistics to hide the fact that they were missing government targets. In some cases, the actions will have prolonged the suffering of patients during which their condition may have worsened.

The arrangements for identifying those involved and for taking disciplinary action fell well short of good practice. In some cases the inquiries were not rigorous or complete and some of those allegedly responsible were allowed or encouraged to resign during the process. Some trusts breached NHS guidelines on agreeing confidentiality deals as part of severance packages, which cost the NHS some £260,000, and in some cases they did not include clawback arrangements when those involved went on to work elsewhere in the NHS.

NHS trusts took steps to develop action plans covering the 6,000 or so patients affected... [but] still do not know the extent to which patients' health suffered as a result of delays in treatment or whether compensation will have to be paid.

It is unacceptable that NHS employers should reach confidentiality agreements that prevent full disclosure of the circumstances to another employer, particularly in the NHS. The Department should act quickly to outlaw the use of confidentiality agreements, and the Treasury should remind other public bodies that such agreements are **inconsistent with proper accountability for public money**.

8.43 This case illustrates lack of probity – an absolute standard of honesty and integrity in all dealings. In response to the Comptroller and Auditor General's Report, the Department of Health took initiatives to ensure that any inappropriate adjustments to waiting lists are identified and that effective action is taken against individuals and within organisations where similar cases occur in future. In April 2002, in 'Delivering the NHS Plan', the Government announced the creation of a new Commission for Healthcare Audit and Inspection (CHAI). The new body's role includes validating published performance assessment statistics on the NHS, including waiting list information.

Case 17 **“CIVIL OFFENCE OF THE DISHONEST ABUSE OF POWERS GIVEN TO A PUBLIC OFFICER HAS BEEN COMMITTED (THE TORT OF MISFEASANCE)”**

8.44 That is what the Judge ruled in the Harman case, where statutory procurement rules had not been followed when letting the contract for Portcullis House's fenestration (the prefabricated wall and window units), resulting in legal fees and damages payable by the House of almost £10 million. The details are in the Committee's 63rd Report, session 2001-02, **“The Construction of Portcullis House, the New Parliamentary Building”**.

8.45 A key feature of the design of Portcullis House was the fenestration which cost £37 million. European Union law, implemented in the United Kingdom by the Public Works Contracts Regulations 1991, requires contracts for public works to be placed in a manner that treats all tenderers from within the European Union fairly and equally, and which does not discriminate on grounds of nationality. In December 1993, the fenestration contract was advertised in the Official Journal. In May 1995, five companies, including Seele/Alvis and Harmon, were invited to tender; and a year later, in May 1996, the Clerk to the House of Commons, in his capacity as Corporate Officer of the House, signed a contract with Seele/Alvis.

8.46 In August 1996, Harmon issued a writ against the Corporate Officer of the House for a breach of the procurement procedures. In October 1999, judgement was given against the House. The Judge in the case found that the correct procedures had not been followed in four ways:

- The statement of the criteria on which the contract would be awarded was not adequate;
- Material changes to the original scheme had been made in post-tender negotiations with Seele/Alvis but the same opportunity was not provided to Harmon;
- The successful variant bid had been accepted although there was no entitlement to do so; and
- A policy of buying British had been encouraged or permitted to continue, materially affecting the tendering procedure.

8.47 The Judge ruled that the civil offence of the dishonest abuse of powers given to a public officer (tort of misfeasance in public office) had been committed. The Judge concluded that it had been obvious to officials when awarding the contract to the successful tenderer (Seele/Alvis) that to do so would not comply with procedures.

8.48 House officials acknowledged that serious errors had been made and that the correct procurement procedures had not been followed, due to a lack of familiarity with the regulations. The Harmon case had arisen because of a collective failure on the part of the project team. In response to the Harmon case, the House took a number of steps to improve its procurement practices including the appointment of a Director of Procurement with a central procurement advisory function, and the issue of a standard procurement manual.

Case 18 **“THIS IS ONE OF THE WORST PFI DEALS THAT WE HAVE SEEN...”**

8.49 That was the overall conclusion of the Committee in their 44th Report, Session 2002-03, “New IT systems for Magistrates' Courts: the Libra project”. IT systems in magistrates' courts have been inadequate for many years, and a common IT strategy for magistrates' courts had been called for since the 1980s. After two failed projects in the early 1990s, the then Lord Chancellor's Department (now Department for Constitutional Affairs) decided in 1996 to procure a PFI contract for a national standard IT system called Libra. The Department received only one bid, from ICL (now called Fujitsu Services), for £146 million. ICL raised its bid by 25% after being named preferred bidder, and in December 1998 the Department signed a deal with ICL for a 10 and a ½ year contract at a price of £184 million.

8.50 The contract was renegotiated twice, each time ICL asking for more money. As a result of the first re-negotiation, a revised contract for 14½ years at a price of £319 million was signed in May 2000. Within ten months ICL informed the Department it was in financial difficulties even at the price negotiated a year before. The total cost of the project is now estimated at £390 million for just 8½ years of service, rather than the original 10½ years. The Committee's main conclusions were:

“This is one of the worst PFI deals that we have seen. The Department procured a contract to provide services to 42 Magistrates' Courts Committees over which it did not have real authority or control.”

“It ran a poor competition, attracting only one bidder, and it failed to take decisive action when ICL did not deliver what was required. For its part, ICL did not understand the Department's requirements, took on excessive risk and underpriced its bid. It performed poorly throughout and could not meet the target dates for delivery of the core application.”

“As a result of these failures the cost of the project has more than doubled in just four years to almost £400 million and magistrates' courts still do not have the IT systems they need to manage their workload properly.”

“Competitive procurements of PFI projects are essential. The Department was unable to maintain competitive tension as all potential bidders bar ICL dropped out during the procurement process and the Department was left with just one bidder. A single bid for a major complex project is seldom likely to achieve value for money. That only one bid was received should have alerted the Department to the fact that its project may not have been sufficiently well designed to attract competition.”

The accuracy of evidence

8.51 The Committee also raised the issue of accuracy of evidence given by the Accounting Officer. At a hearing on 24 June 2002, on the collection of fines in the Criminal Justice System, the Accounting Officer denied that the Department was not proceeding with that part of the Libra contract which would provide the software for court business. However, the Accounting Officer told the Committee at the hearing on 10 February 2003, that the Department had decided in February 2002 that ICL should not continue with the development of the core software application. ICL told the Committee that it had learnt in March 2002 that it was no longer required to provide the core software application.

8.52 The Accounting Officer said that at the earlier hearing he had sought to protect the commercial negotiation that was still in train. At the time of the hearing the deal had not been finalised. Discussions were continuing on a number of sensitive matters, and until he was sure that the Department had a signed, settled agreement he was anxious not to jeopardize those discussions. He thought it would be unwise, from both a commercial and legal aspect, to divulge details of the proposed agreement until the contract was signed. The Accounting Officer accepted that he could have handled the situation differently by, for example, presenting the information to the Committee in confidence. He regretted giving incorrect information, and stressed that he had not deliberately sought to mislead the Committee.

8.53 Again there is the emphasis on procedures, such as competitive tendering, as a safeguard against impropriety and poor value for money. There are also concerns about concealing information. Handling of sensitive information is covered by the **Osmotherly rules**¹. In essence, if the Committee raises sensitive issues the official should inform the Committee that such matters could only be answered on a confidential basis. The Committee can then decide whether to go into a closed session or request a confidential memorandum.

¹ www.cabinetoffice.gov.uk/propriety_and_ethics/select_committees/index.asp

Case 19 “PROPER PROCEDURES ARE FOLLOWED... SO THAT DECISIONS ON THE AWARD OF CONTRACTS CAN ALWAYS BE SHOWN TO FOLLOW FROM AN OBJECTIVE EVALUATION OF TENDERS”

8.54 In April 2002, the Department of Health, with the Ministry of Defence, let a contract with PowderJect Pharmaceuticals PLC for the supply of 20 million doses of smallpox vaccine. The Department used the exemptions under European Union regulations and the Public Supply Contracts Regulations 1995 that, on grounds of national security, enabled it to adopt confidential procurement procedures for these supplies. Concerns had been raised among some suppliers, and in Parliament and the media, about the Department's handling of the procurement, and about any link between the political donations made by the then Chief Executive of PowderJect and the award of the contract. The Committee's 15th Report, Session 2003-04, “Procurement of vaccines by the Department of Health” addressed these issues. On the issue of political donation the Committee concluded:

“At around the same time the Department was letting a contract for the purchase of the smallpox vaccine, political donations were made by the successful bidder. We found no evidence that these donations had influenced the award of the contract. As in this case, however, officials dealing with contracts need to see that proper procedures are followed and that there is a clear audit trail, so that decisions on the award of contracts can always be shown to follow from an objective evaluation of tenders.”

8.55 This case raised the issue of impartiality, openness, and conduct above all suspicions. Since the time the Committee reported the Department has reinforced and rewritten the procurement procedures and informed all staff. Procurement of all goods and services are now captured through a new financial system, offering a complete audit trail. The Department also requires all major purchases to be subjected to the Office of Commerce “gateway” review procedure that offers a controlling safeguard to large, contentious and sensitive procurements.

Case 20 “WE FOUND A CATALOGUE OF ERRORS AND CONTROL FAILURES... THERE IS EVIDENCE THAT DEPARTMENTAL STAFF WERE AT TIMES COMPLICIT IN TURNING A BLIND EYE TO THE RULES”

8.56 This is from the Committee report on the evidence it took on the C&AG's Report, “The Sheep Annual Premium Scheme” (NIA 75/02, Session 2002-03).

8.57 Sheep farming is a major component of Northern Ireland's rural economy. Between 1995 and 2002, £170 million was paid under the Sheep Annual Premium Scheme in Northern Ireland. The Scheme is a European Union support mechanism for sheep producers, who receive a 'headage' payment for eligible sheep. The number of sheep for which farmers can claim is limited by sheep 'quota', and farmers are required to keep eligible animals on notified land for a period of 100 days after the claim application deadline.

8.58 Reimbursement of the Department's costs, by the EU, is conditional upon it managing the Scheme in accordance with EU regulations, and in having adequate control mechanisms in place. There is a history of defective administration. Due to control deficiencies identified in the administration of the Scheme across the United Kingdom by the European Court of Auditors, a disallowance was imposed on the UK by the European Commission between 1993 and 1997. Some £1.5 million of this was attributed to Northern Ireland. The Committee's main conclusions were:

“Overall, we found a **catalogue of errors and control failures**, all of which pointed towards a particularly slack regime. It seems to us that the Department has consistently neglected the interests of the taxpayers, over a long period of time, in favour of the interests of farmers. What is needed to successfully administer a scheme of this nature is to get the right balance between the efficient payment of income to farmers and the controls which **protect the integrity of public money**. The Department has clearly failed to do so in this case.”

“It is clear that this scheme has not received the close management and supervision that it deserves. The most damning aspect of the Department's handling is the extent to which key requirements of the scheme were repeatedly ignored, over a long period of time. Non-compliance was not confined to unscrupulous claimants – **there is evidence that Departmental staff were at times complicit in turning a blind eye to the rules**. As a result, the integrity of the scheme has been undermined. With non-compliance often leading to overpayment of premium, we can only conclude that the Department has been failing in its duty as custodian of the public purse.”

“The Department's failure to properly address the weaknesses in control, highlighted by the European Court of Auditors in 1994, was a **serious error in judgement**. Given the risk of disallowance for failing to enforce EU controls, the Department's disregard for the auditors' recommendations, especially on flock records and markings, was irresponsible. The Department has to understand that ignoring EU requirements is not an option as it creates a liability which the taxpayer may have to repay.”

“We want to emphasise that a '£' of EU subsidy is as much taxpayers' money as any other form of voted money – this Committee makes no distinction between the rigorous safeguards we expect to see operated for EU subsidies and any other form of grant payment. The Department must be in no doubt that we expect all of its schemes to be administered in line with best practice.”

“Our overall impression is that the Department has in the past been soft on fraud and this has contributed to unacceptably high levels of fraud within Northern Ireland agriculture. Indeed, having carefully examined the evidence, we are convinced that many fraudsters would have regarded an attempt to cheat the scheme as a risk worth taking, given the **slackness in control** and the Department's poor record of prosecution.”

8.59 There is here again a reminder that public servants should endeavor to fulfill their duties and obligations conscientiously without bias or mal-administration. The Accounting Officer in this instance gave assurances to the Committee that his Department now operates a policy of zero tolerance to fraud and that attempts to cheat the system are being tackled in a much more vigorous way.

9

WHAT IS PROPER CONDUCT?

9.1 These case studies should have given you a clear impression of the type of actions, or behaviour, the Committee regards as unacceptable, as outside its definition of propriety.

9.2 It is not easy to define neatly what is “proper” behaviour. But it is possible to identify its characteristics:

<ul style="list-style-type: none">• It follows the rules and seeks approval where this is required	If the proposed course of action is outside the current rules, discuss it with the relevant authority. And if approval is required for the proposed course of action – from the Treasury, or the sponsoring department or the NHS Executive – get it before you take action.
<ul style="list-style-type: none">• It puts in place and follows clear procedures	Clear procedures for decision-making - for example, when letting contracts - are a safeguard for propriety. Effective financial procedures generally are similarly a safeguard.
<ul style="list-style-type: none">• It resolves any conflict of interests	Conflicts of interests may well arise. They must be dealt with so that decisions are not taken, or appear to be taken, for the wrong reasons.
<ul style="list-style-type: none">• It does not use public money for private benefit	A basic test for whether an action does or does not meet the requirements of propriety.
<ul style="list-style-type: none">• It is even-handed	There must be no bias or partiality in decisions about the use of public funds. That is why there are the rules about competition, for example, to ensure that the choice of contractor is made on merit.
<ul style="list-style-type: none">• There are records	Recording the reasons for decisions is another important safeguard of propriety. It establishes the audit trail that supports accountability.
<ul style="list-style-type: none">• It is transparent - it can accept scrutiny	If a proposed course of action meets the requirements of propriety, then there will be no concern about external scrutiny.

Seven Tests of Propriety

9.3 Evaluating the propriety of expenditure requires a high level of judgment. Below is an expenditure evaluation framework. Expenditure should be considered proper if answer to all these questions is “yes”.

- Is the expenditure in the best interest of your organisation?
- Does the expenditure comply with approved procurement rules and policies?
- Will there be a valid business benefit to the organisation from the expenditure and not just personal benefit to an employee?
- Is the expenditure within approved budget?
- Is the expenditure necessary?
- Is the expenditure reasonable, meaning, does it fully meet the identified and agreed needs?
- Has the expenditure been properly authorised?

9.4 These characteristics and questions again show the relationship between financial propriety and good governance. They provide tests which can be applied when a course of action is being considered, to check that it meets the requirements of propriety. If any of them leave a question mark about the proposed course of action, there is then one key test to apply:

Could I satisfactorily defend this before the Public Accounts Committee?

Since accountability to Parliament is part of a wider accountability, the question might be put even more simply:

Could I satisfactorily defend this course of action in public?

9.5 To end on a practical note, if you have any doubts as to whether a proposed course of action meets the requirements of propriety, rather than “taking a chance” you should think again and seek advice from the sponsoring department, the Treasury or the NHS Executive.

10

GOOD PRACTICE IN PREVENTING FRAUD AND CORRUPTION

10.1 A number of case studies included in this handbook involved fraud or corruption. Following NAO's examination of a case of corruption in the Inland Revenue, it made a number of recommendations directed at minimising the risk of corruption, some of which have wider applications and are included here.

- **Regular rotation of key staff** working in high-risk areas to minimise the risk of inappropriate behaviour becoming the norm.
- **Clear documentation** to ensure that key events and decisions relating to transactions are properly recorded and authorised.
- **Robust quality assurance arrangements** to provide assurance that departmental instructions are adhered to.
- **Independent investigation of complaints** about members of staff to reduce the risk of inappropriate behaviour being overlooked.
- **Periodic vetting of the relatively few staff exposed to significant financial risks** to assess whether they are likely to be susceptible to corruption.
- **Periodic staff surveys** to check their awareness of guidance on the standards of conduct expected of public servants, so that further action can be taken, if necessary.

10.2 In addition, the NAO analysed a number of published guides on the prevention of fraud and corruption and identified the following seven possible early warning signs, relating to employee behaviour, which management must be alert to:

Extravagant lifestyle	This is the most common factor in the detection of corrupt employees.
Financial problems	Possibly arising from loan shark or other unusual debts, or from a drug, alcohol or gambling addiction.
Rule breaking	A person taking corrupt payments will often take action themselves (or direct others to do so), to bend, break or ignore standard operating procedures.
Social relationships	With people whom he or she has professional dealings, particularly people with whom the recipient appears to have little in common.
Acceptance of gifts	An officer who regularly accepts inappropriate gifts is often susceptible to larger payments.
Making excuses	The corrupt employee will often make excuses for deficiencies in the payer's expected performance.
Genuine need	Although greed is the motivating factor in most cases, legitimate pressures, such as family illness etc., can sometimes induce participation in illegal schemes.



POSTSCRIPT

11.1 A postscript, in the form of a final quote from the Public Accounts Committee. It is again from the 8th Report, Session 1993-94 “**The Proper Conduct of Public Business**”:

“We make one further point. Some allege that the drive for economy and efficiency must be held back to some extent because of the need to take specific care with public money. Others argue that if economy and efficiency are to be forcibly pursued then traditional standards must be relaxed. We firmly reject both these claims. The first is often urged by those who do not want to accept the challenge of securing beneficial change. And the second is often put forward by those who do not want to be bothered to observe the right standards of public stewardship. Quite apart from the important moral and other aspects involved we consider that any failure to respect and care for public money would be a most important cause of a decline in the efficiency of public business. **But there is no reason why a proper concern for the sensible conduct of public business and care for the honest handling of public money should not be combined with effective programmes for promoting economy and efficiency.**”

11.2 The Treasury Minute response agreed that:

“...effective programmes for economy and efficiency must be combined with a proper concern for the sensible conduct of public business and care for the honest handling of public money.”

12

THE PROPER CONDUCT OF PUBLIC BUSINESS: CHECKLIST

12.1 This is based on the checklist from the Public Accounts Committee’s Eighth Report, Session 1993-94 “The Proper Conduct of Public Business” published in January 1994. The report drew on a number of PAC reports over the previous three years to draw attention to what the Committee regarded as departures from the established standards of public administration. Lessons learned since then have also been added to the checklist. Hence it covers a wide range of stewardship issues, including issues of regularity and propriety and value for money.

Faliures	Checklist
On the topic of Inadequate Financial Controls	
Inadequate internal accounting systems and controls, leading to waste and a risk of fraud and theft.	Departments and public bodies should ensure that from the outset proper financial systems are in place and applied.
Failure to ensure that financial procedures and controls are adapted in line with major changes in the organisation of the business.	Procedures and controls need to be revised from time to time to ensure their continuing relevance and reliability, especially at times of major changes.
Inexperienced staff lacking in financial training and expertise, leading to failure to secure adequate controls especially at a time of change.	Care should be taken to provide staff with the financial skills required and to ensure that staff responsible for securing major changes in accounting systems are suitably experienced.
Poor monitoring of expenditure on capital projects, leading to overspends and waste.	Major capital projects require specific financial and project management skills and experience, and the projects should not be embarked upon unless such skills are available and utilised.
Paying bills and other outgoings without checking.	Bills and other outgoings should be checked and validated before payment is made. They should be supported by evidence that the goods or services have been supplied.
Failure to pursue money owed.	There should be adequate arrangements to ensure that monies owed are properly monitored and pursued.

Failures	Checklist
Failure to comply with rules	
<p>Payments of grants on the basis of insufficient evidence as to entitlement.</p>	<p>Robust procedures should be in place and applied so that entitlement is clearly established and documented.</p>
<p>Provision of redundancy benefits.</p>	<p>Public bodies should ensure that they do not exceed their delegated powers in making provision for redundancy and other benefits.</p>
<p>Ex-gratia payments made without authority on termination of employment, sometimes in circumstances where disciplinary action might have been more appropriate.</p>	<p>As well as seeking authority from sponsoring departments for any payments to staff going beyond their delegated powers, public bodies should ensure that any such exceptional payments can be fully justified in all the circumstances.</p>
<p>Provision of official cars to senior executives without requiring them to pay for private motoring.</p>	<p>Public bodies should ensure that they follow the rules laid down for the provision of official cars.</p>
<p>Failure to secure full recovery of benefits provided to senior executives to which they were not entitled.</p>	<p>Public bodies should pursue full recovery of all such benefits.</p>

Failures	Checklist
Inadequate stewardship of public money and assets	
<p>Failure by departments to establish effective monitoring of non-departmental public bodies which they fund and sponsor, leading to failure to detect waste and irregularities.</p>	<p>Departmental Accounting Officers should identify the key information they need on the way in which non-departmental public bodies conduct their business, and ensure they obtain and use such information.</p>
<p>Inadequate oversight by those in authority (failure to obtain information, infrequent meetings, decisions not properly reached and recorded).</p>	<p>Chairmen and Members (including non-executives) of public bodies should receive adequate training to enable them to discharge their responsibilities.</p>
<p>Failure to ensure that delegation of responsibility is accompanied by clear lines of control and accountability, leading to the waste of large sums of public money.</p>	<p>Chairmen and Members should ensure that chief executives and senior executives are clear what their individual responsibilities are.</p>
<p>Over-dominant chief executives and senior executives.</p>	<p>Chairmen and Members need to ensure that chief executives and senior executives are regularly and effectively accountable to them.</p>
<p>Failure to hold individuals personally accountable for their actions.</p>	<p>Those who have delegated their responsibilities need to ensure that individual responsibility for management decisions can be established, and that such responsibility is made properly accountable so far as the individual is concerned.</p>
<p>Failure to take prompt corrective action when things begin to go wrong.</p>	<p>Robust reporting arrangements from all levels of delegated responsibility need to be secured.</p>
<p>Failure to conduct regular reviews of the necessity and functionality of particular expenditure programmes, and to draw appropriate conclusions from their failure to date.</p>	<p>Public bodies should conduct regular internal examinations of the programmes on which they are spending public money, and should, where appropriate, draw into such examinations the employees or contractors who are engaged on the programmes concerned.</p>

Faliures	Checklist
Inadequate stewardship of public money and assets - continued	
Lack of evenhandedness when taking disciplinary action against individuals.	The case for dismissal or other disciplinary action needs to be fully considered in a fair and objective way, irrespective of the seniority of the individual concerned.
Concealing information.	Fear of embarrassment is no justification for withholding information the release of which would be in the public interest.

Faliures	Checklist
Failure to provide Value for Money	
<p>Inadequate management of major building projects, contributing to overspends and failure to identify and address problems as they arise.</p>	<p>Project management needs should be carefully assessed and met throughout the lifetime of the project.</p>
<p>Embarking on ambitious computer projects on the basis of inadequate appraisal, and failing to ensure that the system delivers what is required.</p>	<p>Rigorous financial and risk appraisal should be carried out before computer projects are approved, and care taken to ensure that users are fully consulted and the system thoroughly tested at each stage.</p>
<p>Inadequate re-appraisal of computer etc projects in response to changing circumstances and requirements.</p>	<p>Project managers should carry out careful re-appraisals of the continuing validity of the project when change occurs.</p>
<p>Generally accepted principles of full and open competition not always observed when privatising or contracting out the provision of goods and services.</p>	<p>Full and open competition should be applied in all save the most exceptional circumstances (e.g. where no alternative supplier is available) in order to secure the best the market can provide at the most competitive price.</p>
<p>Failure to secure arms' length relationships with private sector consultants, leading to conflicts of interest in decisions to spend public money.</p>	<p>Care should be taken to avoid actual, potential, perceived or perceivable conflicts of interest when employing consultants and staff.</p>
<p>Failure to recognize situations that gave rise to refinancing gains in PFI contracts.</p>	<p>Given the complexities and specialist nature of refinancings, departments should seek advice on refinancing matters from suitably experienced advisors including OGC and obtain sufficient information from contractors about their financing.</p>

A

RELATED READING

A.1 This is simply a list of some related documents and websites, some of which have been mentioned in the handbook:

“THE RESPONSIBILITIES OF AN ACCOUNTING OFFICER”

www.government-accounting.gov.uk/current/content/ga_04_4.htm

“THE RESPONSIBILITIES OF A NDPB ACCOUNTING OFFICER”

www.government-accounting.gov.uk/current/content/ga_08_8.htm

THE CIVIL SERVICE CODE

www.cabinetoffice.gov.uk/propriety_and_ethics/civil_service/civil_service_code.asp

MODEL CODE FOR STAFF IN EXECUTIVE NON-DEPARTMENTAL PUBLIC BODIES (NDPBS)

Annex A to part G of ‘NDPB’s: A Guide for Departments’, which can be downloaded from:

www.civilservice.gov.uk/improving_services/agencies_and_public_bodies/guidance_for_departments/non_departmental_public_body_guidance/index.asp

“CODE OF CONDUCT FOR NHS PRIMARY CARE TRUST (PCT) BOARDS”

On page 30 of the Primary Care Trusts (PCTs) Corporate Governance Framework, which can be downloaded from:

www.dh.gov.uk/PolicyAndGuidance/OrganisationPolicy/PrimaryCare/PrimaryCareTrusts/PrimaryCareTrustsArticle/fs/en?CONTENT_ID=4000579&chk=NAzQg6

FIRST REPORT OF THE COMMITTEE ON STANDARDS IN PUBLIC LIFE

www.archive.official-documents.co.uk/document/parlment/nolan/nolan.htm

SECOND REPORT OF THE COMMITTEE ON STANDARDS IN PUBLIC LIFE

www.archive.official-documents.co.uk/document/parlment/nolan2/nolan2.htm

MANAGING THE RISK OF FRAUD: A GUIDE FOR MANAGERS

www.hm-treasury.gov.uk/Documents/Public_Spending_and_Services/Audit_and_Accounting/ps_aud_risk.cfm

GOOD PRACTICE IN TACKLING EXTERNAL FRAUD

Produced jointly by the Treasury and the NAO. A .pdf version will download directly to your computer from www.nao.org.uk/guidance/Tackling_External_Fraud.pdf

OTHER NATIONAL AUDIT OFFICE GOOD PRACTICE GUIDES

www.nao.org.uk/guidance/index.htm

OFFICE OF GOVERNMENT COMMERCE (OGC) BEST PRACTICE GUIDES

www.ogc.gov.uk/sdtoolkit

THE “GREEN BOOK” – APPRAISAL AND EVALUATION IN CENTRAL GOVERNMENT

www.hm-treasury.gov.uk/economic_data_and_tools/greenbook/data_greenbook_index.cfm

CENTRE FOR MANAGEMENT AND POLICY STUDIES (CMPS)

www.cmps.gov.uk