



Northern Ireland Audit Office

Good Governance - Effective Relationships between Departments and their Arm's Length Bodies

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL

HC 469, Session 2006-07, 4 May 2007





Northern Ireland Audit Office

Report by the Comptroller and Auditor General

Ordered by the House of Commons

to be printed 3 May 2007

Good Governance - Effective Relationships between Departments and their Arm's Length Bodies

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This report has been prepared under Article 8 of the Audit (Northern Ireland) Order 1987 for presentation to the House of Commons in accordance with Article 11 of that Order.

J M Dowdall CB

Northern Ireland Audit Office

Comptroller and Auditor General

4 May 2007

The Comptroller and Auditor General is the head of the Northern Ireland Audit Office employing some 145 staff. He, and the Northern Ireland Audit Office are totally independent of Government. He certifies the accounts of all Government Departments and a wide range of other public sector bodies; and he has statutory authority to report to Parliament on the economy, efficiency and effectiveness with which departments and other bodies have used their resources.

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Executive Summary

On Building Sponsorship Structures

Departments are responsible for establishing and documenting governance arrangements with their ALBs. Departments should ensure there are robust governance arrangements with each ALB Board. There should be a written agreement setting out a clear definition of the relationship and this should be reviewed and updated periodically. The department should report annually on the overall arrangements it has in place for promoting sound working relationships with its ALBs.

Structures within departments for dealing with sponsored bodies should be clearly defined and provide clear channels of management, accountability and communication. Departments should have in place a coherent structure for sponsor functions such as finance, policy and operations. This structure should promote effective mechanisms both for internal communications between various parts of the sponsor department and for external communication with their ALBs

A coherent and strategic management approach by departments can promote consistency of business objectives and efficient management of sponsorship. There is scope for departments to adopt a more corporate approach and treat all their ALBs as a coherent group. This can help to place the departments' key objectives at the heart of the corporate relationship and constructively promote the group identity. It also helps departments spread good practice across their network of ALBs.

Departments should work co-operatively with ALBs in setting objectives, agreeing targets and in other strategic management decisions. ALBs have been established in order to contribute to some of the objectives of the sponsor department. The corporate and business planning process should recognise this and common/shared objectives should be accurately reflected in departments' and ALBs' corporate plans.

Departments must exercise an appropriate and effective level of oversight, ensuring that their ALBs have in place necessary financial and other management controls and procedures. Departments cannot afford to have an "insufficiently hands-on and insufficiently interrogative" relationship with their ALBs. They need to engage with ALB Boards and Chief Executives to assure themselves that the requisite management systems are in place. Staff, both in departments and ALBs,

may benefit from specific training on the roles and responsibilities of the sponsor function.

Chairpersons and Chief Executives of ALBs should have rights of access to departmental senior management and to Ministers as appropriate. Senior departmental sponsors should engage fully with ALBs through direct communication with Chief Executives. The frequency of meetings and seniority of departmental sponsor should reflect the extent to which the ALB materially impacts upon departmental deliveries and risk. The interests of the ALB should be represented at a sufficiently senior level in the department.

On Managing Sponsorship Risks

Departments should consider a strategic approach to risk assessment. HM Treasury guidance indicates that effective risk management needs to give full consideration to the context in which the department functions and to the risk priorities of partner organisations. Departments should develop a strategic view of risk and a co-ordinated approach to risk management.

Structured processes should be in place for the identification and management of risks associated with departmental sponsorship responsibilities. Departments and ALBs should have in place comprehensive and effective policies and processes for identifying and managing risks. These should ensure that significant risks are identified, recorded, assessed, prioritised and managed. Consideration should be given to incorporating ALBs' risks in departmental risk registers.

Risk management processes should be regularly reviewed and where specific risks are identified departments should put in place appropriate controls. There are inherent risks in the sponsorship relationship and departments need to be aware of their exposure to risk where sponsored bodies fail to manage delegated risks. Departments should regularly review their processes for gaining assurance on sponsored bodies' management of risks to ensure that appropriate and effective controls are in place.

Internal Audit can provide assurance on risk management. Internal Audit can provide an important independent and objective assurance on the adequacy of risk management, control and governance. HM Treasury guidance on risk management indicates that Internal Audit may help develop a strategic risk management process for the department. However, the role of Internal Audit does not replace management ownership of risks or responsibility for risk management.

Departments and sponsored bodies should identify and evaluate shared risks and how these should be managed, and define their risk appetite. HM Treasury guidance on risk management indicates that regular and open discussion of risk issues between sponsor and sponsored organisations is critical to the overall effective delivery of public services. It is important that sponsor departments and their ALBs work together to identify shared risks and develop appropriate efficient risk management approaches.

Departmental Statements of Internal Control should report significant matters relating to the management of sponsored bodies. In broad terms departments' Statements of Internal Control should refer to their risk management of ALBs and any significant matters within the ALBs' Statements of Internal Control should be highlighted in departments' Statements of Internal Control. It is for the Accounting Officer to obtain an appropriate level of direct assurance on the corporate governance of sponsored ALBs.

On Safeguarding Accountability

Effective liaison, reporting and monitoring arrangements need to be in place. HMT guidance on Corporate Governance of ALBs indicates that "the department should satisfy itself that it is supplied in a timely manner with information in a form and quality appropriate to enable it to discharge its duties in respect of all activities, including ALBs". Effective liaison, monitoring and reporting arrangements are essential to promote accountability for delivering wider departmental objectives.

ALB Boards, particularly non-executive members, have a crucial role in accountability. Each ALB Board should have robust governance arrangements. All Board members should receive effective guidance, education and training to provide a clear understanding of their roles and responsibilities. Boards should include non-executive members who should be apprised, in particular, of their need to provide a constructive challenge function.

Both departmental and ALB Audit Committees should be an integral part of accountability arrangements. The work of ALB Audit Committees is linked to departmental accountability through the responsibility of these committees to provide an independent challenge to the executive and oversee risk and financial management, probity and good governance in the ALB. Ideally, ALB and departmental Audit Committees should liaise with each other to enhance their understanding of respective governance issues.

The Internal Audit function can be used to greater effect in ensuring high standards of accountability. Risks can be delegated but the sponsor department retains overall accountability and should therefore obtain assurance on the sponsor group as a whole. This may involve the department providing its own internal audit team directly to engage with and review ALBs or liaising with ALB internal audit teams.

Background



There have been a number of recent reports providing advice and guidance on corporate governance

1 In recent years there has been an increasing emphasis on corporate governance in the public sector and how it might be improved. Alongside developments in corporate governance in the private sector, there has been a growing focus on strengthening governance in the public sector as a means of improving the capability of public bodies to deliver high quality public services.

2 In order to assist departments in addressing this issue HMT has produced guidance for central government departments in the form of a Code of Good Practice. This Code was circulated to Accounting Officers in Northern Ireland by the Department of Finance and Personnel (DFP)¹. In addition, the Independent Commission on Good Governance in Public Services has published *The Good Governance Standard for Public Services*.

3 DFP has issued guidance on how government departments and non-departmental public bodies (NDPBs) could report on their corporate governance with effect from 2006-07. The DFP guidance notes that a new area of reporting for central government departments is how they manage the relationships with the arm's length bodies (ALBs) with which they operate, including NDPBs, public corporations and wholly or largely owned companies.

4 In addition, in November 2004 the National Audit Office (NAO) produced a report on *Corporate Governance of Sponsored Bodies*² based on a review of the arrangements in a selection of departments and ALBs. The report looked at how effective corporate governance arrangements can be achieved in the public sector, the issues that arise from sponsorship arrangements and how these can be managed. It also looked at aspects of the private sector approach to corporate responsibility and their relevance for the public sector.

Now is an appropriate time to assess how corporate governance is operating between sponsor departments and their ALBs in NI and identify any lessons which may be taken from this.

5 The need to promote and encourage good corporate governance within departments and ALBs in NI has been underscored by several high profile cases of weaknesses which became the subjects of recent NIAO and PAC reports. These include reports related to the Northern Ireland Tourist Board, Education and Library Boards and LEDU. While much will have been learned from these cases and taken into account by departments in their governance arrangements, now is an opportune time, alongside the work undertaken by the NAO and the general interest in governance issues, to review how the arrangements for corporate governance are working between departments and ALBs in Northern Ireland.

6 Our review is based on a selection of five departments and ten of their ALBs. Several of the bodies included in the review will be affected by changes in their status and composition resulting from the recommendations of the Review of Public Administration in Northern Ireland and will disappear in their present form. However, we consider that there remain broader lessons to be drawn from Governance arrangements between departments and these ALBs which can usefully be applied to future ALB relationships.

The characteristics of sponsor departments and ALBs differ widely and will influence how corporate governance is approached

7 The departments and ALBs we selected for review vary widely from large departments (such as DHSSPS) to small departments (such as DCAL). In some departments the ALB covered by our review constitutes the main functional responsibility of the department (such as DETI/Invest NI) and in others it forms a small fraction of the whole (for example in DHSSPS). A list of the departments and ALBs included in our review is contained in Figure 1.

1. Under cover of DAO (DFP) 18/05

2. Corporate Governance of Sponsored Bodies, NAO, November 2004

8 The bodies reviewed vary in how they have been constituted and titled and include Commissions, Councils, Executives, Corporations, Agencies and a Company Limited by Guarantee. For ease of reference where the term 'Board' is used in this report it includes the members of each of these entities acting as the governing authority and in the case of the Children's Commissioner it applies to the Commissioner.

9 The NAO report (see paragraph 4) identified three main aspects of corporate governance and our report follows the same structure:

- Part 1 - examines structural relationships
- Part 2 - considers issues pertaining to the management of sponsorship risks
- Part 3 - reviews a number of factors impacting upon accountability.

Figure 1 Departments and Arm's Length Bodies Included in the Review

Department	Arm's Length Bodies
Office of the First and Deputy First Minister (OFMDFM)	Equality Commission Northern Ireland The Commissioner for Children and Young People
Department of Health, Social Services and Personal Services (DHSSPS)	Northern Ireland Social Care Council Mental Health Commission
Department for Social Development (DSD)	Laganside Corporation Northern Ireland Housing Executive
Department for Employment and Learning (DEL)	Labour Relations Agency Ulster Supported Employment Ltd.
Department of Culture, Arts and Leisure (DCAL)	Sports Council for Northern Ireland
Department of Enterprise, Trade and Investment (DETI)	Invest Northern Ireland



Part 1: Building Sponsorship Structures



Departments are responsible for establishing and documenting governance arrangements with their ALBs

Departments should ensure there are robust governance arrangements with each ALB Board. There should be a written agreement setting out a clear definition of the relationship and this should be reviewed and updated periodically. The department should report annually on the overall arrangements it has in place for promoting sound working relationships with its ALBs.

1.1 Recent Treasury Guidance on Corporate Governance³ indicates that *"where part of the business of the department is conducted with and through arms length bodies (ALBs), the department's board should ensure that there are robust governance arrangements with each ALB board, setting out the terms of their relationship, in order to promote high performance and safeguard propriety and regularity"*.

1.2 Departments and ALBs told us that Management Statements and Financial Memoranda provide the main basis for an understanding of respective roles, responsibilities and relationships. These documents provide an essential framework for management of the ALB and for the operation of the sponsorship function by the department. In addition to roles and responsibilities they include requirements in relation to objectives, planning, reporting, funding and financial management. Normally, ALBs are subject to 5-yearly reviews, thus providing an opportunity to re-visit the content of framework documents and amend them, as appropriate, in the light of experiences and changed circumstances.

1.3 Management Statements exist for all of the ALBs we reviewed. Each ALB indicated that its role and responsibility is satisfactorily defined in these documents and that they place considerable reliance on them as the embodiment of the constitutional and regulatory basis for managing the business interface within the department.

1.4 The Department of Finance and Personnel has drawn up a template which is now used as a framework for drafting Management Statements for new bodies, or to revise existing documents when 5-year reviews take place. This has introduced consistency in relation to the key components of the documents and enabled provisions to be added to take account of developments in governance requirements.

Case Illustration 1 - Developing a New Management Statement

A new Management Statement between DEL and the Labour Relations Agency, using this template, is in the final stage of agreement. It describes the legislative basis for the Agency and sets out its functions, duties and powers. The Management Statement also includes sections dealing with aims and objectives, responsibility and accountability, planning, budgeting and control, external accountability and staff management.

1.5 We welcome the development of a template of this nature. Although the scale, functions and responsibilities of ALBs vary considerably, and therefore it is not feasible to adopt a 'one size fits all' policy, it is nevertheless useful that certain key components of a relationship are considered on a consistent basis and clearly documented.

Structures within departments for dealing with sponsored bodies should be clearly defined and provide clear channels of management, accountability and communication.

Departments should have in place a coherent structure for sponsor functions such as finance, policy and operations. This structure should promote effective mechanisms both for internal communications between various parts of the sponsor department and for external communication with their ALBs

3. Corporate governance in central government departments: Code of good practice, HM Treasury, July 2005.

1.6 It is important to an effective working relationship with departments that there is clarity about channels of communication; particularly at operational levels. This is normally straightforward in relation to the medium size and smaller bodies where the interface is through a single branch or division. In the case of larger ALBs there may be a number of interfaces dealing with specific areas of interest, for example policy, finance or corporate and business plans.

1.7 We found that sponsorship arrangements varied widely in the departments we examined, in terms of the division of work between finance, sponsor units and other central units. For example:

- in several departments, finance divisions are clearly integrated into aspects of the sponsorship arrangements, including in one case in relation to assessing the casework appraisal process of its ALBs. In other departments finance branches are consulted on an ad hoc basis, or are rarely consulted. In the case of one ALB a large part of the contact with the department took place direct with the finance branch;
- in some departments corporate services divisions are consulted on matters such as ALBs' corporate plans and, in a few, advice is sought from the accountability section of a department; and
- Internal Audit is closely integrated into the sponsorship process in some departments, but its involvement in others is less systematic.

1.8 Each department had clearly designated the primary sponsorship role to a branch or division which will have the main responsibility for day to day contact with an ALB and no problems were identified as to whom is the appropriate contact in different areas or levels of management in a department. However we found no clear picture of how sponsorship arrangements work across departments in the sense of a documented plan which sets out the various areas and which identifies the post holders involved.

1.9 Although designation of a sponsor responsibility is the starting point, we consider, especially in the case of large and complex ALBs whose functions constitute a significant part of the department's interests, that a framework of contact is needed to fulfil the sponsorship role.

1.10 The picture which emerges is of some good examples of well established working arrangements relating to the sponsorship function of departments and a general awareness of issues meriting wider involvement than the sponsor unit.

Case Illustration 2 - Developing Channels of Communication

In the case of DCAL and the Sports Council, meetings take place quarterly involving representation at Principal Officer and Assistant Secretary level in the sponsor division and representatives from the Finance Branch and Governance and Accountability section. These meetings work to a fixed agenda and are characterised as 'governance and accountability' meetings. The fixed items in the agenda include financial issues, risk review, performance against target, personnel issues and any matters arising from ALB Board papers copied to the department. The minutes of these meetings are copied to the Department's Permanent Secretary.

1.11 It is important that formal consideration is given to what areas of the department, other than those bearing the main sponsor role, have an interest in each ALB, how this interest should be served and how reporting will take place internally and by the sponsored body. The degree to which these matters are clear and understood influences the effectiveness and coherence of departments' governance arrangements.

A coherent and strategic management approach by departments can promote consistency of business objectives and efficient management of sponsorship

There is scope for departments to adopt a more corporate approach and treat all their ALBs as a coherent group. This can help to place the department's key objectives at the heart of the corporate relationship and constructively promote the group identity. It also helps departments spread good practice across its network of ALBs.

1.12 The number of ALBs for which each department in our study is responsible varies from two to more than a dozen. For each ALB we noted that there is a designated sponsor unit and concomitant requirement for reporting, agreement of plans, monitoring and risk management.

1.13 We found that, where departments have more than one ALB, there are aspects of their approach to sponsorship which they apply to all bodies. This varies from decisions about risk assessment and representation at ALB Audit Committee meetings, to decisions requiring that the departments' Internal Audit units should provide internal audit services for their ALBs, and the adoption of a common template for reporting.

Case Illustration 3 - A Corporate Approach to ALB Relationships

DETI has determined that there should be a common approach to a number of aspects of its ALB management. The areas to which this approach applies includes representation by the Department at ALB Audit Committee meetings, agreement by the Department of ALB audit programmes, an annual risk assessment across all ALBs and biannual meetings with the heads of ALB Finance Branches to address specific issues.

1.14 In no case, however, is a holistic approach taken which looks at ALBs strategically, from the perspective of financial control, risk management, performance achievement, or the identification of good practice which could be relevant to the group as a whole. Within the current arrangements in departments strategic connections of this kind depend on the administrative practice within the department, personal relationships and good communication channels.

1.15 In our view, departments with several ALBs should consider whether there are potential benefits to be had from a concerted approach to aspects of their sponsor management of the group as a whole. For example, a more formal policy may mitigate the risks of administrative or communication failure and encourage the development of a coherent and consistent approach towards management of the sponsorship function across the department.

Departments should work co-operatively with ALBs in setting objectives, agreeing targets and in other strategic management decisions

ALBs have been established in order to contribute to some of the objectives of the sponsor department. The corporate and business planning process should recognise this and common/shared objectives should be accurately reflected in departments' and ALBs' corporate plans.

1.16 ALBs are established to carry forward some objectives of the sponsor department. Flowing from this is an expectation that there will be a demonstrable connection between the objectives attributed to the ALB in its framework documents and those stated in ALB corporate and business plans.

1.17 We found that the requirement that corporate and business plans are prepared by ALBs and submitted for approval is included in Management Statements. The precise responsibility for approval varies. In the case of some bodies the consenting authority is the department while in others the Minister's approval is also required. In at least one case DFP is also a participant in the approval process.

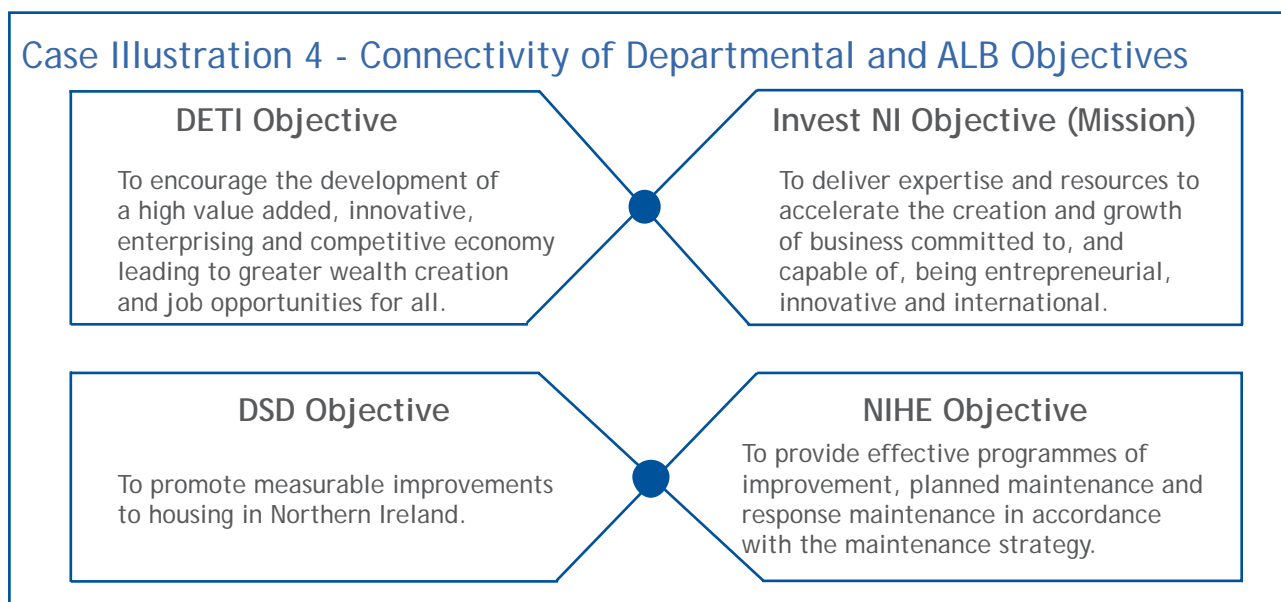
1.18 It is normal practice for ALBs to include proposals in their draft plans relating to strategic objectives and performance targets. Formally these are matters for departments and Ministers to decide and it is, therefore, these aspects of plans which receive closest departmental scrutiny.

1.19 For the most part, and particularly in relation to the larger or commercially-oriented bodies, careful scrutiny is applied to objectives and targets before they are agreed. Ministers take particular interest in the corporate and business plans of certain departments and ALBs. In these instances they play a decisive part in the shaping and nature of targets and objectives. They also participate in the monitoring process.

1.20 The reallocation of the functions of the former NI departments prior to the setting up of the Assembly, means that in some cases the connection between departmental and ALB functions is not as clearly established as previously. However it is clear, generally, that departments and ALBs give specific attention to ensuring that the objectives

included in corporate and business plans are consistent with those of the department. The degree to which the connection is explicit varies, but for a few ALBs there is little distinction between departmental and ALB objectives. An example of such a connection can be seen in the case of, respectively, DSD and NIHE and DETI and Invest NI, where the departments' PSA targets are reflected in the Corporate and Business Plans of their ALBs.

Case Illustration 4 - Connectivity of Departmental and ALB Objectives



Departments must exercise an appropriate and effective level of oversight, ensuring that their ALBs have in place necessary financial and other management controls and procedures

Departments cannot afford to have an *“insufficiently hands-on and insufficiently interrogative”*⁴ relationship with their ALBs. They need to engage with ALB Boards and Chief Executives to assure themselves that the requisite management systems are in place. Staff, both in departments and ALBs, may benefit from specific training on the roles and responsibilities of the sponsor function.

1.21 A concern for departments is to ensure that they have sound internal structures and arrangements for discharging their sponsorship role. However they also need to be satisfied that the corresponding ALB arrangements are efficient and effective. In order to be satisfied about this, Accounting Officers have the authority to commission reviews of the systems in their ALBs and their capability to meet the operational and accountability requirements of the department.

1.22 Though there is no instance of a department having commissioned a comprehensive review of systems, practices and risk management in an ALB, there are examples of where particular aspects of administration are examined. The review by DSD’s Internal Audit of NIHE’s Internal Audit is a case in point, where the purpose was to obtain assurance that the service meets the standard set out in Government Internal Audit Standards. Similarly, a review was undertaken of the relationship between sponsor units in the department and ALBs.

4. Committee of Public Accounts, Forty-sixth Report of Session 2005-06, Governance Issues in the Department of Enterprise, Trade and Investment’s former Local Enterprise Development Unit.

1.23 Reviews commissioned by departments are not however the sole means of gaining assurance about the operation of ALBs. About half of the sponsor departments covered in the review attend the Audit Committee meetings of their ALBs. This is an opportunity for departments to familiarise themselves with the operation of the ALB, including its systems, practices and risk management arrangements. Any matters of concern which bear on these areas can be raised at these meetings and addressed. In addition, in some cases departments are clearly involved in the annual formulation of ALB internal audit programmes. These programmes will include, over time, studies which relate directly or indirectly to systems and accountability. In the Sports Council the Chief Executive and Directors also undertook a specific review of the systems, structures and organisation of the Council.

1.24 It is important to effective sponsor management overall that ALBs have internal management and governance arrangements which support the operation of the business and enable it to meet its sponsorship obligations. ALB Boards have responsibilities to ensure that the body is managed to meet its functional responsibilities having regard to the requirements of public sector standards and probity. The Chief Executive, where designated as Accounting Officer, is held to account for any shortfall in performance, financial management or corporate governance standards. The Chief Executive is, therefore, the person with the key role in putting in place effective systems and procedures for good governance and satisfying the Board and the department on these matters.

1.25 The structures in ALBs largely mirror those in departments. There is no direct equivalent to a sponsor branch but the lines of responsibility and linkage with departments are well established. The Chief Executive is the main link with the department but there are also established relationships in most cases involving the finance unit and at less senior levels. Internal audit arrangements are also in place and provided by the department, externally, or by the ALB's own internal audit service. Audit Committees have been established and systems are developed to meet the reporting requirements of the Board and the department.

Case Illustration 5 - ALB Control Arrangements

The Sports Council Board meets six times per annum and the Chief Executive holds monthly senior management meetings. There are various sub-committees which report to the Board, including a Staffing Committee, a Lottery Committee, a Sports Development Committee and the Audit Committee. Each Audit Committee report to the Board is accompanied by an assurance rating ranging from 'full assurance' to 'no assurance'. Reports to which such ratings attach range from banking and cash to the grant process, adherence to internal systems, IT, fraud and whistleblowing.

1.26 A number of ALBs have developed a substantial body of policy and operational guidance in relation to the management and governance of the body including in relation to codes of practice, financial management and risk management.

1.27 The obligations and processes associated with sponsor management by departments vary considerably in their weight, complexity and spread of responsibility within departments. The duties involved are assumed, often alongside a range of other responsibilities, without specific induction or training. No major deficiencies are apparent from this approach, which relies on experience and good administrative practice. However, the increase in prominence of this area of administration and in the range of contributors within departments, suggests that some form of training could be beneficial for all those with a role in the sponsorship function. Such training would help to maintain a focus on the key elements of sponsor management and internal co-ordination of this responsibility. If undertaken centrally, it would promote consistency of approach across departments and the opportunity to convey contemporary thinking in relation to governance.

Chairpersons and Chief Executives of ALBs should have rights of access to departmental senior management and to Ministers as appropriate

Senior departmental sponsors should engage fully with ALBs through direct communication with Chief Executives. The frequency of meetings and seniority of departmental sponsor should reflect the extent to which the ALB materially impacts upon departmental deliveries and risk. The interests of the ALB should be represented at a sufficiently senior level in the department.

1.28 Generally we found a high level of attention within departments to their sponsorship role, extending in most cases to involvement at Departmental Board level, by Permanent Secretaries and in some cases involving Ministers. The degree of interest and involvement varies from department to department and is affected by factors such as the size of the ALB, or ALB group, within a department.

1.29 There is also regular contact in some cases between the ALBs and departments at more junior levels on financial or administrative matters.

1.30 The main meetings tend to take place quarterly and address finance, performance and risk issues along with any other matters of substance. They are normally chaired at Management Board level and may also involve Permanent Secretaries and Ministers. In the case of smaller bodies, this level of involvement may be reserved for annual and bi-annual performance reviews of the business plan.

1.31 DFP guidance cautions against departmental membership of an ALB Board and regular or routine attendance by departmental representatives at ALB Board meetings. However, we noted two cases where a department was represented in an observer or advisory capacity at ALB Board meetings. The decision against representation is usually a matter of policy in order to avoid potential conflicts of interest and compromise of the department's accountability responsibility. There are, however, a few examples of the Chief Executives of ALBs attending meetings of a Departmental Board. The most common examples of departments' involvement in the management structures of ALBs is in relation to attendance at their Audit Committee meetings on an ex-officio basis. This happens in half of the bodies reviewed and the department representative is usually from Internal Audit or the Finance Division.

1.32 We recognise the difficulties which can arise from standing departmental representation at the board meetings of ALBs. On the other hand, attendance by ALB representatives at Departmental Management Board and Audit Committee meetings does not have the same negative implications and are seen as beneficial by those departments where it takes place. Such access is a matter of departmental judgement. However, we see merit in ALBs having exposure to departmental thinking and strategy through attendance at such meetings. Whether this takes place on a regular basis, periodically or through special meetings involving all of the departments' ALBs is for departments to decide. Such an approach can help to cement understanding and communication between the departments and the ALB and strengthen accountability. Correspondingly, where it does not presently happen, ALBs may wish to invite the attendance of departmental representatives to their Audit Committee meetings. A further positive step would be the occasional attendance by Chairpersons of ALB Audit Committees at the corresponding Departmental Audit Committees.

1.33 Communication between Chairpersons and Chief Executives, and senior officials and Ministers is a particular aspect which can contribute to accountability by enabling performance and governance issues to be discussed openly at the most senior level. There are no commonly observed principles governing this, but the indications are that Chairpersons and Chief Executives do feel free to speak to the department up to the highest level on any matters, including governance, about which they have concerns.

1.34 In the case of a few ALBs the Chief Executive is a member of the Departmental Board and will be aware of the strategic and policy thinking of the department, including in relation to its ALB responsibilities. In the case of a few other ALBs their Chief Executives and Chairpersons receive invitations to attend departmental conferences and seminars arranged to address strategic issues. Such invitations are welcomed and highly valued. Presence at these events is seen to offer the opportunity for ALBs to be aware of developments in strategy and the direction of departmental thinking and culture over a range of policy and operational issues. In particular it is helpful for ALBs to have a view of the strategic goals of the department when framing objectives and targets for their own corporate and business plans.

1.35 There are clear indications that those bodies which have least engagement with Ministers and Permanent Secretaries would welcome a regular opportunity for such contact. This could provide

a useful addition to purposeful communication on each side and recognition of the accountability relationship between the department and the ALB.

Part 2: Managing Sponsorship Risks



Departments should consider a strategic approach to risk assessment

HM Treasury guidance on risk management indicates that effective risk management needs to give full consideration to the context in which the department functions and to the risk priorities of partner organisations. Departments should develop a strategic view of risk and a co-ordinated approach to risk management.

2.1 In the context of NI departments the importance of departments taking a strategic view of risk across a sponsor group and of joined up risk management is most relevant to those with a sizeable group of sponsored bodies, or a few but substantial bodies. The purpose of such an approach is to ensure that a rounded view can be taken of the relative and aggregate risks across a group. Viewed separately, there is a possibility that no significant or unmanageable risk exists but the aggregation of a number of small risks in bodies could have an affect on the overall assessment.

Case Illustration 6 - Risk Management System

DSD adopts a corporate approach to risk assessment and management. This involves the determination in advance of an approach to the development of risk registers for each of the four business areas in the department and a risk policy for each area. This approach is reviewed annually. During the year the Departmental Management Board considers quarterly reports from its arms length bodies, including a 'change report' detailing where significant risks or their prioritisation have changed.

2.2 Nevertheless, with the exception of two departments there is no specific evidence that a co-ordinated risk assessment is undertaken across all the ALBs for which a department is responsible. Without formal systems to address strategic or aggregate risks the chance of such risks being picked up relies on internal management and monitoring systems and communication. A co-ordinated assessment of risk across the department, including ALBs, and a co-ordinated approach to managing risks will be critical factors for effective management of sponsorship risks.

Structured processes should be in place for the identification and management of risks associated with departmental sponsorship responsibilities

Departments and ALBs should have in place comprehensive and effective policies and processes for identifying and managing risks. These should ensure that significant risks are identified, recorded, assessed, prioritised and managed. Consideration should be given to incorporating ALBs' risks in departmental risk registers.

2.3 Overall, there is evidence of considerable attention being devoted to risk management in departments and ALBs. This is evident from work in developing risk registers, framing risk policies, the involvement of Internal Audit and Audit Committees in risk management, and the emphasis placed by senior management on monitoring risk.

2.4 We found that structured processes are used for the identification and management of risks associated with departmental sponsorship responsibilities. The normal practice is that risk registers are prepared at different levels in the department, including the ALB sponsor branches. The sponsor branch risk registers feed into divisional risk registers and, in turn into departmental risk registers. The decision is taken in relation to each register as to whether it should include risks associated with ALBs. In the case of almost all ALBs, the department receives a copy of the ALB risk register. This, accompanied by discussion with the ALB, informs the sponsor branch register and enables prioritisation to take place. The degree of formality involved in this process varies between departments.

2.5 In some departments the risk register is reviewed by an Audit and Risk Committee and in others Internal Audit is given an opportunity to comment on both the sponsor branch risk register and the ALB risk register. The extent to which risks are adopted from one level of risk register to another varies widely and depends on an assessment of its potential impact and probability. In the case of some departments, risks related to ALBs do not feature beyond the sponsor branch risk register. In others they form a significant element of the departmental risk register.

2.6 Where the bodies constitute a small part of the department's functions and are not inherently controversial, their risks may not appear in the departmental risk register or come up for scrutiny at Departmental Board reviews of risk. If the risk assessment were to change in relation to a matter which could affect the department, it is expected that sponsor branches will draw attention to this through internal management and communication channels.

Case Illustration 7 - Risk Management System

DSD is responsible for sponsorship of the NIHE and operates a system of risk management to ensure that this responsibility meets the requirements of departmental accountability. The system includes the following features:

- corporate (DSD) risk management policy is agreed in advance of developing risk registers;
- the department receives a copy of the NIHE risk register and uses this to inform the departmental risk registers;
- risk is reviewed by the Departmental Management Board at each meeting;
- the Head of Departmental Internal Audit attends Departmental Audit Committee meetings and reports on each business area in the department;
- NIHE Internal Audit reviews NIHE systems and procedures for their adequacy to meet performance and accountability requirements; and
- the department's Internal Audit reviews the management of the sponsor relationship with NIHE, how funds are managed and how the relationship works.

Chief Executives of all the Department's ALBs are required to provide quarterly statements of assurance to the Accounting Officer that there are no issues of concern in relation to targets, financial or otherwise.

2.7 For departments with larger ALBs, considerable emphasis is placed on risk management and it features increasingly on the agenda of Departmental Management Board meetings. In some cases guidelines have been set for reporting risk issues and in at least one instance a 'change report' is tabled for Management Board consideration.

2.8 Several departments and ALBs have risk policy documents which address risk management and risk boundaries and which offer detailed guidance on framing risk strategies. A department with a large ALB has also agreed an extensive system of risk management with all its ALBs, adopting a template prepared by the department. This system identifies the likelihood of risks arising and the impact of these risks, should they arise. A risk management report is submitted by the ALB bi-annually setting out the risk position and the steps being taken to control risk.

Case Illustration 8 - Risk Management Toolkit

DEL has developed a comprehensive 'Risk Management Toolkit' for use throughout the department as a practical guide to risk identification, assessment and management. The 'Toolkit' deals with the definition and management of risk, identifies critical success factors for risk management and offers practical advice on risk management. This document is made available to the Department's ALBs. There is however no requirement to follow the Department's guide as it is recognised that some ALBs have already developed risk policies to meet their own circumstances.

2.9 New initiatives have been taken in some cases including taking a wholly strategic approach which takes a view of risk, annually, across all a department's ALBs and requires a series of assurances during the year on the risk assessment. The degree to which assurances may be qualified and the significance of the risk involved will determine whether it is a matter on which the Permanent Secretary should be advised. An aspect of this approach is the linking of audit programmes agreed with the ALB to risks identified in the department's risk register. In another department, a similar statement of assurance is required quarterly, to the effect that there are no known matters of concern relating to targets, finance or any other issues which could affect accountability.

2.10 ALBs too demonstrate a strong culture of risk consciousness and have well developed procedures for the assessment and reporting of risk. The focus on good risk management often reflects a particular Board interest which helps to promote a culture of risk control and awareness. Risk registers are produced, as for departments, at business unit levels and in some cases down to the level of individual responsibility. In the ALBs, the risk register is usually agreed by the Audit Committee and Board of the ALB.

2.11 Risk is a subject regularly addressed by Departmental Management Boards and matters relating to ALB risks are considered in this context. Formal consideration of changes in ALB risk registers and their consequences for departments' registers are matters usually addressed at quarterly monitoring meetings. Several ALBs take a regular look at the need to change risk ratings or add new risks. Audit Committees take a close interest in these reviews and are involved in agreeing any changes to risk registers.

2.12 It is evident that considerable attention is given to risk management and assessment in all departments and ALBs and that in many cases there is a good level of information exchanged. We welcome this and place importance on openness in sharing risk assessments between departments and their ALBs in order to promote mutually supportive systems and approaches.

Risk management processes should be regularly reviewed and where specific risks are identified departments should put in place appropriate controls

There are inherent risks in the sponsorship relationship and departments need to be aware of their exposure to risk where sponsored bodies fail to manage delegated risks. Departments should regularly review their processes for gaining assurance on sponsored bodies' management of risks to ensure that appropriate and effective controls are in place.

2.13 Where service delivery functions are delegated by a department to a sponsored body, a failure by the sponsored body to manage the delegated risks will impact on the department's objectives. Departments may also be exposed to reputational risk as a result of the activities of their sponsored bodies.

2.14 PAC has reported on a number of cases in which there have been serious weaknesses in governance and where management of sponsorship needs to be improved. It is important that departments gain assurance of the risk management processes in ALBs and that risk management arrangements should reflect a department's assessment of its sponsorship risks.

2.15 Our review identified examples where departments have reviewed risk management processes and introduced changes to address key risks.

Case Illustration 9 - Risk Management System

DETI has introduced a number of measures to improve risk management. Some of these were introduced following criticism of DETI and LEDU by PAC. These measures include:

- the Department now sees and agrees the Internal Audit programme of Invest NI;
- risk management systems are linked to audit systems to achieve a composite approach to risk management;
- an annual strategic review is undertaken of risk assessment across all of the Department's ALBs;
- quarterly assurance statements are required from the Invest NI Chief Executive that there are no issues of concern regarding performance or financial management;
- investment cases above a set level are referred to the Department, which then undertakes its own scrutiny; and
- no new 'Third Party Organisation' is created without the specific approval of the Permanent Secretary.

Case Illustration 10 - Risk Management System

Following some early difficulties with aspects of governance arrangements the OFMDFM and Equality Commission of Northern Ireland (ECNI) have taken steps to put in place arrangements to improve the sponsorship relationships.

These arrangements included the establishment of formal quarterly meetings, chaired alternately by the Head of the Equality and Rights Division and the Commission's Chief Executive. These meetings work to a fixed agenda which includes financial issues, business plan performance against targets, personnel issues and any other matters of substance. Less formal monthly meetings are also held between the Head of the sponsor branch in the Department and the Head of Corporate Services in the Commission also working to a fixed agenda, covering more of the detail of finance, personnel and day to day management issues. In addition, the ECNI has established an Audit and Risk Committee, chaired by a non-executive member of the Board, which has a role, in addition to the usual audit and risk issues, in looking at the operating of individual directorates within ECNI. Newly appointed Commissioners undertake corporate governance training as part of their induction.

Particular attention has been directed to the developing risk management policies including a risk register developed by the Management Board and training on risk for all senior staff and the Commissioners. Risk is addressed routinely at Management Board meetings, and at Board meetings at two-month intervals. The Head of Corporate Services has been given the main responsibility for managing risk within the ECNI.

2.16 Departments need to ensure that accountability and reporting arrangements for sponsored bodies are commensurate with the level of risk associated with the sponsorship relationship. Departments should therefore regularly review the risk profile of their ALBs and ensure that appropriate and effective risk management processes are in place.

Internal Audit can provide assurance on risk management

Internal Audit can provide an important independent and objective assurance on the adequacy of risk management, control and governance⁵. HM Treasury guidance on risk management indicates that Internal Audit may help develop a strategic risk management process for the department. However, the role of Internal Audit does not replace management ownership of risks or responsibility for risk management.

2.17 The extent to which Internal Audit sections in departments are integrated into the risk management process differs from department to department. About half the departments included in the review have exercised the authority enabling them to satisfy themselves about the adequacy of management systems in their ALBs, including those systems related to risk management.

2.18 In relation to the compilation and scrutiny of risk registers of sponsor branches, and of ALBs, Internal Audit has no documented role but may be involved on an ad hoc basis by the sponsor branches and Management Boards. It was evident, however, that several departments and ALBs do involve Internal Audit in the assessment of risk and in reporting on this to Audit Committees and Departmental Management Boards.

2.19 One of the main contributions to risk management by Internal Audit services in departments and ALBs is through their audit programmes. Some departments agree the ALB audit programme before it commences. The transparency of the assurance process can be enhanced where Internal Audit programmes are linked to risks identified in departmental and ALB risk registers.

2.20 About half of the reports arising from internal audit work are copied to departments, usually having been considered by an ALB Audit Committee but before they are submitted for Board consideration. In this way the departments concerned have an early insight into risk-related issues in the ALBs and can bring this into consideration as they see fit.

5. Government Internal Audit Standards, HM Treasury, October 2001.

2.21 There are variations overall in the deployment of Internal Audit to support departments' risk management strategies. This is not surprising as the propensity for risk also varies considerably. There is, nevertheless, scope for departments to examine the role of Internal Audit in the risk management process and to ensure that full advantage is being taken of the potential contribution which Internal Audit services can make in this area, and to governance generally.

Departments and sponsored bodies should identify and evaluate shared risks and how these should be managed, and define their risk appetite

HM Treasury guidance on risk management indicates that regular and open discussion of risk issues between sponsor and sponsored organisations is critical to the overall effective delivery of public services. It is important that sponsor departments and their ALBs work together to identify shared risks and develop appropriate efficient risk management approaches.

2.22 Risk sharing between departments and ALBs is inherent where the same, or largely similar, risks are included in the risk registers of each organisation. This happens in a relatively small number of situations and is usually connected with the large ALBs, but even where this is the case there is not a collaborative approach to management of risk.

2.23 Several of the ALBs will cease to exist in their present form over the next few years and this has raised its own set of risk considerations. The ALB with least time to run has established a Project Board to oversee the run-up to de-designation and the implications for the department. An aspect of this is risk management of the process and a new, separate, risk register has been developed by the ALB to identify and monitor these risks. Generally though, there is no analytical approach by departments to identify joint risks arising from sponsorship and determine how these should be managed.

Case Illustration 11 - Managing Joint Risks

The Laganside Corporation is being dissolved and particular steps have been taken by the department to ensure that this happens in an orderly and controlled manner, through the following arrangements:

- establishment of a joint Project Management Board with Laganside, Chaired at Divisional level in the department and led by the Chief Executive of Laganside;
- monthly meetings attended by supporting departmental and Laganside staff from the Finance Branches;
- a Laganside Project Team including the person with the main sponsor role and the Deputy Chief Executive of Laganside, with the remit to implement decisions taken by the Project Management Board;
- the development of a separate risk register by Laganside for risks relating specifically to the designation. Shared risks are identified and monitored
- a complete review of all outside contracts and commitments prior to dissolution as well as transfer of assets and liabilities to the Department;
- extra vigilance by the Department and Laganside over governance issues in the lead up to dissolution; and
- a 'Completion Team' in Laganside, responsible for reviewing completion issues, including risk registers.

2.24 Risk awareness in ALBs can be important in relation to unexpected events which could impact on a department, but which fall within the competence of an ALB to manage. Such events may arise from administrative incompetence, misconduct or in relation to an issue which is politically sensitive. There are no formal understandings between departments and ALBs which address how such occurrences should be dealt with.

2.25 There is, however, general contentment, on each side, that the sensitivities of any such situation would be recognised and that the relationship and trust between Chairpersons and Chief Executives and the most senior officials in departments is sufficient to ensure that it would be handled effectively. The important point is that departments and ALBs need to confirm that there is recognition by both parties that such events can occur and that the department wishes to be informed promptly when they do.

2.26 Generally, the approach of departments and ALBs reviewed was not definitive on the subject of risk appetite. However, ALBs seem more comfortable and conversant with the concept of risk appetite. They make a distinction between the 'appetite' which they apply to their service delivery responsibilities and that which applies to financial management and internal administrative issues. A 'zero risk' policy is normal in relation to the latter, but in respect of service delivery they consider that they can demonstrate a greater risk appetite. This was particularly the case with bodies involved with policies related to the safeguarding of 'rights'.

2.27 The general assessment in departments was that risk tolerance in respect of their sponsorship functions was, and should be low, if not zero. However, our review found no examples where a formal analysis had taken place.



Part 3: Safeguarding Accountability



Effective liaison, reporting and monitoring arrangements need to be in place

HMT guidance on Corporate Governance of ALBs indicates that *“the department should satisfy itself that it is supplied in a timely manner with information in a form and quality appropriate to enable it to discharge its duties in respect of all activities, including ALBs”*. Effective liaison, monitoring and reporting arrangements are essential to promote accountability for delivering wider departmental objectives.

3.1 We recognise that accountability arrangements and structures linking sponsor departments and ALBs will reflect the nature of the management relationship between sponsor and sponsored body. For example this relationship may range from direct control and involvement and close oversight by the sponsor to a more strategic management oversight where significant responsibilities are delegated to the ALB. We found that liaison with ALBs ranges from very formal and well established arrangements for regular meetings, to a virtual arm's-length approach in which meetings, outside the usual performance monitoring meetings, take place only when there are particular matters to discuss.

3.2 The frequency and levels of contact between departments and ALBs varies very considerably. In some bodies where departments take a close interest in the business of the body, contact could be on a day-to-day basis and involve different levels of personnel and different areas of a department. Where the approach is more strategic this is reflected in ongoing levels of contact. For example, there is a high degree of contact between DSD and the Northern Ireland Housing Executive whereas there is little day to day contact between DEL and Ulster Supported Employment Limited.

Case Illustration 12 - Strong Contact Between Department and ALB

DSD and NIHE have established a 'Joint Accountability and Policy Forum' which meets quarterly and is chaired by an Under Secretary. The Forum is attended by the Chief Executive of NIHE and by senior officials on each side. It addresses substantive accountability and policy matters relevant to the operation of NIHE and the department's oversight and accountability responsibilities. These matters may range from updates on the corporate and business plan to action in relation to PAC reports and specific policy and audit issues. The meetings are important in ensuring that key issues are addressed and that areas of difference or uncertainty can be resolved. Responsibility for any action arising from discussion is formally allocated in the minutes.

3.3 In the case of all the bodies we reviewed, however, regular meetings take place with departments for monitoring and information purposes. In the largest bodies there may be a range of meetings to address specific matters such as policy or finance and these may take place on a monthly basis. Indeed, monthly monitoring of finance, in particular, was the norm for bodies with significant budgets.

3.4 Some Management Statements stipulate reporting obligations, ranging from reporting on the performance of the ALB to reporting on the performance of the Commissioners. Other Management Statements make no reference to reporting. It is, therefore, largely a matter for individual departments to determine their reporting requirements. For all ALBs, these requirements are most frequently connected with quarterly meetings, but in the case of a few departments and ALBs reports are required monthly. These mainly deal with financial management.

3.5 In addition, some departments receive a range of other information relevant to their monitoring function, including Board papers and minutes in a few and, more commonly, the minutes of Audit Committee meetings, and Internal Audit reports arising from an ALB's internal audit programme. In a few cases, specific reports are also required in the form of an assurance statement signed by the Chief Executive of the ALB.

Case Illustration 13 – Structured Reporting Relationships

The Laganside Corporation is an ALB of the Department for Social Development. The department has a sponsor unit which handles the day to day issues with Laganside. Internally there are well structured reporting arrangements in the form of:

- receipt of Laganside Board papers monthly;
- receipt of a copy of the Laganside risk register;
- review of these for matters of interest to the department;
- referral of matters of interest to the Urban Regeneration and Community Development Group Management Board which meets monthly;
- a briefing note from the sponsor division identifying matters of interest; and
- a quarterly report to the Departmental Management Board from each ALB for which the department is responsible in relation to their progress against targets. This also covers risk registers, in the form of an assurance by Chief Executive that risks have been identified and addressed.

3.6 ALBs will have a significant impact on the operating environment of the department. It is important, therefore, that liaison, reporting and monitoring arrangements should ensure that the department is provided with information which is timely and sufficient to deliver the necessary level of assurance on the activities of the ALB.

ALB Boards, particularly non-executive members, have a crucial role in accountability

Each ALB Board should have robust governance arrangements. All Board members should receive effective guidance, education and training to provide a clear understanding of their roles and responsibilities. Boards should include non-executive members who should be appraised, in particular, of their need to provide a constructive challenge function.

3.7 Accountability within ALBs is conventionally supported by a Board comprising a Chairperson and non-executives appointed in accordance with the rules governing public appointments, and Board Committees. The Board's role and responsibilities are set out in the ALB Management Statement. Broadly these relate to ensuring that the aims and objectives of the body are delivered in accordance with good governance practice, to providing strategic direction and to overseeing the executive.

3.8 Non-executive members are central to delivering these obligations and bring independence and relevant skills gained in a non-public sector environment to guiding, overseeing and challenging the management of the ALB. HM Treasury guidance⁶ advises that boards should include independent non-executive members to ensure that executive members are supported and constructively challenged in their role.

3.9 We found that, on appointment, non-executive members are obliged to undertake training in relation to their duties and the requirements of public sector probity and finance. Such training is essential to an understanding of public sector accountability and is one of the recommendations flowing from the PAC Report on the Teeside Corporation⁷. It also has a role in ALBs where the membership is drawn from a variety of sectional interests in ensuring that, when appointed, members understand that it is their duty to act independently in the overall interests of the ALB and not in relation to the interests of any other body. We found that virtually all departments and ALBs placed emphasis on training non-executive Board members and frequently supplemented the standard course with induction programmes, special seminars and customised courses.

6. Corporate governance in central government departments: Code of Good Practice, HM Treasury July 2005.

7. The Operation and Wind-up of Teeside Development Corporation.

3.10 Board Chairpersons have been given responsibility to ensure that new non-executive members receive training in relation to their duties and, more generally, in relation to accountability for public expenditure, and standards of conduct. In our view, these duties are addressed conscientiously by Board Chairpersons, who in many cases, have their own personal interest to advance standards in a particular area, for example in relation to conflicts of interest or special audit training.

Case Illustration 14 - Promotion of Training for Board Members

The Chairman of NIHE places particular importance on the training of Board members, including non-executive Board members, in relation to their duties and responsibilities and governance generally. Overarching training in relation to these matters is provided by CIPFA, but specific training is provided to cover critical aspects of good governance including in relation to conflicts of interest, financial responsibilities and annual accounts.

3.11 One of the ALBs we reviewed (The Children's Commissioner) does not have a Board. Consequently this form of accountability is missing. However, we note that this ALB has an Audit and Risk Committee, comprised fully of independent members, and which also has a role in considering management issues. Representatives from the sponsor division attend all meetings of the Audit and Risk Committee. Nevertheless, in our view, the department may consider developing additional structures to ensure appropriate support for the Chief Executive and to oversee management.

3.12 A matter on which some concerns have been expressed is the distinction between the actual responsibility of Chairpersons and the Board compared with that of the Chief Executive, as Accounting Officer. The concern is most relevant, but not exclusively so, in those cases where the Board performs an executive function. In our view, where there are such concerns it will be important to clarify the respective roles and responsibilities of Board members and Chief Executives.

Both departmental and ALB Audit Committees should be an integral part of accountability arrangements

The work of ALB Audit Committees is linked to departmental accountability through the responsibility of these committees to provide an independent challenge to the executive and oversee risk and financial management, probity and good governance in the ALB. Ideally, ALB and departmental Audit Committees should liaise with each other to enhance their understanding of respective governance issues.

3.13 Evidence of the value added by ALB Audit Committees' work is reflected in the quality and reliability of the information provided by ALBs to meet the accountability requirements of their sponsor departments in connection with financial and performance monitoring arrangements.

3.14 HM Treasury guidance advises that the Chairperson of the Audit Committee should be an independent non-executive member of the Board. The Audit Committee is more likely to provide objective advice if it is not chaired by someone with executive authority within the organisation or the person to whom the committee provides advice. Best practice⁸ also indicates that membership of the Audit Committee should be drawn from the Board, providing an important link between both bodies and ensuring that the Audit Committee knows and understands the Board's priorities.

3.15 We found that the composition and management of Audit Committees differs between ALBs but they are all established as committees of the Board and are responsible to the Board for their decisions and work. Invariably in the bodies reviewed, the Chairperson of the Board is not a member of the Audit Committee though attends, or may attend in some ALBs. Typically, Audit Committees comprise a Chairperson and three members who are not necessarily Board members. We found that the Audit Committees complied with Treasury guidance in that all Chairpersons were non-executives; indeed one ALB and one department included in our review went beyond the guidance in that they were chaired by external independent non-executives who were not members of the Board. We also noted that the appointment of external independent non-executives to chair Audit Committees was being considered by other bodies.

8. The Audit Committee Handbook, HM Treasury, October 2003

3.16 In addition to Committee members, meetings may be attended by departmental representatives (usually from the Internal Audit unit or Finance Division), specialist advisers and NIAO. In approximately half of the bodies we reviewed, the minutes of Audit Committee meetings are copied to the sponsor department. In our view, departments should have access to the records of all meetings of ALB Audit Committees.

3.17 The decision has been taken by some Boards that Audit Committee members should receive special training. The value of such training has been recognised and promoted widely by DFP who have joined forces with the Chief Executives' Forum to establish a training programme specifically designed for members of public sector Audit Committees.

Case Illustration 15 - Robust Audit Committee Structures and Relationships

The example of where most of the features described above can be found is in DETI in relation to its sponsorship of Invest NI. The department is represented on the Audit Committee of Invest NI; the minutes of Audit Committee meetings and Internal Audit reports are made available to the department; quarterly oversight and liaison meetings are held at a senior level between the Department and Invest NI and the minutes and key issues arising form a standing item on the Departmental Board agenda; and there is a comprehensive training programme for non-executive directors, covering Board responsibilities and audit requirements.

3.18 Attendance of departmental representatives, where it occurs, at Audit Committee meetings has the positive effect of enabling a direct channel of information to the department on which action can be taken at an early stage if this is deemed appropriate. This approach is taken a step further in one department and its ALB where the responsible Departmental Board Member in the department and the Chief Executive of the body, respectively, attend each other's Audit Committee meetings. We welcome this development to enhance accountability relationships.

The Internal Audit function can be used to greater effect in ensuring high standards of accountability

Risks can be delegated but the sponsor department retains overall accountability and should, therefore, obtain assurance on the Sponsor Group as a whole. This may involve the department providing its own internal audit team directly to engage with and review ALBs; or liaising with ALB internal audit teams.

3.19 Details of the role played by Internal Audit units are described in paragraphs 2.17-2.21 of this report. They provide reassurance to both Chief Executives and ALB Boards and their contributions to reports emanating from internal audit investigations in ALBs are considered by Audit Committees of the various bodies. It is the responsibility of the Chairperson of the Audit Committee to report to the Board on the work undertaken.

3.20 We found that most, but not all, of ALB Internal Audit reports are copied to departments. Given the role which these reports can play in informing and forewarning departments, we recommend that they are copied to the department in all cases as part of the accountability mechanisms.

3.21 The processes described above provide a framework for scrutiny and accountability within sponsored bodies, and between sponsored bodies and departments.

Provision of Internal Audit (IA) Services in ALBs

By Department IA	By ALB IA	By External IA
4	3	3

3.22 While there is a discernable trend towards greater involvement of Internal Audit by departments with large ALBs, including in relation to statements of assurance provided by the ALBs, the evidence of involvement in relation to smaller bodies is patchy. As noted in paragraph 2.21, departments should determine whether Internal Audit are being used to best effect in ensuring high standards of accountability.

Departmental Statements of Internal Control should report significant matters relating to the management of sponsored bodies

In broad terms departments' Statements of Internal Control should refer to their risk management of ALBs and any significant matters within the ALBs' Statements of Internal Control should be highlighted in Departments' Statements of Internal Control. It is for the Accounting Officer to obtain an appropriate level of direct assurance on the corporate governance of sponsored ALBs.

3.23 Statements of Internal Control set out an Accounting Officer's responsibility for maintaining sound systems of internal control and the measures applied in the department to ensure that this responsibility is properly discharged. As departmental Accounting Officers are also accountable for oversight and performance of their ALBs, these statements should also refer to a department's arrangements for risk management and control of its ALBs.

3.24 The Statements of Internal Control examined refer to the responsibilities of the department in relation to its ALBs. Primarily, these references describe the ALBs for which the department is the sponsor and, in varying degrees of clarity and thoroughness, the department's responsibility for risk management in relation to its ALBs. For the most part the Statements of Internal Control adopt a set of key headings including "Scope of Responsibility, The Purpose of the System of Control, Capacity to Handle Risk, the Risk and Control Framework and Review of Effectiveness". Several Statements also include a section detailing significant internal control problems.

3.25 The amount of detail provided under each heading varies considerably from department to department, particularly in relation to references to ALBs. For example, one clearly accepts the Accounting Officer's responsibility for managing risks which impact on the department and its ALBs and details the processes and systems for this; one refers to the operation of risk management arrangements extending to ALBs, risk registers in ALBs and requirements for compliance against certain standards; one refers generally to the

department's emphasis on managing governance and accountability arrangements with its ALBs; and one refers to the requirement on Additional Accounting Officers of ALBs to provide annual assurance statements to the department.

3.26 In none of the Control Statements examined was any definitive reference made to the contribution made by ALBs to the department's objectives. In a recent report⁹, PAC highlighted where both the department and ALB failed to recognise a significant risk in their Statements of Internal Control. PAC noted that this was a fundamental omission

3.27 ALB Statements of Internal Control are included in their annual accounts. In addition, in the case of some departments and ALBs, further assurance statements are made in the course of the year, or separately from the statement in the accounts. What matters here, to quote from evidence given in a PAC¹⁰ hearing, is that *"It's not just what you do; it's the way that you do it.... I regard Statements of Internal Control as requiring a positive act of due diligence by chief executives before they sign ... not just a simple formality"*.

3.28 ALB Statements of Internal Control considered provide a full description of the management, including financial management, systems within the ALB and reach a conclusion on whether the systems are sufficient or there are matters on which assurance cannot be provided. As in departments' Statements of Internal Control, the ALB statements make the point that a system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives. Content will vary with the nature of the activity of ALBs. For example, the Internal Control Statement of Ulster Supported Employment Limited has a business slant in that the key risk identified is of the company going out of business due to a reduction or elimination of funding or loss of 'market' in the trading division of the company. The Statement sets out the Chief Executive's Accounting Officer responsibility and describes its risk management measures. It also refers to delegated responsibility for business management, monitoring arrangements related to these and to review of the risk register by management, the Board and Internal Auditors. The role of the Audit Committee is referred to and the Statement also records that all matters of significance are dealt with by the Management Board and at monthly Board meetings.

9. Committee of Public Accounts, Third Report of Session 2005-06, Collections Management in the National Museums and Galleries of Northern Ireland.

10. Committee of Public Accounts, Forty-sixth Report of Session 2005-06, Governance Issues in the Department of Enterprise, Trade and Investment's former Local Economic Development Unit.

3.29 Our review of Statements of Internal Control indicate that there are significant variations in the depth of matters covered in the statements, particularly in relation to details relating to ALBs. In view of the importance of Statements of Internal Control, there may be merit in clarifying when and how assurance issues pertaining to ALBs should be escalated to the departmental SIC.

Case Illustration 16 - Robust Audit Committee Structures and Relationships

A PAC report on governance issues in the Department of Enterprise, Trade and Investment's former Local Enterprise Development Unit exposed a number of failures in governance and accountability by the Department and the former LEDU.

Measures taken amount to an appreciable strengthening in departmental accountability in relation to Invest NI, the body which now subsumes the former LEDU including:

- withdrawal of departmental representation from the Boards of its ALBs;
- co-ordination at Management Board level of arrangements for dealing with Invest NI across a range of business areas, including finance and accountability;
- quarterly oversight and liaison meetings are held at a senior level between the Department and Invest NI and the minutes and key issues arising form a standing item on the Departmental Board agenda;
- formalised quarterly reporting to the Departmental Management Board on performance by ALBs against targets set by the Department;
- de-briefing meetings between the Chairman and Chief Executive of Invest NI and the Permanent Secretary and two Deputy Secretaries following each Invest NI Board meeting; and
- membership of Deputy Secretary on the Invest NI Audit Committee and corresponding membership of the Chairperson of this Committee on the Department's Audit Committee.

Corporate culture affects accountability

3.30 It is clearly necessary to ensure that the basic building blocks are in place for accountability in the form of systems, controls, financial management and monitoring. The contribution which can be made by developing a culture of good practice is also an important factor. An attitude which encourages vigilance, attention to detail, integrity and observance of process can contribute much to mitigating the potential for embarrassing failures.

3.31 The promotion of a positive culture of accountability relies heavily on the top management in departments and ALBs. It is there that the standards and expectations are set which can influence how things are managed at every level in the organisation.



Abbreviations

ALB	Arm's Length Body
CIPFA	The Chartered Institute of Public Finance and Accountancy
ECNI	Equality Commission for Northern Ireland
DCAL	Department of Culture, Arts and Leisure
DEL	Department for Employment and Learning
DETI	Department of Enterprise, Trade and Investment
DFP	Department of Finance and Personnel
DHSSPS	Department of Health, Social Services and Public Safety
DSD	Department for Social Development
GIAS	Government Internal Audit Standards
NAO	National Audit Office
NIAO	Northern Ireland Audit Office
NIHE	Northern Ireland Housing Executive
OFMDFM	Office of the First Minister and Deputy First Minister
PAC	Committee of Public Accounts

NIAO Reports

Title	HCNIA No.	Date Published
2006		
Insolvency and the Conduct of Directors	HC 816	2 February 2006
Governance Issues in the Department of Enterprise, Trade and Investment's Former Local Enterprise Development Unit	HC 817	9 February 2006
Into the West (Tyrone & Fermanagh) Ltd: Use of Agents	HC 877	2 March 2006
Department for Social Development: Social Security Agency - Third Party Deductions from Benefit and The Funding of Fernhill House Museum	HC 1901	9 March 2006
The PFI Contract for Northern Ireland's New Vehicle Testing Facilities	HC 952	21 March 2006
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Collections Management in the National Museums and Galleries of Northern Ireland	HC 1130	8 June 2006
Departmental Responses to Recommendations in NIAO Reports	HC 1149	15 June 2006
Financial Auditing and Reporting: 2004-2005 General Report	HC 1199	21 June 2006
Collections Management in the Arts Council of Northern Ireland	HC 1541	31 August 2006
Sea Fisheries: Vessel Modernisation and Decommissioning Schemes	HC 1636	26 October 2006
Springvale Educational Village Project	HC 40	30 November 2006
Reinvestment and Reform: Improving Northern Ireland's Public Infrastructure	HC 79	7 December 2006
The Fire and Rescue Training Service	HC 80	14 December 2006
2007		
Internal Fraud in Ordnance Survey of Northern Ireland	HC 187	15 March 2007
The Upgrade of the Belfast to Bangor Railway Line	HC 343	22 March 2007
Outpatients: Missed Appointments and Cancelled Clinics	HC 404	19 April 2007