

Good practice in effective oversight of public finances in the UK Overseas Territories

February 2017

1. This good practice guidance sets out the key components of effective public sector financial oversight in the UK Overseas Territories. It reflects international best practices and the guidance in the UK Treasury's Managing Public Money adapted to the circumstances of the Overseas Territories. The guidance, which has been developed in consultation with the Governments of the Overseas Territories, is intended to stimulate the sharing of good practice and to help Overseas Territories to reflect on, and strengthen, their current practices and procedures. Overseas Territories may choose to adapt the good practice guidance to suit their individual needs.

2. We have taken a principles-based, rather than a rules-based, approach to the guidance. This has allowed us to prepare concise, high-level guidance applicable to Overseas Territories' governments, including the role of public sector managers and the internal audit function and those of the external oversight bodies, namely the external auditor and Parliament. A principles-based approach also helps to ensure that the guidance does not quickly become out-of-date as the professional and statutory environment evolves. Appendix 1 is a self-assessment tool which can be used to check existing procedures against the framework and seek to highlight areas for strengthening as necessary.

Background

3. In January 2014, the UK National Audit Office (NAO), with the support of the Foreign & Commonwealth Office (FCO), convened a conference of members of Parliament, finance staff and internal and external auditors from Overseas Territories to examine how audit and Parliamentary oversight could be strengthened in the Overseas Territories. The conference also involved representatives of the UK Parliament, the Crown Dependency of Guernsey, and the Institute of Internal Auditors. One of the agreed actions from the conference was for the NAO, with the FCO and the Overseas Territories, to develop good practice guidance on the roles of the Public Accounts Committee, external audit and internal audit and how they can best work together.

4. To develop this guidance we have:

- Identified high-level risks to public financial management systems in the Overseas Territories;
- Tested the proposed model against known constraints in the Overseas Territories;
- Provided practical examples of how the good practice guidance might work in practice; and

- Conducted a desk exercise on the extent to which available materials indicate that the Overseas Territories are implementing good practice.

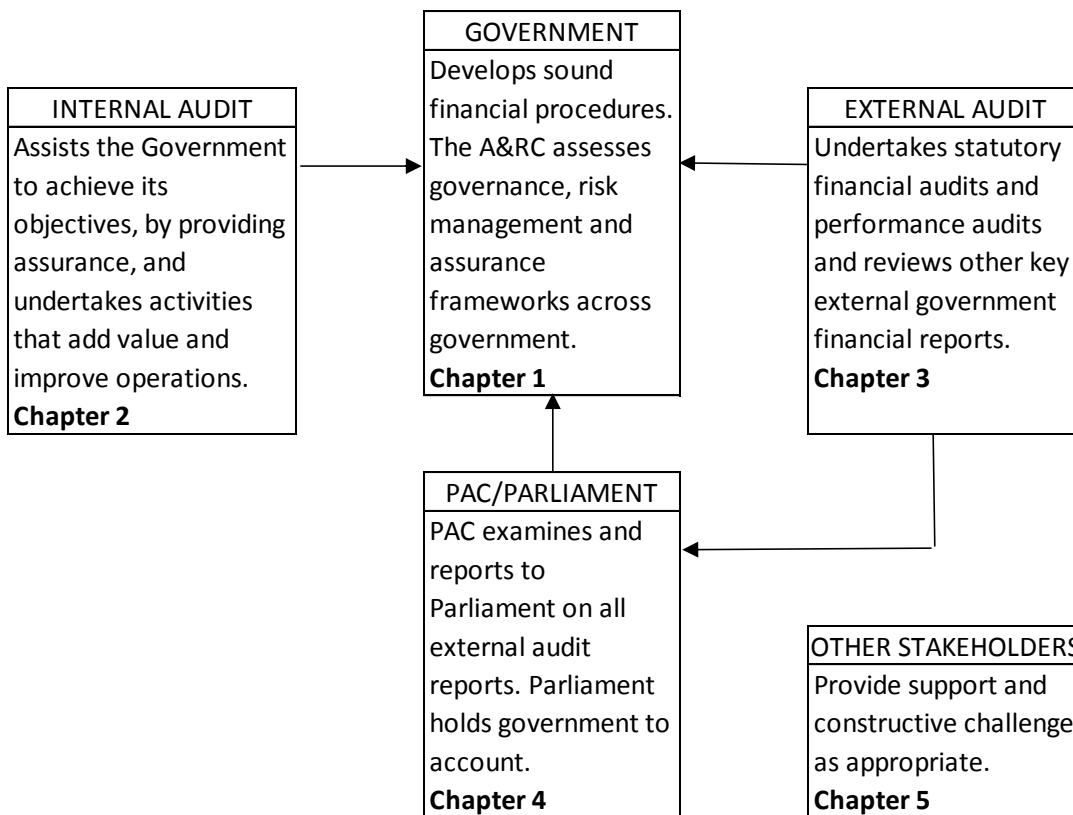
5. We sought the views and drew on the experience of key stakeholders in the Overseas Territories including governors; Parliamentary financial oversight committees, principally the public accounts committee (PAC); senior public sector managers; internal auditors; and external auditors. The replies indicated that there were areas of good practice and areas where current practices could be improved.

The model

6. The good practice guidance sets out key responsibilities for the following groups: public servants including managers, internal audit, the Audit & Risk Committee, external audit, the PAC, and the role of the FCO.

7. The following representation of the key components of the oversight mechanism distinguishes the two key functions, internal and external oversight. The main components of internal oversight are management within government departments and other public service, internal audit, the Audit & Risk Committees and the Government (i.e. the elected members forming the executive council). The main components of external oversight are external audit and the PAC, reporting to the elected members (i.e. Parliament). Elected members are in turn accountable to the public. This distinction highlights the need to establish and implement an effective PAC and Audit & Risk Committee (A&RC).

Framework for financial oversight in the Overseas Territories



Notes:

1. Government comprises: the centre of government including the Ministry of Finance; and government departments and other public service delivery bodies.
2. The Audit & Risk Committee (A&RC) comprises of executive and non-executive members.
3. Other stakeholders include FCO, DFID, the Governor, and citizens.

8. The following table sets out further details of seven key component groups and their oversight responsibilities, together with the key accountability outputs.

| Group and its key financial oversight responsibilities and activities | Key accountability outputs |
|---|--|
| <p>Senior management (Chapter 1)</p> <p>Which might be defined as the Governor (and could include Cabinet), Deputy Governor, chief financial officer (where it exists) and attorney general.</p> <p>Establishes, maintains and monitors:</p> | <p>A report to Parliament on the need for a review of and possible updates to the financial oversight legislation. [every 5 years]</p> |

| Group and its key financial oversight responsibilities and activities | Key accountability outputs |
|--|--|
| <ul style="list-style-type: none"> • A code for the proper conduct of public business; • A financial framework, with appropriate procedures, controls and reporting processes, which is aligned with the Territory’s fiscal strategy and, if applicable, its framework for fiscal responsibility; • An internal control environment which minimises the risk of fraud; • A corporate governance framework, supported by a regularly updated risk register; • Annual accounts preparation processes that conform with international standards; and • Implementation of the recommendations of internal and external audit. <p>Sets the tone at the top and promotes and facilitates the drive to achieve high standards of accountability and transparency of public business.</p> <p>Reports openly and regularly to key external stakeholders such as the executive body, the public and the FCO.</p> <p>Audit & Risk Committee (Chapter 1)</p> <p>A&RC comprises mainly of non-executives. Having considered the completeness, reliability and integrity of assurances it has received, the A&RC:</p> <ul style="list-style-type: none"> • Reports to senior management on the comprehensiveness, reliability and integrity of government’s internal controls, risk management processes and governance arrangements, and the quality and reliability of its financial reporting. • Approves the internal audit strategy and work plan and ensures that the internal audit function has adequate resources and access to staff and records to perform effectively. • Conducts reviews of the internal audit team’s quality assurance and improvement plan. • Reviews and discusses external audit reports with the external auditors. • Undertakes an annual self-assessment to consider its role, membership, independence, | <p>Staff surveys and follow-up reports. [every 3 years]</p> <p>Financial reporting reviews and follow-up reports. [every 5 years]</p> <p>An annual report, published shortly after the end of the financial year, including:</p> <ul style="list-style-type: none"> • The annual accounts, prepared to international accounting standards, with the audit opinion; • A corporate governance report; and, • A non-financial performance report showing progress against planned objectives, outputs and outcomes. <p>A progress report on the quality improvement plan for the annual accounts, which addresses issues which have been raised internally and by external audit. [annually when relevant]</p> <p>Reports on the outcome of reviews of the transparency agenda information and web-site [annually once relevant].</p> <p>Approved internal audit strategy and annual plan.</p> <p>An annual schedule of planned meetings. Agenda items should include reviewing the key risks, such as those around implementing the fiscal strategy and, if applicable, the framework for fiscal responsibility.</p> <p>Minutes of meetings and evidence of follow-up actions in respect of items included on the A&RC’s log of recommendations and other actions.</p> <p>Recommendations to the financial secretary or the accountant general and the head of the civil service on the annual report and accounts, including the governance statement.</p> <p>A short report on the outcome of the self-assessment of its own effectiveness with evidence of follow-up action. [annual update]</p> |

| Group and its key financial oversight responsibilities and activities | Key accountability outputs |
|--|---|
| <p>objectivity and understanding, skills, the scope of its work, the effectiveness of its engagement with key issues, and its communications.</p> <p>Reviews the implementation of internal and external audit reports.</p> | <p>An annual report on the extent to which internal audit recommendations are implemented.</p> |
| <p>Internal audit (Chapter 2)</p> <p>Helps the organisation achieve its objectives by providing objective assurance and by undertaking consultancy activities designed to add value and improve operations.</p> <p>Conducts internal audits that conform to international internal audit standards.</p> <p>Conducts regular follow up of implementation of audit recommendations.</p> | <p>A risk-based internal audit strategy with an annual plan.</p> <p>Internal audit assurance reports and consultancy reports.</p> <p>Head of internal audit's annual report, including an assurance opinion to the Audit & Risk Committee (where it has been established) in the first instance and then to senior management.</p> <p>A current quality assurance and improvement plan for the internal audit team.</p> |
| <p>External audit (Chapter 3)</p> <p>Undertakes the statutory audit and certification of government accounts in accordance with international external audit standards.</p> <p>Carries out performance (value for money) audits.</p> <p>Reviews the corporate governance report to, among other things, identify any inconsistencies between disclosures and information that the auditor is aware of from work on the financial statements and other work.</p> <p>Reviews other key external government financial reports and returns such as those covered by the fiscal strategy and, if applicable, the framework for fiscal responsibility, and project reporting for external aid (e.g. DIFD-funded projects).</p> <p>Supports the Overseas Territory's Public Accounts Committee and engages with the Audit & Risk Committee.</p> <p>As part of the planning process, meets with the PAC and Governor to discuss risks they have identified and to seek suggestions for future audits.</p> <p>Conducts regular follow up of implementation of recommendations and reports to PAC where action has been inadequate.</p> | <p>Certification of all relevant annual financial statements within the agreed timeframe.</p> <p>Published reports, with recommendations for future action where warranted on all key outputs.</p> <p>The external audit plan, covering financial and performance audits.</p> <p>Evidence of compliance with best integrity practices, including completion of code of conduct, declaration of interests, and other transparency reporting.</p> <p>Annual follow-up on progress in implementing external audit recommendations.</p> |

| Group and its key financial oversight responsibilities and activities | Key accountability outputs |
|---|--|
| <p>Public Accounts Committee (Chapter 4)</p> <p>Examines and reports to Parliament on all external audit reports including both financial and performance audit work and any ad-hoc investigations.</p> <p>Examines any matters referred to it by Parliament (Legislative Council), including where appropriate:</p> <ul style="list-style-type: none"> • Audited financial statements of all public bodies laid before Parliament; • Statements of expenditure in excess; • Government's response to any recommendations made by the PAC. <p>Considers the adequacy of government's arrangements for the management of financial risk and implementation of its fiscal strategy:</p> <ul style="list-style-type: none"> • Advises the Governor on the appropriateness and effectiveness of the audit arrangements; • Reports to Parliament on the effectiveness of the regulation by government of bodies to whom Parliament or government has granted franchises to provide services of a public nature; • Reports to Parliament where follow-up action by auditees has been inadequate or slow; and • Reports on matters which the Governor has referred to PAC. | <p>Reporting at least annually to Parliament on the PAC's work programme and follow-up action.</p> |

| Group and its key financial oversight responsibilities and activities | Key accountability outputs |
|---|---|
| <p>Parliament</p> <p>Ensures that legislation is consistent with international good practice, aligned with fiscal policy and fully supports financial oversight.</p> <p>Enacts anti-corruption bribery and public interest disclosure legislation.</p> <p>Holds the Government to account.</p> <p>Refers to PAC for detailed scrutiny of the audited accounts of all public bodies and considers the results of PAC enquiry.</p> | <p>A documented review of the legislation covering all aspects of Parliamentary oversight and audit arrangements [as and when appropriate but should be considered say once every 5 years].</p> <p>A summary of relevant legislative changes with an indication of how each change has/should improve public financial management, oversight and accountability. [As above].</p> <p>A published record of the debate on public expenditure plans and the voted funds, produced immediately after the debate(s).</p> <p>A published record of the debate on government's annual report and accounts, produced immediately after the debate.</p> <p>A published record of the debate on government's fiscal strategy, produced immediately after the debate.</p> <p>A published record of the debate of the PAC's annual report, produced immediately after the debate.</p> |
| <p>Her Majesty's Government (Chapter 5)</p> <p>FCO works with, and provides support and guidance to, the Overseas Territories to strengthen good governance arrangements, public financial management and economic planning.</p> <p>Improves the range and quality of support available to the Overseas Territories.</p> <p>Reviews the fiscal report and other key reports such as the annual report and accounts and, where applicable, the Territory's financial progress reports to the UK Government.</p> | <p>A delivery plan for strengthening good governance arrangements, public financial management and economic planning.</p> <p>A record of follow-up discussions and agreed actions.</p> <p>A report to the Overseas Territories' heads of civil service, heads of government and the FCO Minister for the Overseas Territories.</p> <p>A record of the allocation of budget to provide specialist advisory service to the Overseas Territories on financial oversight matters.</p> |

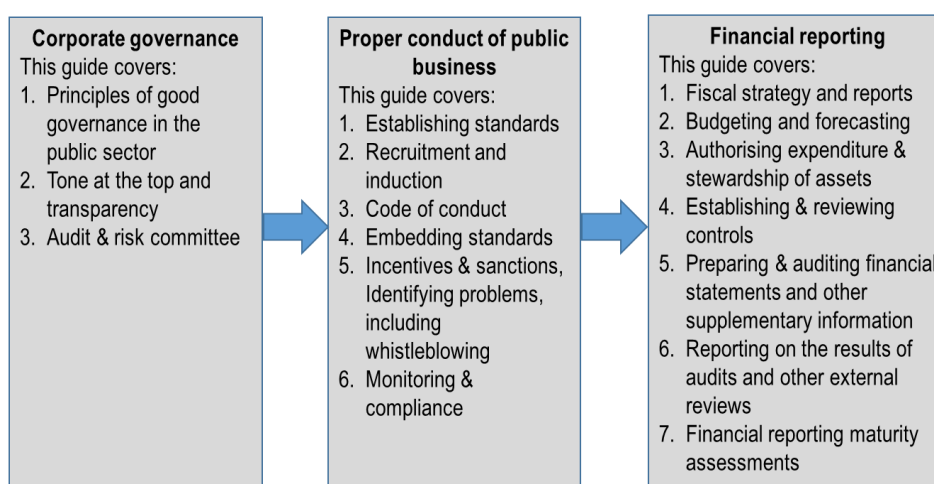
Chapter One

Responsibilities for the proper conduct of public business

1.1 This chapter covers the key responsibilities of public sector senior officials in relation to establishing:

- a corporate governance framework;
- a framework for the proper conduct of public business; and
- a financial framework to ensure the safe and responsible management of public funds and resources.

A schematic of these three frameworks is provided below.



1.2 Good corporate governance, the proper conduct of public business and good financial management are vital to the delivery of world-class public services. The Governments and senior management of the Overseas Territories have a responsibility for applying the principles described in this chapter. Over time, the aim should be to develop a comprehensive outcomes-based approach to performance management so that it is clear what public service improvements are required within a given timeframe and whether the improvements are being delivered.

1.3 Senior officials are responsible for establishing sound controls which aim to minimise the risk of error, poor or wasteful decision making, fraud and corruption. Once such controls are in place, managers are responsible for

monitoring whether controls are working and, where they are not, to take appropriate action to strengthen them. Where there is poor performance, such actions may range from providing additional advice and training to staff up to prosecuting staff believed to have engaged in fraud or corruption. Senior managers should also respond promptly and effectively to issues raised by internal audit, and by third parties such as the external auditors and the public.

1.4 Governments and legislatures need to ensure that legislation supports the implementation of the frameworks and principles set out in this guide. Where legislation no longer reflects best practice in these areas, senior officials need periodically to advise their Parliament on the need to review and possibly update the legislation. Parliament needs to consider the transparency of government business and whether this is supported by the legislation. Parliaments may then decide to commission a review of the financial oversight legislation to confirm the extent to which it remains appropriate and supports effective financial oversight. Where changes are needed, they should be introduced and implemented promptly.

Principles-based guideline

1.5 Overseas Territories Governments and legislatures ensure that legislation is periodically reviewed and updated as necessary to ensure that it supports appropriate standards in public life, financial oversight and open government.

A framework for corporate governance

1.6 The corporate governance framework sets out the way in which organisations are directed, controlled and led. It defines relationships and the distribution of rights and responsibilities among those who work with and in the organisation, determines the rules and procedures through which the organisation's objectives are set, and provides the means of attaining those objectives and monitoring performance. It defines where accountability lies throughout the organisation.

1.7 CIPFA (Chartered Institute of Public Finance and Accountancy) and IFAC (International Foundation of Accountants) have developed the principles-based [*International Framework for Good Governance in the Public Sector*](#).¹ The framework highlights the importance of the public sector's role, in particular for maintaining or enhancing the wellbeing of citizens. It also highlights stakeholders' interest in ascertaining that a public sector entity's planned outputs are achieved and are delivered in an economic, effective, efficient and

¹ *International Framework: Good Governance in the Public Sector*, CIPFA and IFAC, July 2014.

equitable manner. Consequently, the public sector needs to be highly transparent and provide high-quality information about all aspects of their performance.

| Principles for good governance in the public sector | |
|---|---|
| Acting in the public's interest by: | Behaving with integrity, showing commitment to ethical values and respecting the rule of law; and Ensuring openness and comprehensive stakeholder engagement |
| Establishing and maintaining effective arrangements for: | Defining outcomes in terms of sustainable, social and environmental benefits; Determining the interventions necessary to optimise the intended outcomes; Developing organisational and individual capacities including leadership capacities; Managing risks and performance through robust internal controls and strong public financial management; and Implementing good practice in transparency, reporting, and audit to deliver effective accountability. |

1.8 Corporate governance is based on the principles of openness, integrity and accountability. The governance framework encompasses a risk management-focused system of internal control, overseen by senior management and their sub-committees including the Audit & Risk Committee.

Principles-based guideline

1.9 A system of corporate governance should be established consistent best practice, such as the framework published by CIPFA/IFAC.²

'Tone at the Top' and transparency

1.10 Generally governance practices are reviewed on an ongoing, annual or biennial basis and senior officials are expected to:

- promote sound principles of behaviour in public life, the management code and governance frameworks;

² www.cipfa.org/policy-and-guidance/standards/international-framework-good-governance-in-the-public-sector

- assess threats, establish policies and create the necessary awareness amongst staff; and
- meet annually as a team to formally assess performance and highlight areas for improvement.

1.11 The public expects Parliamentarians and senior officials to set the 'tone at the top' and be transparent. Setting the tone at the top should cover the standards which the civil service expects for its staff and those that it does business with, the ways in which acceptable behaviour are demonstrated, and how unacceptable behaviour is addressed. It also applies to the conduct of Parliamentarians. The following table sets out some examples:

| Risk | Reporting |
|---|---|
| Excessive hospitality and travel expenses | Publish rules on internal and external websites, together with details of all hospitality and travel expenses received. |
| Unreasonable remuneration | <p>Publish the remuneration of all ministers and senior officials, including pension contributions and any ex-gratia payments, within the annual report and accounts, which is covered by the external auditor's certificate.</p> <p>Report on how the remuneration of the highest-paid civil servant compares to the median salary for employees.</p> |
| Conflicts of interest may influence key decisions | <p>Ministers and senior officials, including all of those in key financial decision-making roles, should make an annual declaration of interests which should be published in the annual report and accounts.</p> <p>The executive board and its sub-committees' handbooks should cover independence and conflicts of interest.</p> <p>The board and its sub-committees' meetings should include declarations of interests as a standing item.</p> <p>Minutes should be subject to external review by the Auditor General. In smaller jurisdictions, careful consideration should be given to defining what constitutes a potential or actual conflict of interest, and how potential conflicts should be recorded and explained.</p> |

| | |
|--|--|
| Lack of transparency in tendering and contracting | Details of all government payments, over an agreed threshold, should be published online, in a user-friendly format. |
| Insufficient skills and independence to investigate allegations of corruption or fraud | Obtain support from the FCO and publicise the outcome of the investigations. |

Principles-based guidelines

1.12 Government should publish transparency data on its external and internal websites. The data should be accessible, user-friendly and up-to-date.

1.13 Those charged with governance (typically the executive council or the cabinet) should periodically assess the risks associated with inappropriate behaviour.

Audit & Risk Committee

1.14 The Audit & Risk Committee’s role is to support senior management. It does this by reviewing the comprehensiveness and reliability of assurances on governance, risk management, the control environment and the integrity of financial statements. The Committee will formally report to senior management after each meeting and will provide an annual report, timed to support finalisation of the accounts and the governance statement, summarising its conclusions from the work it has done during the year.

1.15 The Committee works closely with internal audit, approving its strategy and work plan and ensures that internal audit has adequate resources and access to information to perform effectively.

1.16 In reviewing and advising on government’s approach to risks, the Committee may review the work of internal and external audit as well as the corporate risk register and receive reports from the risk owners on how they are managing the key risks.

1.17 The Committee should review government’s annual governance statement which could be published within government’s annual report and accounts. It should provide government with its view of the adequacy of the governance statement.

1.18 The Committee should review the extent to which internal audit recommendations have been implemented and report to the Government where there has been slippages.

1.19 The Committee should review its own operation and effectiveness against statements of current best practice.

1.20 For those Overseas Territories wishing to establish or strengthen an Audit & Risk Committee, the following references provide guidance:

- [HM Treasury's audit and risk assurance committee handbook](#); and
- [the Institute of Internal Auditors' guidance for Independent Audit Committees in Public Sector Organizations](#)

Principles-based guidelines

1.21 The Audit & Risk Committee provides formal assurance to senior management, covering risk management, governance, the control environment and financial statements, including an annual report.

1.22 The Committee works closely with internal audit, approving its audit strategy and work plan, and taking action where internal audit does not have adequate resources or access to be effective.

A framework for the proper conduct of public business

1.23 The public is entitled to expect high standards of conduct from all government employees. This section sets out guidelines for establishing and monitoring standards in public life. It is based on Lord Nolan's *Seven Principles of Public Life*.

Establishing standards

1.24 In 1995, the Nolan Committee reported on improving ethical standards in public life in the UK. The Nolan Committee established seven broad principles: selflessness, integrity, objectivity, accountability, openness, honesty, and leadership, which apply to holders of public office. In January 2013, the UK's Committee on Standards in Public Life published the results of its review of best practice in promoting good behaviour in public life³. The Committee noted that since 1995 there had been some improvements, most notably in the framework for public accountability, awareness of codes of conduct, growth in the number and types of regulators and a greater focus on transparency.

³ *Standards Matter: A Review by the Committee on Standards in Public Life*, Command Paper 8519, January 2013.

However the Committee also noted that there was still much to do and no room for complacency.

Standards in Public Life in the UK: what's changed in the UK since 1995

Infrastructure to support high standards in the UK has developed considerably since 1995.

Awareness of the importance of principles including integrity and accountability has increased.

Codes of conduct have been promulgated in most, if not all, public organisations and by many professional bodies.

New regulators have been created and others have had their remits clarified.

Transparency has increased markedly as a result of the development of electronic communications and the Freedom of Information Act 2000, aided greatly by the media which has a key role in making transparency meaningful to the general public.

Recruitment and induction

1.25 The quality of the staff recruited into the public service is central in delivering government plans and objectives and in providing assurance to citizens that their taxes and public resources are being safeguarded and managed properly. All public bodies need efficient and effective human resource management systems to make sure that the right people are recruited, they receive the right training and development, they continue to be motivated, and they are committed to the best principles of public service.

Principles-based guideline

1.26 Government and public sector organisations conduct rigorous open and fair interview and selection procedures to ensure that staff are recruited whose values are a good fit with those of the public sector. Organisational values and expectations are reinforced during induction. Procedures cover public servants, new governors and elected members of the executive body, and the PAC.

Good practice

For public servants

Selection procedures include following up references and validating claimed qualifications. For posts where staff have access to sensitive information, police and background checks are undertaken.

In addition to assessing competencies, interviewers aim to assess whether there will be a “mutually beneficial long-term fit”.

All new entrants attend induction programmes which cover ethical issues such as whistleblowing, the abuse of authority, appropriate use of government resources, and workplace confidentiality.

All new entrants sign up to complying with the legislatively endorsed code of ethics. This is repeated annually, reinforced and compliance monitored through annual performance appraisals.

New governors

All new governors receive a tailored induction from the FCO and, where appropriate, a briefing from the UK National Audit Office and from DFID.

New members of Parliament

All new members of the legislature receive an induction covering the accountability role of Parliament as well as the key component groups. The induction also covers the regulations and guidelines on: their general obligations; gifts and hospitality; registration of interests; disclosure of interests and participating in activities which may (or may appear to) present a conflict with their work as a member of Parliament; protocols for member/officer relations; access to officers, information and documents; protocols for meetings and committees; use of government resources; publicity and the media; and, breaches of the code of conduct.

Members of Parliament have access to relevant training offered across the public sector.

New members of the PAC

Members of the PAC have access to, and receive development sessions to help them understand their role and how to be an effective oversight committee. This is in part provided by the Auditor General but can also be provided by current and former PAC members and by contact with the PACs of other Overseas Territories.

Code of conduct

1.27 Codifying and publicising acceptable and unacceptable behaviour provides guidance for all employees on the standards of conduct expected of them in the discharge of their public duties. It also promotes the openness and accountability necessary to reinforce public confidence in the public service.

Employees need to be clear about their own duties including their responsibilities for others and the public funds. For professionally-qualified staff this is underpinned by their professional bodies' codes of conduct. The code of conduct should also set out the consequences of non-compliance and should be placed in the public domain.

Principles-based guidelines

1.28 Public sector organisations ensure that their codes of conduct are documented, publicised, proportionate, adapted to their needs and context, clear about consequences, framed positively, personalised and reinforced by positive leadership. There are codes of conduct for members of Parliament, external auditors, and government and other public sector employees.

1.29 As part of the recruitment procedures, all those in public services make a declaration to abide by their terms of condition of employment including the code of conduct.

1.30 Parliament enacts anti-fraud, anti-bribery and whistleblowing legislation. Senior officials ensure that staff are aware of the legislation, what they should do if they have suspicions or actual knowledge of fraud or bribery, and the protection which they would be afforded under the law.

Embedding standards

1.31 Once standards for the proper conduct of public business have been established it is critical that they are accepted as being beneficial and treated as the norm. In 2013, the UK's Committee on Standards in Public Life highlighted the following improvements which were needed.

- Ethical standards should be included within the code of conduct, and reflected in other management instructions such as the finance manual.
- Management training should include upholding ethical standards and managing deviations from these standards.
- As part of the performance appraisal system, employees should confirm whether they have conformed with the code of conduct throughout the assessment period and provide details of any breaches.

Standards in public life: what still needed to improve in the UK⁴

Inappropriate behaviour continued to be revealed on a regular basis – not only the most recent issues involving the police, the BBC and other institutions, but also instances of more long-standing problems. Some of these incidents implied that those in leadership positions in the organisations concerned had yet to internalise the principles of public life fully or, that if they had, they were unwilling to demonstrate them in their own behaviour when it was inconvenient or not expedient to do so. Much of this inappropriate behaviour involved deliberate attempts to get around codes of practice and conduct rather than a failure to understand what was expected.

The implication was that the principles of conduct in public life were some way from being universally accepted, whatever lip service may be paid to them. Individually and collectively people have a great capacity to find ways of acting within the letter but not the spirit of acceptable behaviour and to rationalise their reasons for so doing.

New situations continually arose which raised new issues, including, the development of new models of public service delivery. Responses to standards issues often came too late and only in response to public scandals which by then had done a lot of damage. Such improvements as had occurred in standards of behaviour over the past two decades had not been accompanied by an improvement in public confidence. Instead there had been a significant and consistent decline in levels of public trust and confidence in the integrity of public office-holders and institutions.

Principles-based guideline

1.32 Government publishes the civil service code of conduct. It should establish, publish and applies sanctions for inappropriate behaviour. It also considers publishing details of action it has taken in respect of proven breaches of the code.

⁴ Based on Command Paper 8519: *Standards matter: A review of best practice in promoting good behaviour in public life*, January 2013.

Incentives and sanctions

1.33 Ethical issues can be reinforced by induction training, performance management, refresher training covering values and conduct, disciplinary procedures and ultimately through legal proceedings.

Principles-based guidelines

1.34 Ethical standards are included within the published code of conduct, and reflected in other management instructions such as the finance manual. Management training encompasses upholding ethical standards and managing deviations from these standards.

1.35 As part of the performance appraisal system employees confirm whether they have conformed to the code of conduct throughout the assessment period and provide details of any breaches.

1.36 Government publishes a civil service code of conduct based on prevailing best practices. It establishes, publishes and applies sanctions for inappropriate behaviour. It also considers publishing details of the action it has taken in respect of proven breaches of the code.

Identifying problems

1.37 In addition to concerns detected by the cycle of management review and assurance work, concerns may be raised also by individual employees during their day-to-day activities and possibly by third parties.

Principles-based guidelines

1.38 Government establishes and publicises formal routes for raising and escalating concerns, including concerns about fraud and bribery, both internally and externally. This includes implementing whistleblowing procedures. Concerns over the activities of junior staff will be considered by line management and if necessary referred to an investigations group, such as internal audit. Individuals who have concerns about their line managers or co-workers are able to refer their concerns to an appropriate individual outside their reporting chain or indeed outside government, for example, the head of the civil service, the Governor or the Auditor General

1.39 Government establishes procedures for considering and investigating concerns raised by employees and third parties.

1.40 The FCO works with the Overseas Territories to help them further develop their own capacity to undertake fraud, anti-bribery and forensic accounting investigations (and reviewing large and complex projects).

Monitoring and compliance

1.41 To ensure that actual behaviour is appropriate, senior officials need to monitor compliance, including by reviewing completed code of conduct returns and staff survey results. Senior officials may need to make an annual declaration of interests. Undertaking these tasks also demonstrates the importance of standards of behaviour.

Principles-based guidelines

1.42 Senior officials ensure that:

- all staff have a written job description with objectives;
- individual and team performance is monitored and recorded, feedback provided and progress reviewed;
- annual staff surveys are completed, and the results reviewed and shared with employees together with a summary of the planned follow-up action that is tracked; and
- the results of any external review are followed up promptly.

Good practice

Using third parties to undertake annual staff surveys of all employees, covering engagement, organisational justice and organisational support and performance. The results were used to identify priority areas for human resource policy in the following year.

As part of a routine human resource audit, staff surveys are conducted to obtain indications of areas requiring greater scrutiny and to measure local perceptions of procedural fairness.

The Deputy Governor uses '360 degree' feedback when assessing senior officials' performance.

Using the annual surveys to seek the views of heads of services and directors. Revisiting the results of past staff surveys to identify changes in the way staff view their employer, working relationships, their role in government, culture, pay and other benefits, and training.

A framework for financial monitoring and reporting

1.43 The key elements of the financial monitoring and reporting framework include: fiscal strategy and reports; budgeting and forecasting; authorising expenditure and stewardship of assets; establishing and reviewing controls; preparing and auditing financial statements and other supplementary information; and, reporting the results of the audits and other external reviews to those charged with governance, including the Governor, senior officials and members of Parliament.

1.44 The International Standard of Supreme Audit Institutions 1260 (*Communication with Those Charged with Governance*) defines those charged with governance as: ‘The person(s) or organisation(s) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the financial reporting process. For some entities in some jurisdictions, those charged with governance may include management personnel, for example, executive members of a governance board ...’ In most Overseas Territories, the governing body is the Executive Committee or the Cabinet.

Fiscal strategy and reports

1.45 The Government should set and publish its fiscal strategy which sets out its medium-term (and possibly long-term) objectives and priorities for public sector finances. It should set out the strategy for meeting the financial forecasts for public sector finances including recurrent expenditure, capital investment and revenue collection. Some Overseas Territories have frameworks for fiscal responsibility or for fiscal sustainability and development. These frameworks may be part of agreements between the Overseas Territory’s Government and the UK Government.

1.46 Periodically, the Government should prepare a fiscal report covering an assessment of government’s financial health and progress with delivering the fiscal strategy. The report should cite performance indicators that are aligned to the key issues underlying financial health and public financial management. The fiscal report should cover, among other things, the items commonly agreed in frameworks of fiscal responsibility, such as:

- audited annual report and accounts of government and its arm’s-length bodies;
- forecasts for revenue and current and capital expenditure;
- debt management, including forecasts and liquidity data;
- commentary on the valuation of long-term liabilities, such as provisions for pensions and healthcare;
- details of key assets valuation, state and protection;
- updates on major projects and programmes; and
- financial risks and how they are being managed.

1.47 The PAC may request that external audit reviews the fiscal report. Parliament should review the fiscal report and the PAC should consider

convening a meeting to discuss the fiscal report with the accounting officers and other witnesses. The finance minister should present the fiscal report to Parliament and the Governor for debate.

1.48 The Government should forward a copy of the fiscal report to the UK government, in accordance with a timetable to be agreed by the UK and Overseas Territories' Governments. The UK Government should review the report and follow up any issues via the Governor.

Principles-based guidelines

1.49 The Government should set and publish its fiscal strategy which sets out its medium-term objectives and priorities for public sector finances.

1.50 The Government should prepare a fiscal report covering an assessment of its financial health and progress with delivering the fiscal strategy.

1.51 Parliament should review the fiscal report and the PAC should consider convening a meeting to discuss the fiscal report with the accounting officers and other witnesses.

Budgeting and forecasting

1.52 Managers should use current and reliable information to prepare budgets and forecasts on a timely basis. When producing budgets and forecasts, managers should compare actual and historic performance to planned or expected results and analyse the differences. Working assumptions should be set out and disclosed. Budgets, including supplementary budgets and proposed amendments to existing budgets, forecasts and the related commentary, should be reviewed by senior management before they are presented to the Government and the Governor for scrutiny and approval, which should be recorded.

Principles-based guideline

1.53 Parliament's attitude to public sector financial risks should be clearly communicated to senior managers. This could be set out in the fiscal responsibility report covering issues such as, borrowing limits and strategies, reserves, public sector spending targets or limits, and revenue targets.

Authorising expenditure and stewardship of assets

1.54 There should be clearly defined and understood procedures for authorising expenditure and approving payments underpinned by a system of delegated authorities and including supervisory checking. These procedures should be documented and regularly reviewed taking account of any recommendations made by internal or external audit.

1.55 Asset owners should understand and acknowledge in writing their responsibilities for the use and stewardship of assets including revenue collection. Stewardship of assets refers to the careful and responsible management of something entrusted to one's care. Assets are everything your organisation owns - including money, money owed to you, equipment, goods, property or lands etc. The risks pertaining to the assets should be identified and addressed and appropriate systems of internal controls introduced.

Principles-based guidelines

1.56 There should be clearly defined and understood procedures for authorising expenditure and approving payments, underpinned by a system of delegated financial authorities.

1.57 The Management Committee is responsible for ensuring that the organisation gets the best from its assets and uses them as effectively as possible. This is the case through the lifetime of the organisation, from its inception to its winding up.

Establishing and reviewing controls

1.58 Government should establish an effective system of internal control. The internal audit function has a key role in reviewing controls and then reporting the results of its reviews to the management and the Audit & Risk Committee. The International Organisation of Supreme Audit Institutions (INTOSAI)⁵ includes the following areas amongst the common internal control practices which should be present in a framework for accountability in government.

⁵ [INTOSAI GOV 9120](#): *Internal Control; providing a framework for accountability in government*

Common internal control practices which should be present in a framework for accountability in government

Transactions-level controls - transactions are recorded promptly and accurately to aid the currency of management information and reporting: transactions and other significant events are always authorised and executed by staff acting within the scope of their authority.

Information processing controls - including purchase ledger duplicate entry testing and reasonableness checks on payroll.

Maintaining accounting records - access to resources and records is limited to authorised individuals. Accountability for their custody and use is assigned and maintained.

Internal control alignment - controls are aligned to the standards developed by Parliament and, where applicable, funding bodies.

Effective workforce - staff are recruited, hired, trained, developed and managed to achieve government objectives.

Performance indicators and performance reporting with exception reporting - managers develop and use effective performance management information.

Effective segregation of duties - is established and maintained to, among other things, reduce the risk of error and fraud.

Physical controls - covering custody and maintenance, accounting, mustering, stocktaking, spot checks, issues and receipts are established and maintained to secure and safeguard all vulnerable assets including cash and third party assets.

Internal control and all transactions and other significant events are clearly documented and the documentation is readily available for examination.

Principles-based guideline

1.59 Government establishes an effective system of internal control. The internal audit function has a key role in reviewing controls and then reporting the results of its reviews to the management and the Audit & Risk Committee

Reviewing the system of internal control

1.60 Those charged with governance should ensure that government has established an effective system of internal control. This might be achieved by reviewing evidence from a number of sources, both documentary and verbal, including:

- management information reports;

- internal and external audit reports;
- explanations provided by key witnesses, senior managers and third parties such as key user groups and their representatives; and
- the results of the scrutiny by the PAC, other relevant sub-committees, and the Audit & Risk Committee.

Registering and managing risks

1.61 It is very important to have a framework for identifying and registering risks, considering the appetite for different types of risk, and actively managing them. As part of this process, government should prepare an entity-level risk register which should be reviewed, updated and actively monitored. The Audit & Risk Committee should consider the updated risk register at all its meetings. Further guidance on risk management is provided in the HM Treasury's 'Orange Book', *Management of Risk – Principles and Concepts*.

Principles-based guideline

1.62 There should be a framework for identifying and registering risks, considering the appetite for different types of risk, and actively managing them.

Preparing and auditing financial statements and other supplementary information.

1.63 The Government is responsible for preparing annual accounts in accordance with the International Public Sector Accounting Standards (IPSAS), and which can be efficiently audited in accordance with agreed timetables to meet legislative requirements. These accounts should be prepared very soon after the end of the financial year so that the Auditor General can complete the audits and issue the independent opinions on the accounts in a timely manner.

1.64 Government should actively consult with the Auditor General when planning its accounts production and internal review procedures. The plan should take into account, and mitigate, any issues which have led to delays and qualification in the past, such as implementing international accounting standards.

1.65 The specific responsibilities and requirements for the production and reporting of annual accounts, together with any relevant subsidiary statements, vary depending on the relevant legislation in each of the Overseas Territories. However as all public bodies are expected to have effective corporate governance arrangements to deliver their objectives, the publication of audited annual accounts with a clear audit opinion is an important means by which the

public bodies demonstrate the stewardship and use of public money at their disposal.

1.66 The governance arrangements should include publishing an annual governance statement, which explains how government has discharged its governance responsibilities, highlighting areas of concern and outlining planned remedial actions. Government may also need to prepare other submissions or returns which may require or benefit from review by an external auditor.

Principles-based guidelines

1.67 Government operates effective corporate governance arrangements, which include the timely production and publication of comprehensive audited annual accounts. The arrangements are assessed by the internal audit function, and discussed by the Audit & Risk Committee and the PAC.

1.68 The Government publishes its corporate governance report as part of the body of the annual report and accounts, so that the audit certificate can indicate that the auditor has reviewed the governance statement. The annual corporate governance report is prepared and signed by the head of the Government having been reviewed by management, internal audit and the Audit & Risk Committee.

1.69 The audited annual financial statements of government and all statutory bodies and publicly-owned or controlled enterprises should be laid before Parliament to ensure transparency and the exercise of Parliamentary oversight across the public sector.

Form and content of the Government's annual accounts

1.70 The precise form and content of the audited bodies' annual accounts should reflect the requirements of the relevant accounting and reporting framework.

Principles-based guideline:

1.71 Government has adopted International Accounting Standards or International Public Sector Accounting Standards, thus preparing accounts which report income, expenditure, assets and liabilities, and cash flows.

Quality and timeliness of government accounts

1.72 Government is responsible for ensuring that the draft annual accounts have been properly prepared and thoroughly reviewed before they are rendered for audit. The accounts need to be provided to the auditors soon after the end of the financial year so that the external auditors can complete their audit and present their report to Parliament – ideally within six months of the financial year end.

1.73 Where there are difficulties in meeting the requisite time and quality standards, government should undertake a detailed review to identify the causes and draw up an action plan with timescale showing how the problems will be overcome. This plan should be shared with the Auditor General and the PAC who will be asked to confirm the adequacy of the response and monitor compliance.

Principles-based guidelines

1.74 Government presents the audited financial statements to the legislature within the statutory deadlines and works with the external auditors towards presenting draft accounts within six months of the end of the financial year.

1.75 Where there are difficulties meeting such standards, government has a clear strategy for addressing any shortfalls.

Management letter and follow up

1.76 At the end of the audit, senior management meet with the auditor to discuss findings and to clarify any outstanding issues. They respond promptly to the auditors' written management letter providing their response to any recommendations.

1.77 After the audit, senior management monitor that their organisations are implementing the recommendations which have been adopted and provide the auditor and/or the PAC with progress reports as and when required.

Principles-based guidelines

1.78 Government is able to demonstrate that it has responded to the recommendations of the external auditor and periodically reports on progress with implementation of those recommendations which were accepted.

1.79 Adopting new accounting standards such as IPSAS should be carefully planned, properly resourced and managed by government in discussion with the internal and external auditors. It may be necessary to phase the implementation over a number of years, for example by moving to cash-based IPSAS and then progressing to accrual-based internationally-recognised standards over the next five years.

Reporting on the results of the audits and other external reviews

1.80 The Auditor General should prepare an audit completion report on the results of the audit of the government's financial statements. The audit completion report should: outline the key risks to the audit opinion and

summarise the work undertaken by the auditor to review these key risks: outline the significant errors detected during the audit and explain how they have been dealt with; and include the anticipated audit certificate and report. The Audit & Risk Committee should consider the audit completion report when reviewing government's draft financial statements before deciding whether or not to recommend that the accounts should be finalised, signed and submitted for audit certification.

1.81 The audited accounts should be laid before Parliament and promptly published. The PAC should examine government's annual accounts and those of government's arm's-length bodies. The audit completion report noted above should be copied to the PAC to consider when preparing for the hearing.

Principles-based guideline

1.82 The Auditor General prepares an audit completion report on the results of the audit of government's financial statements, which is presented to the Audit & Risk Committee.

Financial reporting maturity assessments

1.83 Government should consider making an assessment of their current financial reporting framework using tailored elements of an assessment tool such as that of the Chartered Institute of Public Finance and Accountancy's *Financial Management Model* and elements of the Public Expenditure Finance and Accountancy Review used by the UK's Department for International Development and other international development organisations.

Principles-based guideline

1.84 Government considers making an assessment of its financial reporting framework.

Chapter Two

Responsibilities of internal audit

2.1 This chapter sets out the responsibilities of internal audit in providing effective oversight of public finances in the Overseas Territories. It covers: the purpose, authority and responsibility of internal audit; resourcing and staffing; independence and objectivity; quality assurance; and, reporting.

2.2 A high-quality independent internal audit function provides objective assurance and undertakes consulting activity designed to add value and improve an organisation's operations. This helps an organisation to accomplish its objectives by bringing a disciplined approach to evaluating and improving the effectiveness of risk management, control and governance processes. There should be a close relationship between the internal and external auditors and the Audit & Risk Committee.

2.3 The internal audit function applies a risk-based approach when preparing its plans. The plan covers both financial and non-financial systems, controls and risks. The plan is discussed and agreed with management and approved by the Audit & Risk Committee. The annual plan concentrates on key strategic and operational risks and covers sufficient controls and activities to enable the head of internal audit (HIA) to express an annual opinion, with an appropriate level of assurance, on the overall adequacy and effectiveness of government's risk management, control and governance processes. The internal audit function also prepares a strategy that provides a high-level statement of how the internal audit function will develop and deliver a service in accordance with the internal audit charter.

2.4 The Institute of Internal Auditors (IIA) publishes principles-based International Standards for the professional practice of internal auditing. The IIA Standards have been interpreted for the public sector in the UK by the relevant Internal Audit Standard setters.⁶ There is a reasonable expectation that the UK Overseas Territories should apply the UK Public Sector Internal Audit Standards.

⁶ Public Sector Internal Audit Standards are used in the UK to apply IIAs to the internal audit of public sector organisations. These standards include additional requirements and interpretations for the UK public sector which have been inserted in such a way as to preserve the integrity of the text of the mandatory elements of the IIA's International Professional Practices Framework. (Source: [CIPFA Public Sector IASs](#))

Purposes, authority and responsibility

Principles-based guidelines

2.5 The purpose, scope, authority and responsibilities of government's internal audit function is formally agreed by the HIA and government. The agreement is set out in the internal audit charter.

2.6 The internal audit charter:

- formally defines the purpose, authority, and responsibility of the internal audit function in a manner which is consistent with the IIA's definition of internal auditing, the code of ethics, and the Standards, and includes reference to responsibility and arrangements for investigations into irregular and inappropriate use of resources;
- covers the nature of both assurance and consultative services provided by the internal audit function;
- covers the reporting lines and responsibilities, relationships with the key stakeholders; and
- authorises access to records, personnel and physical assets and properties relevant to the performance of the function.

2.7 The Audit & Risk Committee periodically reviews the currency of the internal audit charter and confirms that the internal audit function has executed all of its responsibilities as set out in the charter. This review might be led by the Auditor General as a result of an assessment made under the requirements of ISA 610 *Using the Work of Internal Audit*.

The IIA's model charter covers:

- role of internal audit and who is responsible for defining the role;
- professionalism i.e. the standards to which the function should adhere, including the ethical standard;
- authorities held by the HIA;
- HIA's functional and administrative reporting lines;
- responsibilities of the senior officials include: approving the charter, risk-based audit plan, budget and resource plan; receiving communications and reports from the HIA; approving decisions regarding the appointment of the HIA (including their remuneration); and ascertaining whether there is any inappropriate limitation of scope or resources;
- independence and objectivity of the internal audit function;

- responsibilities of the internal audit function;
- procedures for: submitting reviewing and approving the HIA's prioritised, risk-based annual plan; communicating the impact of any resource limitations to senior officials; reporting and monitoring (sending written reports covering each engagement to government and to senior officials, including recommendations and management's response); follow-up action; and periodic reporting to senior management and the board on the internal audit function and its progress against its plan; and
- commitment to maintaining a quality assurance and improvement programme covering compliance with Standards and its code of ethics and an assessment of the effectiveness of the internal audit activities. HIAs are responsible for reporting to the Board on the quality assurance and improvement plan for the function, including the results of internal and external assessments.

Resourcing and staffing

2.8 This section covers staff resources, both numbers and competencies, with a particular focus on the skills needed to deal with issues of fraud and the audit of information technology systems. It also covers due professional care. An effective internal audit function must have the right people in the right place at the right time.

Principles-based guidelines

2.9 Internal audit resources are sufficient to recruit and retain the staff needed to carry out the planned work and to enable the HIA to reach an overall annual assurance opinion on the systems of internal control (IIA 2030 – *Resource Management*).

2.10 Any deficiencies in resources which lead to curtailing or deferring elements of the planned work are noted in the HIA's annual report.

2.11 The Audit & Risk Committee reviews the internal audit function's proposed plan, including the resourcing proposals. It:

- confirms that the planned resources are sufficient to undertake the planned reviews and that the function has or will acquire staff with the knowledge, skills and other competencies needed to execute the plan;
- confirms that the plan demonstrates that the required resources will be effectively deployed so as to optimise their use; and
- approves or endorses the internal audit budget.

Good practice

A key risk for Overseas Territories is finding sufficient qualified individuals to replace key personnel when they leave. Succession planning, underpinned by training and access to external professional resources, are key responses to the risk. While some Territories actively train internal auditors, others recruit internal audit professionals from overseas.

Proficiency

2.12 Proficiency refers to the knowledge, skills and other competencies required of internal auditors to effectively carry out their responsibilities. It enables internal auditors to provide relevant advice and recommendations, and can be demonstrated through professional certifications and qualifications. Because the profession is constantly evolving, adapting to a changing risk landscape, internal auditors always need to be updating their skills.

Principles-based guidelines

2.13 The Head of Internal Audit is suitably qualified and experienced to perform the role. They must hold a professional qualification (CMIIA, CCAB or equivalent) and be suitably experienced.

2.14 Internal auditors individually and collectively possess or obtain the knowledge, skills, and other competencies needed to perform their responsibilities.

2.15 The HIA obtains competent advice and assistance if the internal auditors lack the specialist or expert knowledge, skills or other competencies needed to perform all or part of the engagement.

Good practice

Overseas Territories have overcome internal audit capacity and capability issues in various ways:

- Rigorous recruitment procedures to ensure that successful applicants do have the required skills, experience and qualifications.
- Training for professional qualifications and requiring staff to commit to continued professional development to meet the training needs of an internal auditor. Training needs are identified as part of the appraisal system, met and monitored.
- Working closely with other audit and assurance functions within government, such as external audit.
- Sharing specialised skills across Territories' internal audit functions, perhaps with some key staff leading the work of colleagues on those types of audits or acting as mentors or champions.

Fraud and information technology risks

2.16 It is management's responsibility to establish a system of internal control which, among other things, helps to provide reasonable assurance that the organisation safeguards resources against fraud. The internal audit function's role is to evaluate the risk of fraud and how it is managed in the organisation. To review information systems, audit teams are increasingly expected to have a good understanding of IT risks, how these can be controlled and the use of technology-based audit techniques.

Principles-based guidelines

2.17 Internal auditors have sufficient knowledge to evaluate the risk of fraud and how it is managed by the organisation, but are not expected to have the expertise of a person whose primary responsibility is detecting and investigating fraud.

2.18 Internal auditors have sufficient knowledge of key information technology risks and controls and the use of technology-based audit techniques to perform their assigned work. Not all internal audit functions are expected to have full-time direct access to the expertise of an internal auditor whose primary responsibility is information technology auditing.

2.19 There are particular risks to independence when investigating allegations and suspicions of significant fraud in small communities. In such instances, the Governor and the FCO should help the HIA to access the service of forensic accountants and/or fraud investigators.

Good practice

IT capacity issues are being addressed by training, recruiting and out-sourcing, and obtaining assistance from the government IT section.

Due professional care

2.20 At the engagement level, applying due professional care involves understanding the objectives and scope of the engagement, the competencies required to carry out the work, and any policies and procedures specific to the activity and the organisation. Due professional care does not imply infallibility, but its application does reduce the likelihood of problems not being identified.

Principles-based guidelines

2.21 Internal auditors apply the care and skills expected of a prudent and competent internal auditor.

2.22 Internal auditors consider the use of technology-based audit and other data analysis techniques and remain alert to the significant risks that might affect objectives, operations and resources.

2.23 Government works with its internal auditors to identify significant risks, recognising that internal auditors' assurance procedures alone, even when performed with due professional care, do not guarantee that all significant risks will be identified.

2.24 Internal auditors exercise due professional care during an engagement by considering: the needs and expectations of the clients, including the nature, timing and communications of the engagement results; the relative complexity and extent of the work needed to achieve the engagement's objectives; and, the cost of the consulting engagement in relation to potential benefits.

2.25 Internal auditors enhance their knowledge, skills and other competencies through continuing professional development.

2.26 The HIA is responsible for ensuring that all staff are undertaking relevant training or continuous professional development, which should be logged and used to help develop personal development plans for all members of the team.

Independence and objectivity

2.27 Independence is the freedom from conditions that threaten the ability of internal audit to carry out its responsibilities in an unbiased manner. Objectivity is an unbiased mental attitude that allows internal auditors to perform engagements in an impartial way, without any conflicts of interest. There is a greater risk to independence and objectivity in smaller organisations and smaller communities where staff transfer between departments and the internal audit function, and where the internal audit function relies on the expertise of employees within government services. Internal audit's independence and objectivity can also be threatened by any restrictions on reporting, scope or access.

Independence

Principles-based guidelines

2.28 The internal audit function is free from interference when determining the scope of internal auditing, performing work, and communicating results.

2.29 The HIA communicates and interacts directly with government's senior management.

2.30 The Audit & Risk Committee considers the internal auditor's independence.

Good practice

In many cases, the Overseas Territory's HIA reports administratively to the head of the civil service or the financial secretary whereas functional reporting is to the Audit & Risk Committee.

Strict adherence to the terms of the internal audit charter is seen as a factor which helps the internal audit function to maintain its independence and gain unfettered access to the head of government.

Additional activities undertaken by an internal audit function may be considered to impinge on its independence with the potential exception of advisory and assistance services. In such cases, it is important that steps are taken to ensure that this work does not include decision-making or the implementation of policies. Independence is also cited as being maintained by not engaging in, or having authority over, operational matters. The Deputy Governors (head of public service) can have a role in guiding the general direction of the scope of the work and activities to be reviewed but the final decision should be with the HIA and A&RC, as the resulting risk-based plan must take into account the requirement to produce an annual internal audit opinion on the assurance framework.

Appointment and budget approvals

2.31 The arrangements for appointing the Head of Internal Audit and for agreeing the internal audit budget are important for securing its independence. Processes for appointing the HIA vary across the Overseas Territories with a wide range of individuals involved, including the Governor, Deputy Governor, the public service commission, chief secretary, financial secretary, and the chief office of the ministry of finance.

Principles-based guideline

2.32 Processes for both the appointment of the HIA and the approval of the internal audit budget are transparent and open. The HIA is closely involved with both external and internal recruitment and appointment of their staff.

2.33 Where the HIA believes that the level of agreed budget will impact adversely on the provision of the annual internal audit opinion, the consequences must be brought to the attention of the Audit and Risk Committee and senior management.

Good practice

Internal audit plans are usually approved by the Audit and Risk Committee. Budgets are approved in the same manner as other government departments' budgets i.e. by the House of Assembly, Legislative Council, and the Budget Select Committee. The HIA, together with the A&RC, have a key responsibility for ensuring that the internal audit budget is adequate.

Objectivity

Principles-based guidelines

2.34 Internal auditors maintain an impartial, unbiased attitude and avoid any conflict of interest. They must not assess specific operations for which they were responsible within the previous year.

2.35 If independence or objectivity is impaired in fact or appearance, the details of the impairment must be disclosed to all appropriate parties.

Good practice

The Overseas Territories use a range of policies and procedures to safeguard the independence and objectivity of internal audit. Examples include:

- Ensuring that staff are not responsible for auditing areas where independence could be perceived as being compromised (e.g. where they have close family ties).
- Where staff have been involved in operational tasks, steps were taken to preserve their future objectivity and independence by ensuring that these staff are not required to audit these areas in the following year.
- Ensuring all staff make a formal conflict of interest disclosure on their personal relationships/activities and areas where there may be potential for an impairment of their objectivity. The disclosures are reviewed by the HIA and the internal audit manager to ensure that staff members are not assigned to areas where such impairment may occur.
- A formal requirement for audit staff to update their disclosures annually.
- Prior to an assignment, potential conflicts are discussed and, where this cannot be resolved, efforts are made to make alternative arrangements to resource the assignment. Should this not be possible, any impairment to independence is documented in the audit working papers and appropriate steps taken during the assignment to ensure that the results are objective.
- Recruiting qualified staff from overseas.

Independence and objectivity require that internal auditors do not subordinate their judgement on matters to others. Examples include:

- All plans are approved by the A&RC.
- Audits follow the audit methodology and adhere to professional standards and ethics.
- Audit reports are prepared by internal audit staff after discussion and consultation with management in the audited department.
- Audit reports include management responses to audit findings, disclosing any differences of opinion in the reports.
- Audit reports are reviewed by audit managers and the HIA prior to issue. Standardised internal quality review procedures are completed by managers. The views and judgements contained within the reports, including special investigations, are those of the HIA.
- Work is done to professional standards and complies with ethical guidelines.

Quality assurance and improvement programmes

2.36 To maintain and improve the quality of audit processes and products, the HIA runs an evaluation programme covering internal audit activity's compliance with the definition of internal auditing, the IIA Standards (IIA 1300), and the IIA's code of ethics. The programme assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement.

2.37 The programme is subject to both internal and external assessments. Internal assessments must include: ongoing monitoring of the performance of the audit activity; and, periodic self-assessments or assessments by other persons with sufficient knowledge of internal audit standards and practices.

2.38 The external assessment should be undertaken at least once every five years by a qualified, independent assessor from outside government. The external assessments can be a full external assessment or a self-assessment with independent external validation.

Principles-based guidelines

2.39 The HIA develops and maintains a quality assurance and improvement programme (QAIP) with both internal and external review elements that cover all aspects of the internal audit activity.

2.40 The HIA communicates the results of the quality assurance and improvement programme to senior management and the board.

2.41 The HIA confirms that the internal audit activity conforms with the International Standards for the Professional Practice of Internal Auditing only if the results of the most recent assessments support this statement. All internal audit activities which have existed for five years must be supported by the results of an external assessment. Non-conformance is reported to senior management.

Good practice

Some Overseas Territories reported that they had some elements of a plan which would meet the requirements for the QAIP under IIA 1300.

Overseas Territories report annually on the performance of the internal audit function to the Deputy Governor as agreed in the internal audit charter, and plan to report the results of the internal and/or external quality assessment and actions identified for inclusion in the QAIP to the Audit & Risk Committee and senior management.

Where it is difficult to introduce the IIA requirements in full for external review, the HIA considers alternative methods for exposing the self assessment to some degree of external challenge and review. This can include remote desktop review of elements of the programme by third parties such as other Territories or regional internal audit teams.

Reporting

2.42 Internal auditors must communicate the results of engagements. The traditional way of communicating these results to management and the board is a written report, but other forms of communication may be preferred in some circumstances. The key is that management needs to know if there is anything to be concerned about. And communication must be accurate, objective, clear, concise, constructive, complete, and timely.

2.43 The Head of Internal Audit produces an annual report and overall opinion. This summarises the results of the work undertaken during the year by the internal audit team and the reliance the HIA has placed on other assurance providers. It includes an overall opinion, typically on the effectiveness of the internal controls. It sets out the basis of the overall opinion and if the overall opinion is unfavourable explains the reasons.

Principles-based guidelines

2.44 The internal audit function evaluates and contributes to the improvement of governance, risk management, and control processes across government/public sector by using a systematic and disciplined approach.

2.45 Communication of the results of engagements is accurate, objective, clear, concise, constructive, complete, and timely.

2.46 Notwithstanding the independence of the internal audit function, internal auditors aim to clear the factual accuracy of their findings with auditees.

2.47 Where issues of confidentiality do not preclude, internal audit reports are distributed widely and made available to the public.

2.48 The Head of Internal Audit produces an annual report and overall opinion, covering the effectiveness of internal controls.

Good practice

Internal audit final reports are sent to the relevant director, relevant head of department, the Audit and Risk Committee and copied to the external auditor. Where appropriate, reports are sometimes circulated further (for example, Governor, Deputy Governor and PAC).

Implementing recommendations

2.49 Internal audit adds value by providing recommendations that correct problems and also address the cause of those problems. Directors of audited bodies are generally responsible for implementing the agreed recommendation in accordance with an implementation plan with deadlines.

Principles-based guidelines

2.50 The HIA establishes a follow-up process to monitor effective implementation of key recommendations in accordance with an agreed timetable, or to confirm the auditee's acceptance of the identified risk.

2.51 Internal auditors undertake follow-up reviews where significant weaknesses have been highlighted. The timetable for following up the recommendations is based on the significance of the individual recommendations.

2.52 Escalation procedures exist to ensure that instances of significant delays in implementing recommendations are considered at an appropriate level.

2.53 Government should formally assess the likely impact and risks associated with delayed implementation of significant recommendations.

Good practice

Where there have been significant delays in implementing recommendations, the Audit & Risk Committee oversaw and agreed procedures for clearing delayed implementations including highlighting the delays.

Expectations

2.54 The internal audit function seeks to meet the expectations of its stakeholders, who will vary depending on the organisation. Active assessment of stakeholder expectations, for example through formal or informal meetings or a survey, can minimise the risk of an 'expectations gap'.

Principles-based guideline

2.55 The HIA identifies and considers the expectations of senior management, and other stakeholders, regarding the role of internal audit.

Good practice

Where a Territory found that there was limited understanding of the role and function of internal audit across government, it ran internal audit engagement sessions with senior management and this led to increasing expectations of the internal audit function.

Chapter Three

Responsibilities of the external auditor

3.1 An Overseas Territory's external auditor is uniquely positioned to enable it to make a real difference to the lives of citizens. The United Nations recognises the:

“important role of supreme audit institutions (SAIs) in promoting the efficiency, accountability, effectiveness and transparency of public administration, which is conducive to the achievement of national development objectives and priorities as well as internationally-agreed development goals”⁷

3.2 INTOSAI⁸ also notes that supreme audit institutions can help their respective governments improve performance, enhance transparency, ensure accountability, maintain credibility, fight corruption, promote public trust and protect the interests of their citizens.⁹ This chapter outlines the external auditor's duties and provides high-level guidance applicable to the external audit of Overseas Territories' government accounts. It covers the following areas:

- independence of the external auditor, including appointment and accountability, remit and access rights, and resources and staffing;
- the external auditor's responsibility to make a difference to citizens;
- undertaking financial audit;
- undertaking value for money audit; and
- coordination and cooperation between external auditors and internal auditors.

⁷ United Nations General Assembly, Resolution A/RES/69/228, *Promoting and fostering the efficiency, accountability, effectiveness and transparency of public administration by strengthening supreme audit institutions*, December 2014

⁸ Although the Overseas Territories are not directly members of the International Organisation of Supreme Audit Institutions (INTOSAI), the UK is through the National Audit Office. There is a reasonable expectation that Territories comply with INTOSAI guidance and benefit from its training and development initiatives where appropriate.

⁹ INTOSAI, *Beijing Declaration on Promotion of Good Governance by Supreme Audit Institutions*, 2013.

Independence of the external auditor

3.3 In its 2014 Resolution, the United Nations recognised that ‘SAIs can accomplish their tasks objectively and effectively only if they are independent of the audited entity and are protected against outside influence.’ INTOSAI has established eight core principles to secure the independence of SAIs:

Supreme Audit Institutions independence: Eight core principles

1. The existence of an appropriate and effective constitutional/statutory/legal framework and the de facto application provisions of this framework.
2. The independence of SAI heads, including security of tenure and legal immunity in the normal discharge of their duties.
3. A sufficiently broad mandate, and full discretion in the discharge of SAI functions.
4. Unrestricted access to information.
5. The rights and obligation to report on their work.
6. The freedom to decide the content and timing of audit reports, and to publish and disseminate them.
7. The existence of effective follow-up mechanisms on SAI recommendations.
8. Financial and managerial/administrative autonomy and the availability of appropriate human, material and monetary resources.

Appointment and accountability

3.4 For the audit office to be, and to be perceived to be, independent and effective the arrangements for appointing the Auditor General are of critical importance.

Principles-based guidelines

3.5 The Governor, with the approval of the Secretary of State, having consulted with the premier and the leader of the opposition, has made appropriate arrangements for the independent audit of government accounts and those of all statutory bodies.

3.6 The Auditor General’s appointment is protected from unfair dismissal and provided with a reasonable period of tenure, such as 5 to 10 years. The Auditor General is a qualified accountant and is recruited through an open, transparent, and competitive process. The Auditor General has the right to appoint, promote, discipline and remove their own staff within the budgetary constraints and the appropriate employment laws.

3.7 The Auditor General is accountable to the Governor and Parliament for their use of resources and for the overall performance of their office.

Remit and access rights

3.8 To be able to discharge their duties, the external auditors should be afforded rights which are underpinned by legislation which is periodically reviewed and where necessary updated. Such legislation should enshrine the concept of audit independence and reflect best practices outlined by INTOSAI.¹⁰ The arrangements for external audit are covered by the Overseas Territories' constitutions and other legislation. All the Territories' constitutions include a requirement for external audit of the public finances in some form.

3.9 External auditors should have wide-ranging powers to follow public money wherever it is spent or raised. They should have access to all forms of information and people, as well as the power to decide what they audit and how they audit. To include a degree of unpredictability within the audit, the external auditors are able to access records and assets at short notice. Access extends to subsidiary organisations deemed to be either in the public sector or using public funds so that the auditors can "follow the funding".

3.10 The Auditor General has the power to determine how, when and in what format they report on their audits. The external auditors should also have legal immunity from being sued for the opinions contained in audit reports.

3.11 In some jurisdictions, the external auditor is required to conduct an annual financial (including regularity or compliance) audit of all public entities. In others, the external auditor may be required to conduct annual financial audits of major departments and conduct less frequent financial audits of smaller entities (selected on the basis of risk). In most cases, the number of annual VFM audits is discretionary and is agreed with Parliament as part of the budget-setting process.

Principles-based guidelines

3.12 The legislative framework governing external audit empowers the Auditor General to undertake all necessary types of audit, including financial and value for money. It makes it clear which audits are obligatory and which discretionary. It also defines the frequency with which audits are undertaken.

¹⁰ [ISSAI 10](#) – *The Mexico Declaration on SAI Independence*, INTOSAI, 2007.

3.13 The Auditor General shall act independently in all matters related to identifying, executing and reporting on audit and not be subject to the direction of the Governor, executive council or any other person or authority.

3.14 External auditors have the right to access, at all reasonable times, records, equipment and other property and personnel. Access should extend to subsidiary organisations so that the auditors can “follow funding”.

Resources and staffing

3.15 Most of the Overseas Territories’ external auditors are members of the civil service. However, [INTOSAI ISSAI 10](#) requires that ‘a SAI should have available necessary and reasonable human, material, and monetary resources—the Executive should not control or direct the access to these resources’.

3.16 Overseas Territory audit offices need to be properly resourced to carry out their work to a professionally-acceptable standard. The level of resourcing required should be agreed annually with Parliament and the Governor. Where insufficient of the right resources are provided, this needs to be recorded in the annual audit report and the scope of the audit may need to be adjusted accordingly.

3.17 Audit is a professional task and people recruited to audit offices should either have the skills to audit to international standards or should be provided with on- and off-the-job training that enables them to do so. Staff should be provided with opportunities for continuing professional development to maintain and increase their skills.

3.18 Audit offices also need resources to provide administrative back up to the professional staff, hire consultants for specialist aspects of audit and to manage audit peaks. Resources may also be needed to enable auditors to carry out fieldwork.

Principles-based guidelines

3.19 Resources are sufficient to allow the Auditor General to fulfil their statutory remit. Budgets recognise the need to undertake the statutory audit, discretionary audit work, staff training and activities to maintain a professional external audit function. Training needs are supported by an analysis of short-term and longer-term requirements.

3.20 The external audit programme and budget are presented to Parliament, possibly via the PAC, a public accounts commission or a board, for formal

discussion and endorsement. The budget approved by Parliament is the budget which is received by the Auditor General during the year.

3.21 The Auditor General maintains managerial and financial autonomy in the use of resources allocated to the audit office.

Good practice

Some Overseas Territories have difficulties recruiting and retaining staff for the audit office. Strategies used to address these risks include:

- outsourcing the external audit function to private sector accountancy firms or to another supreme audit institution;
- recruiting expatriate auditors on fixed-term contracts;
- arranging secondments from other audit offices; and
- seeking assistance with recruitment, including for the Auditor General position, from larger audit offices.

3.22 To mitigate the pressures on a Territory's audit office it may be possible to share more technical expertise and audit products between the Territories. Alternatively, they could jointly commission external expertise. One Territory, through DFID-funded technical co-operation has updated its external audit manual. The Overseas Territories' audit offices could establish a portal for sharing ideas and discussing issues electronically.

3.23 Auditors General may be able to pool resources and undertake peer review of each others' work, including plans, in order to reduce staffing pressures and further improve the quality of products by subjecting them to external professional challenge and benefiting from sharing knowledge and experience. Thematic reviews, especially of technical areas such as audit of tax collection, could be organised.

3.24 Some jurisdictions create a statutory board or a public accounts commission to oversee the governance of the external auditor and provide a strategic perspective. In these cases, it is clear that the board cannot in any way interfere in the audit work of the Auditor General and staff. However, such a board can monitor the performance of the audit office, its use of funds, endorse and/or approve its budget, and appoint its external auditors.

Making a difference to the lives of citizens

3.25 INTOSAI considers that supreme audit institutions can make a real difference by: being a model organisation and leading by example; demonstrating ongoing relevance to citizens, Parliament and other stakeholders; and, helping to strengthen the Government's accountability, transparency and integrity. Further details of how the external auditors can make a difference to the life of citizens are set out in INTOSAI ISSAI 12.

3.26 To earn the confidence of their auditees and the trust of the citizens, audit offices must lead by example. They need to be professional, credible, competent, independent, and transparent and able to account for their actions. They also need to manage their own operations economically, efficiently and effectively as well as in accordance with laws and regulations. Standards of governance need to be high. External scrutiny, including external audit and peer review, can ensure their transparency and accountability.

3.27 The external auditors need to be able to respond to the challenges and the expectations of various stakeholders, including the public and non-governmental organisations. The Auditor General should discuss with key stakeholders how the external auditors' work can help improvement in the public sector. They need to be able to respond to emerging risks and changing conditions, which should be based on a sound understanding of developments affecting government. Work should be based on independent professional judgement and robust analysis.

3.28 While remaining independent and impartial, the external auditors can help government strengthen its accountability, transparency and integrity by auditing public sector operations and reporting their findings. To do this effectively, the external auditors must safeguard their independence. And they should respond appropriately to the risks of financial impropriety, fraud and corruption.

Principles-based guidelines

3.29 The external auditors have established themselves as a model organisation and demonstrably lead by example. They do this by:

- ensuring their own transparency, accountability and good governance;
- maintaining high ethical and other professional standards;
- providing good service; and
- building and maintaining capacity.

3.30 The Auditor General maintains high standards by operating an effective quality assurance system and reporting annually to Parliament and the Governor on the governance and performance of the audit office.

3.31 The Auditor General, when preparing the audit strategy, fully considers the expectations of all stakeholders including citizens. The Auditor General has up-to-date knowledge of these expectations and the key issues affecting audited bodies. If the Auditor General considers that there are barriers to, or shortcomings in, fulfilling these expectations, the Auditor General will challenge those barriers or develop and implement improvement plans.

Good practice

Some audit offices have established their own risk registers and undertaken detailed Strengths-Weaknesses-Opportunities-Threats analysis. They cover a range of issues including independence, reputational risks, external audit brand improvement, ethical values, staff commitment, effective organisation, training, and succession planning.

Financial audit

3.32 The key role of the external auditor is to carry out the annual financial audit of government accounts. This section covers the responsibilities of the audited body and of the external auditor in ensuring that the financial audits are completed on time and to sufficient quality.

3.33 In meeting their duty to audit the annual accounts, the external auditor should comply with auditing standards and progressively adopt international auditing standards. The audits should be properly planned and documented. The letter of engagement with the auditees should make it clear that potential conflicts of interest or other threats to independence have been considered and properly dealt with.

3.34 External auditors should communicate an overview of the planned scope and timing of the audit. In addition to the issuance of the audit certificate, they should provide the auditee with more detailed findings and recommendations in a management letter. Feedback is normally provided face-to-face and in writing.

3.35 The external auditor's certificate and report on government's annual accounts should include the components noted below.

Opinion on the audited body's annual accounts

- An opinion on the accounts – either a 'true and fair view'-type opinion or a 'presents fairly'-type opinion.
- Whether the accounts have been prepared in accordance with the relevant accounting and reporting framework as set out in legislation, applicable accounting standards or other directions.

Opinion on regularity

- An opinion on regularity – an opinion on whether, in all material respects, expenditure and income recorded in the accounts have been applied to the purposes intended by the legislative council.

Opinion on other matters

- An opinion on other matters – whether other information included in the document containing the annual accounts is consistent with the signed accounts themselves; and
- The external auditor will also report to the audited body if, in the auditor's opinion, other information included in the document containing the audited annual accounts does not reflect compliance with relevant requirements or is misleading or inconsistent with information the auditor is aware of from their audit.

3.36 The Auditor General should prepare an audit completion report on the results of the audit of government's financial statements, which should be presented to those charged with governance. The auditor's report should address any additional reporting requirements set out in the applicable auditing standards or as required by the Overseas Territory's legislation. The audited accounts should be laid before Parliament and published promptly. The PAC should examine government's annual accounts and those of government's arm's-length bodies. The audit completion report should be copied to the PAC to consider when preparing for the hearing.

3.37 For audit reports to be useful they need to be presented to those charged with governance in a reasonable time period after the year end. *IPSAS-1 Presentation of Financial Statements* states that the usefulness of financial statements is impaired if they are not made available to users within a reasonable period after the reporting date, which it defines as within six months of the end of the financial year. When there have been significant delays to the audit, the Auditor General should discuss the underlying causes with

government's head of finance and agree remedial actions. The PAC and/or the Audit & Risk Committee should monitor progress.

3.38 In cases of suspected fraud or corruption, the auditors need to inform the Auditor General who determines whether the matter can be addressed by the internal auditor or senior management in the audited body or whether the matter needs to be referred to the police. The requirements of any money laundering legislation need to be followed.

3.39 The Auditor General is responsible for establishing and operating clear systems to assure the quality of the audits produced by their audit office. This includes the systematic review of individual audits as well as ensuring that good governance arrangements are in place covering all aspects of the performance of the audit office. This includes an annual external audit of the audit office.

Principles-based guidelines

3.40 The external auditor should, in accordance with its mandate and international auditing standards, conduct financial audits.

3.41 The external auditor monitors and reports on progress of audited bodies in implementing agreed recommendations contained in the management letters.

3.42 The external auditor responds appropriately to the risks of financial impropriety, fraud and corruption. Where such cases have emerged, appropriate action is taken.

Good practice

An audit planning report may be used to communicate the planned scope and timing of the audit, ensuring there is a mutual understanding with the audited body. The report may include how significant risks of material misstatement are to be addressed, the approach to internal control, and the application of materiality in the context of the audit. The auditor needs to guard against compromising the effectiveness of the audit, for example by communicating the nature and timing of detailed audit procedures.

3.43 Users of the governance statement can take assurance from it being covered by the external audit. International standards on auditing (ISA 720 and ISSAI 1720) require practitioners to read other information included in a document containing the audited accounts. The auditor should report if, in his or her opinion, the other information does not reflect compliance with relevant requirements or is misleading or inconsistent with other information obtained

during the audit. This requirement is reflected in the audit certificates for work performed in accordance with International Auditing Standards.

Value for money audit

3.44 In addition to an annual financial audits, most audit offices conduct periodic reviews of the performance of government (or value for money audit). VFM audits seek to examine the extent to which governments are using their resources economically, efficiently and/or effectively.¹¹ This section sets out the key responsibilities of the external auditor and the audited body and when these audits are conducted. In some Territories, the external auditor may audit published performance information, or the systems used to produce some information. This edition of the guide does not cover such audits, although they can have a place in a financial oversight regime.

Responsibilities of the external auditor

3.45 The external auditor will wish to examine whether government is achieving value for money with public resources. In carrying out VFM audits, they need to follow internationally-accepted standards. The choice of audit topics need to be based on an assessment of risk and/or concerns expressed by key external stakeholders, including Parliament, civil society or business.

3.46 A VFM audit needs to be scoped so that the subject of the audit is manageable and capable of generating useful information to improve public management. An audit needs to be planned so that it is clear what information is to be collected from whom and what quality checks are required. The external auditor should not impose an unnecessary burden on the audited body, by collecting only what is needed, and should complete audits in an efficient and timely manner.

3.47 The staff undertaking the VFM audit should have the relevant skills to undertake the audit and have no conflicts of interest. Evidence for the VFM audit report may be drawn from a wide range of sources within the audited body and externally. The audit work needs to be subjected to rigorous quality review

¹¹ The International Organisation of Supreme Audit Institutions (INTOSAI) emphasises the equal importance of the audit of the legality and regularity of financial management and of accounting, and the value for money audit of public administration.

to ensure that all statements in their report are soundly-based on evidence and that recommendations are practical and affordable.

3.48 The external auditor may also, in accordance with its mandate, carry out audits of compliance with the applicable authority or other types of work such as investigations into the use of public resources.

Principles-based guidelines

3.49 The external auditor should, in accordance with its mandate and international auditing standards, conduct VFM audits.

3.50 VFM audits are scoped, planned and executed to provide sufficient evidence to conclude on the arrangements in place to secure value for money and make recommendations for improvements where necessary.

3.51 The external auditor gives the audited body opportunity to comment on the draft VFM audit report and comments are given due attention.

3.52 The external auditor has arrangements in place to follow up implementation of recommendations.

Responsibilities of the audited body in a VFM audit

3.53 When the external auditor conducts a VFM audit, the same principles of cooperation and transparency apply as with financial audit. It is important that the audit is given serious attention and a key contact person at senior level is nominated. The external auditor's requests for access to information and access to staff for interviews need to be responded to fully and in a reasonable time. Engagement with the auditor should be open and honest.

3.54 When the audit is completed, draft findings and recommendations are discussed with the auditee and this provides an opportunity to clarify understanding and obtain further evidence if needed. It is important to identify and correct any factual errors or any omissions at this stage. However, it should be noted that the opinions and recommendations are the final responsibility of

the external auditor. The auditor will listen carefully to the views of the audited body, but will ultimately determine what is included in the final report.

3.55 Once the report is published, the audited body may be asked to appear before the PAC to discuss the report and what it plans to do in response.

3.56 When the process is complete, the audited body needs to monitor its progress with implementing agreed recommendations and will be asked from time-to-time, by either the external auditor or the PAC, to report on progress.

Principles-based guidelines

3.57 The audited body cooperates with the audit office in its VFM audits, supplying complete and accurate information in a timely manner when requested by the external auditor.

3.58 The audited body carefully reviews the draft report, offering constructive comments to improve the accuracy and usefulness of the final report.

3.59 The audited body develops an action plan to implement agreed recommendations and reports on progress to the external auditor and the PAC.

Coordination and cooperation between external auditors and internal auditors

3.60 [INTOSAI GOV 9150](#) provides guidance on coordination and cooperation between SAIs and internal auditors in the public sector. It covers how to achieve coordination and cooperation while respecting the distinctive functions and professional requirements of both.

3.61 Although external and internal auditors have different functions, their collective purpose is to promote good governance through transparency in, and accountability for, the use of public resources. They both also promote efficient,

effective, and economic public administration. External and internal auditors can work more efficiently and effectively through coordination and collaboration.

3.62 Areas of coordination and cooperation between external auditors and internal auditors may include:

- evaluating the audit entity's:
 - internal control framework;
 - financial statements compliance with laws and regulations;
 - performance indicators and performance studies;
 - public governance; and
 - risk management;
- documenting the audit entity's systems and operational processes;
- developing and performing audit procedures; and
- investigating fraud and corruption allegations.

3.63 Where an external auditor has determined that an entity's internal audit function is likely to be relevant to its audit, the external auditor determines whether, and to what extent, to use the work of the internal auditors. The external auditor has sole responsibility for its audit opinions and that responsibility is not reduced by its use of the work of the internal auditors.

Principles-based guideline

3.64 External and internal auditors should identify and take opportunities for coordination and cooperation. The external auditor should rely on the work of the internal auditor when it is appropriate to do so in accordance with international auditing standards.

Chapter Four

Responsibilities of those charged with Parliamentary oversight

4.1 This chapter covers the key responsibilities of a Public Accounts Committee (PAC) working to a small Parliament, and provides principles-based guidelines to help the Committee discharge its responsibilities. It covers the Committee's remit, access rights, membership and resources, work programme and inquiries, and its relationships with Parliament and the Auditor General.¹²

4.2 An effective PAC is key to the transparency of, and accountability for, public expenditure. In particular, PAC can oversee the implementation of government policy and the quality of administration of departments and other public bodies. In 2012 the FCO noted that Overseas Territories' governments were working to improve systems to ensure public money was spent correctly, including publishing audited accounts for all public sector activities and strengthening independent external audit institutions and PACs.¹³

4.3 The PAC's key responsibilities are to scrutinise government expenditure and income, including issues of economy, efficiency and effectiveness, and report the results of its scrutiny to Parliament. This is usually achieved by reviewing the reports of the Auditor General and calling key witnesses to account for their actions.

Remit

4.4 The right to establish a PAC is protected by the Overseas Territories' constitutions. The PAC's remit needs to be set out so that the Committee is allowed to operate independently of government, including the power to determine its inquiries without being directed by the government. This includes being able to investigate matters involving public funds beyond those matters which have been raised already by the Auditor General.

4.5 The PAC's remit should be sufficiently broad to allow it to investigate management of public resources in all areas and to deter waste and wrongdoing. The PAC's remit may be considered alongside those of other

¹² Useful material is available in *Following the Money: Comparing Parliamentary Public Accounts Committees*, Rick Stapenhurst, Kerry Jacobs and Riccardo Pelizzo, 2014.

¹³ [The Overseas Territories: security, success and sustainability](#), Foreign & Commonwealth Office, Cm 8374, June 2012.

standing committees. In some cases, its remit is limited to examining the audited accounts and reports issued by the Auditor General and reporting the results of its examinations to Parliament. Others have wider remits including:

- considering the adequacy of government's arrangements for the management of financial risk;
- advising the Governor on the appropriateness and effectiveness of external audit arrangements;
- reporting to Parliament on the effectiveness of the regulation by government of bodies to whom Parliament or government has granted franchises to provide services of a public nature;
- reporting to Parliament as to whether expenditure in excess should be allowed to stand as part of the government account; and
- reporting on matters which the Governor has referred to the Committee

4.6 To make best use of available resources, where an Audit & Risk Committee is not yet fully functional, Parliament may consider (as an interim measure) extending the remit of the PAC to include examining internal audit reports produced by the internal audit function.

Principles-based guidelines

4.7 The PAC is free to select the scope of its inquiries without direction by the government.

4.8 The PAC has a clear remit which covers examining and reporting on:

- all public accounts that are required to be laid before Parliament, including those of arm's-length bodies;
- the economy, effectiveness and effectiveness of public expenditure; and
- on any other matters connected with its function.

Access rights

4.9 To efficiently discharge its duties, the PAC needs unambiguous, proportionate rights of access to question witnesses and review evidence across the whole of the public sector. The PAC should be able to determine which witnesses to call to give evidence at a hearing. Most witnesses are likely to be senior management from government departments or other public bodies, but the Committee may choose to call ministers or other witnesses such as subject experts or service users.

Principles-based guidelines

4.10 The PAC, and its agents, have unambiguous, proportionate rights of access to all records relating to the accounts, reviews and investigations in its remit.

4.11 The PAC has the right to summon any person to give information, explanations or produce records which the Committee considers necessary to do its duties.

4.12 The PAC's access rights cover all public sector assets, liabilities, income and expenditure. This applies where they are incurred or owned by government departments, their agencies or other authorities and bodies for which either government or another statutory body is a shareholder.

Good practice

The remit of adequately trained and supported PACs might also cover some forward-looking advisory roles, such as:

- reviewing the adequacy of government's arrangements for managing financial risks and the Government's fiscal strategy; and
- advising the Governor and Parliament on the appropriateness and effectiveness of the audit arrangements.

Membership and resources

4.13 The PAC needs to be able to rigorously and independently hold government to account for the use of public resources. It needs to have enough members, but not so many that it is unwieldy. Typically, a PAC in the Overseas Territories has between four and seven members.

4.14 To reinforce its independence from government, the Chair of the PAC is usually a member of the opposition. The Chair has an important role in running inquiries and meetings smoothly and fostering a culture of consensus within the PAC so that it is not diverted by party political divisions. To help ensure stability, the Chair and other PAC members are appointed for the full term of Parliament.

4.15 The PAC's composition also needs to be right, with an appropriate range of skills such as finance and public sector accountability. The proportion of government and opposition members of PAC will generally be in proportion to the proportions of Parliament. Members need to be committed to improving financial management and accountability. Where there are insufficient Members of Parliament with the required expertise for PAC to be effective, non-

parliamentarians with appropriate skills may included. This can also reinforce the non-partisanship of the PAC. The Governor has a role in the appointment process.

4.16 Members of Parliament who are likely to be key witnesses appearing before the PAC, such as the financial secretary, are not normally members of the PAC. If they are members of PAC, there need to be arrangements for them to be substituted or excluded where there is a conflict of interest. The risk of a conflict, for all members, can be managed regular declarations of interests, which may be reviewed by the Governor and the Auditor General.

4.17 To function well, a PAC needs sufficient budget to provide a secretariat, including a clerk, and to meet other operational costs such as training and external advice. The secretariat manages the Committee's work, including arranging public hearings, analysing reports, preparing briefing papers for the PAC members, and drafting PAC reports. Training may be provided to members so that they understand their roles and how to exercise their powers.

Principles-based guidelines

4.18 The size and composition of PAC is appropriate, and enables members collectively to provide a real, unbiased challenge to the government's financial stewardship and provide Parliament with independent assurance.

4.19 The PAC Chair is sufficiently independent of the Government, has access to training, and can request assistance from the Auditor General and the FCO.

Good practice

Some Territories' constitutions include a provision for the Governor, having consulted with the elected members, to elect the Chair and one or two other members who are not members of Parliament.

Some Territories include non-parliamentarians as members of their PAC. For example, the Falklands PAC includes a business person and the St Helena PAC includes a business person and retired public servant.

The Committee's work programme and inquiries

4.20 The PAC should develop a detailed forward work programme, including some flexibility to attend to urgent issues. The work programme is drawn up by the Committee and secretariat in consultation with the Auditor General and shared with government, Parliament and other relevant bodies. Key witnesses are notified of the forward plans to ensure that they are available and properly prepared for meetings.

4.21 In addition to the reviewing audited financial statements and the Auditor General reports on the financial statements, the PAC typically discusses the following items:

- value for money audits;
- the Auditor General's future work programme including VFM audits and public interest investigations;
- the future conduct of Committee meetings; and
- the role and remit of the Committee.

4.22 In carrying out its inquiries, the PAC needs to provide independent scrutiny by adopting a non-partisan approach. It should not question the desirability of a particular policy; it should instead focus on the effectiveness and efficiency of the implementation of that policy.

4.23 To enhance the transparency of government business, formal hearings are open to the public and media. Full verbatim transcripts and a summary minute are produced and made available for public distribution soon after the hearing. The PAC rarely resorts to private hearings, and then only on matters which are sensitive such as defence and/or where private individuals may be named.

4.24 The main formal output of a PAC inquiry is the report, which contains the Committee's conclusions, and often recommendations, on the subject. The recommendations may include those of Auditor General. An agreed report is preferred because it will have more credibility.

4.25 The report of an inquiry is sent to the Government to respond regarding the PAC's recommendations. Follow up of the recommendations is critical to improving financial management and control. Therefore the PAC must have a systematic approach to following up on its reports and recommendations and to putting the results of such follow up before Parliament and in the public domain. Government departments that provide late or inadequate responses may be recalled by the Committee to provide explanations.

Principles-based guidelines

4.26 The PAC has a forward work programme, prepared in consultation with the Auditor General and shared with government and Parliament.

4.27 The PAC provides independent scrutiny by adopting a non-partisan approach. When examining a government policy, it focuses on the effectiveness and efficiency of the implementation of that policy rather than the merits of the policy in itself.

4.28 The PAC meets regularly. Its formal hearings are open to the public and media, with transcripts produced for public distribution.

4.29 PAC reports are timely and accessible, and are placed in the public domain.

4.30 The PAC has formal processes to ensure close monitoring of the implementation of its recommendations.

Good practice

The St Helena PAC meets informally in private and formally in public. Public meetings are broadcast, unless the nature of any item of business is, in the opinion of the Chairman, more suitable to be dealt with in private.

The Cayman Islands PAC's minutes are tabled in the Legislative Council. They become public documents and are published on the Assembly's website.

Representatives from the Turks and Caicos Islands have noted that their PAC is taken more seriously now that the meetings are broadcast. Media interest has also increased.

Relationships with Parliament and the Auditor

General

4.31 The work of PAC needs to be recognised, supported and encouraged by the Parliament of which it forms a part. In addition to its reports on specific inquiries, PAC should make a formal report to Parliament at least annually. The report should include a summary of the proceedings from the session's formal meetings. This report should be subject to a debate on the work of the Committee, the findings of which should be recorded. The debate may generate

appropriate actions for further improvement in financial oversight or in public services.

4.32 To be fully effective, the PAC and the Auditor General depend on each other: the PAC needs high-quality audit reports, while the Auditor General requires an effective PAC to ensure that government departments take its findings seriously. The PAC and Auditor General should therefore work closely together. The Auditor General normally briefs the PAC on its forward programme and in advance of PAC meetings, and assists with the production of the PAC report. The PAC has a role in safeguarding the independence and resources available to the Auditor General. However, the relationship should not be too close as this may compromise the independence of the Auditor General.

Principles-based guidelines

4.33 The PAC reports formally to Parliament at least annually, providing a summary of its work.

4.34 The PAC report is debated in Parliament as a matter of public record.

4.35 The PAC and the Auditor General work closely together, increasing their effectiveness but without compromising their independence.

Chapter Five

Role of HMG including FCO, the Governor and DFID

5.1 This chapter covers the role of HMG including the Foreign & Commonwealth Office (FCO), the Governor and Department for International Development (DFID) in respect of the Overseas Territories, and their relationship with the Overseas Territories.

The FCO and the Governor

5.2 The FCO is the lead department for coordinating UK Government policy for the Overseas Territories, although other UK government departments also play important roles in discharging the UK's responsibilities. The 2012 White Paper ('The Overseas Territories: Success, Security and Sustainability') set out the UK Government's commitment to a whole of government approach in dealing with the Overseas Territories: 'As part of this strategy, all UK government departments are committed to engaging with and supporting the Overseas Territories'.

5.3 The FCO aims to improve the governance, environment and security of the Overseas Territories; to encourage more diverse and sustainable economic development; to enable the Overseas Territories to better deal with international crime and natural disasters; and to manage the impact of international obligations.

5.4 The UK has a range of options to support and influence good governance and prudent management of risk in the Overseas Territories. The role of the UK-appointed Governor in the Overseas Territory is particularly important. Their role is set out in the constitution and includes functions such as exercising the power of assent in relation to bills passed by the Parliament. In general, the Governor is constitutionally responsible for external affairs, defence, and internal security (including policing); as well as appointments of public officers. The Governor is also charged with ensuring the good governance in their Overseas Territories, and explaining the views of the Overseas Territories to the UK Government in London. The public services of the Overseas Territories are ultimately under the authority of the Governor as the head of government, but in the populated Overseas Territories the head of the public service is often the locally-appointed Deputy Governor.

5.5 The power of the Governor to intervene in public financial management varies across the Overseas Territories and any attempt to take action in this area must be balanced against the importance of maintaining relations with the democratically-elected government. The establishment in several Overseas Territories of Frameworks for Fiscal Responsibility (FFRs) is an important development in the UK's relationship with the Overseas Territories. During the 2012 Joint Ministerial Council, commitments were made by all the populated, non-ODA Overseas Territories to adopt of a framework for public finances, encapsulating the borrowing guidelines. FFRs are now in place with most of the populated Overseas Territories. The FFRs place a number of obligations on the Overseas Territories, including a requirement to produce an annual medium term fiscal plan. The FFRs also encapsulate the FCO's borrowing guidelines - targets for the Overseas Territories to meet on net debt, debt servicing and liquidity ratios. The FCO and the Governors' offices oversee the Overseas Territories' adherence to the FFRs, including the borrowing ratios. If these are breached, dependent on the specifics of the FFR, UK ministerial approval of an Overseas Territory's medium-term fiscal plan, or budget, may be required until the target is met again. More detail on FFRs is at Appendix 2.

5.6 If governance and financial oversight go badly wrong in an Overseas Territory then the FCO may intervene, as happened in the Turks and Caicos Islands in 2009. An independent Commission of Inquiry, led by Sir Robin Auld, identified a high probability of systemic corruption in government. This led to the suspension of ministerial government and the Legislative Assembly and the implementation of a programme of systemic reform. By 2012, sufficient improvement had been made to allow elections to take place.

5.7 The FCO supports longer-term work to drive up standards and meet its core responsibility for the Overseas Territories' good governance. In particular, the FCO brings UK and Overseas Territory representatives together in various formats to discuss and progress key issues of mutual interest. These include:

- the Joint Ministerial Council;
- the Head of Public Service meeting; and
- conferences for Overseas Territories' Attorneys General, Directors of Human Resources, and Auditors General.

5.8 There is currently no specific format for convening Overseas Territory finance ministers, although in practice finance ministers often attend the Joint Ministerial Council (and in many cases the chief minister or premier is also the finance minister). The Communiqué from the 2014 Joint Ministerial Council

includes a commitment to build capacity for medium- to long-term financial and economic planning in the Overseas Territories.

5.9 The meeting of Overseas Territory Heads of Public Service is particularly important for the good governance agenda, although it remains a largely informal gathering for sharing best practice (e.g. on the role and functions of PACs). The Commonwealth Parliamentary Association (UK) recently ran a “Westminster Workshop” on financial scrutiny in Parliamentary committees – this led to the creation of a Commonwealth Association of Public Accounts Committees (CAPAC), and there may be scope for Overseas Territory involvement in this body.

DFID

5.10 The Department for International Development (DFID) has a key role to play in delivering the UK Government’s White Paper vision and commitments, in the aided Territories of Montserrat, St Helena, Tristan da Cunha, and Pitcairn, and in the non-aided Territories of Anguilla and Turks and Caicos. Accordingly, DFID’s Overseas Territories Department, based in East Kilbride, manages aid to focus on three areas:

- Meeting the reasonable assistance needs of the Overseas Territories cost-effectively. Budgetary assistance is currently provided to three Territories (Montserrat, Pitcairn and St Helena) to enable their Governments to operate effectively and essential public services to be provided.
- Accelerating the aid-dependent Overseas Territories to financial self-sufficiency. DFID has been clear that it will deliver strategic investments in the aided Overseas Territories where these will facilitate private sector-driven economic growth and a real prospect of both self-sufficiency and savings for the UK Government through elimination of long-term dependence on aid.
- Helping to manage the UK Government’s contingent liabilities for the Overseas Territories. DFID works closely with the Foreign & Commonwealth Office to monitor and improve fiscal management in the Territories to increase resilience and head off potential problems.

5.11 DFID’s aid funding is contingent upon regular commissioning of assessments, annual reviews, specific investigations as well as day-to-day oversight through financial aid discussions and routine programme monitoring.

5.12 DFID periodically undertakes Fiduciary Risk Assessments that help identify specific fiduciary risks as they relate to UK funding. These assessments

build upon Public Expenditure and Financial Accountability (PEFA) assessments and often recommend specific actions to improve internal and external audit.

Appendix One

Self assessment against key principles

This appendix summarises the key principles-based guidance. Reviewers may wish to use it to record their assessment of compliance with the principles.

Responsibilities for the proper conduct of public business (Chapter 1)

A. Legislative framework and International Accounting Standards

Legislative framework (para 1.5) - The Overseas Territory ensures that legislation is periodically reviewed and updated as necessary to ensure that it supports appropriate standards in public life, financial oversight and open government.

Form and content of government accounts (para 1.71) - Government has adopted International Accounting Standards or International Public Sector Accounting Standards.

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| Full compliance | Partial compliance | Not embedded | Not implemented | Not appropriate |
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B. Corporate governance

Framework for corporate governance (para 1.9) - A system of corporate governance is in place and is consistent with best practice.

Tone at the top (para 1.12) - Government publishes transparency data that is accessible, user-friendly and up-to-date.

Registering and managing risks (para 1.13) - Those charged with governance periodically assess the risks associated with inappropriate behaviour.

Identifying problems (paras 1.38-1.39) - Government has formal routes for raising and escalating concerns, including about fraud and bribery, both internally and externally. Government has procedures for considering and investigating concerns raised behaviour.

Establishing and reviewing controls (para 1.59) - Government has an effective system of internal control, that is reviewed by internal audit.

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C. Audit & Risk Committee

Audit & Risk Committee (para 1.21-1.22) - The Audit & Risk Committee provides assurance to senior management, covering risk management, governance, the control environment and financial statements, including an annual report. The Committee works closely with internal audit, approving its audit strategy and work plan, and taking action where internal audit does not have adequate resources or access to be effective

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D. Staffing

Recruitment and induction (para 1.26) - Public sector organisations conduct rigorous staff recruitment procedures. Organisational values and expectations are reinforced during induction.

Code of conduct (paras 1.28 to 1.30) - Public sector organisations ensure that their code of conduct is documented, publicised, proportionate, and reinforced by positive leadership. Parliament enacts anti-fraud, anti-bribery and whistleblowing legislation, and staff are aware of this.

Monitoring performance & behaviour (para 1.42) - All staff have a job description and objectives. Performance is monitored and fed back. Staff surveys are completed and results shared.

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E. Financial monitoring and reporting

Fiscal reports (paras 1.49 to 1.51) - The Government publishes its fiscal strategy, setting out medium-term objectives for public finances. It prepares a fiscal report covering an assessment of its financial health and progress delivering the strategy, which is reviewed by Parliament.

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F. Authorising expenditure and stewardship of assets

Authorising expenditure and stewardship of assets (paras 1.56 to 1.57) – There are clearly-defined procedures for authorising expenditure and approving payments, including delegated authorities. Management Committee ensures that the organisation gets the best from its assets.

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G. Financial statements

Preparing and auditing financial statements and other supplementary information (paras 1.67 to 1.69) – The production of annual accounts is timely, and the comprehensive, audited annual accounts are published. Government publishes its annual corporate governance statement, within the annual report and accounts. The audited financial statements of government and all statutory bodies and publicly-owned or controlled enterprises are laid before Parliament.

Timeliness of the audited government accounts (paras 1.74 to 1.75) - Government presents the audited financial statements within six months of the end of the financial year. Where there are difficulties the government has a clear strategy for addressing any shortfalls.

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H. Audit completion

Management letter and follow up (para 1.78 to 1.79) - The government demonstrates that it has responded to the recommendations of the external auditor.

Reporting on the results of the audits and other external reviews (para 1.82) - The Auditor General presents an audit completion report to the Audit & Risk Committee.

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Responsibilities of internal audit (Chapter 2)

I. Internal Audit Charter, independence and audit quality

Purposes, authority and responsibility (paras 2.5 to 2.7) - The internal audit function is effective and the internal audit charter is complied with. The Audit & Risk Committee periodically reviews the charter and confirms that the internal audit function has executed its responsibilities.

Independence and objectivity (paras 2.28 to 2.30, and 2.34 to 2.35) - Internal audit activity is independent and objective. Internal audit is free from interference in determining the scope of work, performing work, and communicating results. The Head of Internal Audit interacts directly with senior management.

Internal audit quality assurance (paras 2.39 to 2.41) - The Head of Internal Audit maintains a quality assurance and improvement programme (QAIP), with both internal and external review, and results are communicated to senior management.

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J. Resources, staffing and continued professional development

Resources (paras 2.9 to 2.11, and 2.17 to 2.19) – Internal audit resources are sufficient to carry out the planned work, including in the areas of fraud and IT.

Proficiency (paras 2.13 to 2.15) – The Head of Internal Audit is suitably qualified and experienced. Internal auditors individually and collectively possess or obtain the knowledge, skills needed to perform their responsibilities.

Due professional care (paras 2.21 to 2.26) - Internal auditors apply the care and skills expected of a competent internal auditor. Internal auditors enhance their knowledge, skills, and other competencies through continuing professional development.

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K. Reporting and implementing recommendations

Reporting (paras 2.44 to 2.48) - Internal Audit reports are accurate, objective, clear, complete, concise, constructive and timely. Reports distributed to management and those charged with governance and copied to the Governor, Deputy Governor, the Public Accounts Committee and the external auditors.

Implementing recommendations (paras 2.50 to 2.53) – Internal auditors undertake follow up reviews where significant weaknesses have been highlighted. Escalation procedures exist to ensure that instances of significant delays in implementing recommendations are considered at an appropriate level. The government should formally assess the likely impact and risks associated with delayed implementation of recommendations.

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Responsibilities of external audit (Chapter 3)

L. Independence of the external auditor

Appointment and accountability (paras 3.5 to 3.7) - The governor makes appropriate arrangements for the independent audit of government accounts and those of all statutory bodies. The Auditor General is a qualified accountant and is recruited through an open, competitive process and is given a reasonable period of tenure. The Auditor General is accountable to the Governor and Parliament for their use of resources and overall performance.

Remit and rights (paras 3.12 to 3.14) – Legislation empowers the Auditor General to undertake all necessary types of audit. The Auditor General acts independently in all matters related to identifying, executing and reporting on audit. External auditors have the right to access, at all reasonable times, records equipment and other property and personnel. External auditors have the right to access records, equipment and other property and personnel, and this extends to subsidiary organisations.

Resources and staffing (paras 3.19 to 3.21) - Resources are sufficient to allow the Auditor General to fulfil their statutory remit and to maintain a professional external audit function. The budget is approved by Parliament. This Auditor General maintains managerial and financial autonomy.

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M. Making a difference to the lives of citizens

Helping to strengthen the government’s accountability, transparency and integrity (para 3.29) - The external auditors have established themselves as a model organisation and seek to lead by example by ensuring their own transparency, accountability and good governance, maintaining high standards and providing good service.

Maintaining high standards (para 3.30) - The Auditor General operates and reports on the quality assurance system and the performance of the audit office overall.

Meeting stakeholder expectations (para 3.31) - The Auditor General fully considers stakeholder expectations in planning, and responds effectively to barriers to, or shortcomings in meeting, those expectations.

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N. Conducting financial and VFM audits

Financial audit (paras 3.40 to 3.42) – The external auditor conducts financial audits in accordance with its mandate and international auditing standards. It monitors implementation of its recommendations and responds appropriately to financial risks.

Value for money audit (paras 3.49 to 3.52 and 3.57 to 3.59) – The external auditor conducts VFM audits in accordance with its mandate and international auditing standards. Audits are planned and executed to provide sufficient evidence to conclude on value for money and make recommendations (which it follows up). The audited body cooperates with external auditors, and comments on draft report.

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O. Coordination and cooperation with internal audit

Coordination and cooperation with internal audit (para 3.64) - External auditors and internal auditors proactively identify and take opportunities for coordination and cooperation. The external auditor relies on the work of the internal auditor when it is appropriate to do so.

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Responsibilities of those charged with Parliamentary oversight (Chapter 4)

P. Remit and access rights

Remit (paras 4.7 to 4.8) - The PAC is free to select the scope of its inquiries without direction by the government. The PAC has a clear remit which covers: the examination and reporting on public accounts; and, the economy, effectiveness and effectiveness of public expenditure.

Access rights (paras 4.10 to 4.12) - The PAC has unambiguous proportionate access rights to all records relating to the accounts, reviews and investigations in its remit. The PAC has the right to summon any person to give information, explanations or produce records which the Committee considers necessary to do its duties. The PAC's access rights cover all public sector assets, liabilities, income and expenditure.

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Q. Membership, resources and work programme

Membership appointment and resources (paras 4.18 to 4.19) - The size and composition of PAC is appropriate, and enables members collectively to provide a real, unbiased challenge to the government's financial stewardship and provide Parliament with independent assurance. The PAC Chair is sufficiently independent of the Government, has access to training, and can request assistance from the Auditor General and the FCO.

Work programme and inquiries (paras 4.26 to 4.30) - The PAC has a forward work programme. The PAC provides independent scrutiny by adopting a non-partisan approach. When examining a government policy, it focuses on the effectiveness and efficiency of the implementation of that policy. The PAC holds regular meetings which are open to the public and media. PAC reports are timely and are in the public domain. The PAC has processes for monitoring the implementation of its recommendations.

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R. Relationship with Parliament and the Auditor General

Relationship with Parliament (paras 4.33 to 4.35) - The PAC reports formally to Parliament at least annually, providing a summary of its work. The report is debated in Parliament. PAC and the Auditor General work together, increasing effectiveness but without compromising independence.

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Overall assessment

Insert count of responses for each assessment category within each chapter.

(Each row should total 18).

| Chapter | Full compliance | Partial compliance | Not embedded | Not implemented | Not appropriate |
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| One | | | | | |
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| TOTAL | | | | | |

Appendix Two

Frameworks for Fiscal Responsibility

Borrowing guidelines

- Net Debt/ current revenue: <80%
- Debt Service/ current revenue: <10%
- Liquid cash/ current expenditure: 25%+

Key elements of the FFR

Overseas Territory responsibilities:

- Requirement to produce annual medium-term fiscal plan (akin to HMT's Autumn Statement).
- Robust governance processes to ensure major public projects are VFM.
- Robust definitions and controls on public finances, including debt and contingent liabilities (pensions, healthcare etc).
- Approvals process for Secretary of State for Foreign and Commonwealth Affairs. Breach or potential breach of fiscal rules = SOSFCA agreement needed (in most Territories, but precise detail of lever varies).

UK responsibilities:

- annual assessment of the Territory's economy including the state of the public finances.
- provide technical assistance by monitoring compliance with the Framework and the PFM laws.
- provide support in identifying sources of expertise on request.