

The Proper Conduct of Public Business

Committee of Public Accounts - Eighth Report 1993-94

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THE PROPER CONDUCT OF PUBLIC BUSINESS

1. In recent years we have seen and reported on a number of serious failures in administrative and financial systems and controls within departments and other public bodies, which have led to money being wasted or otherwise improperly spent. These failings represent a departure from the standards of public conduct which have mainly been established during the past 140 years. This was the period following the publication of the Northcote and Trevelyan Report which condemned the nepotism, the incompetence and other defects of the Civil Service and brought about fundamental change. It is from that period that we acquired the principles and the standards which have come to be copied by some countries and admired by many more. It is our task to retain those standards.

2. There have recently been fundamental changes in the way in which government departments and public bodies such as those in the NHS carry out their work. These changes, which include the introduction of executive agencies, and the growth in numbers of non-departmental public bodies, are intended to improve the provision of public services through greater delegation of responsibilities, streamlining, and a more entrepreneurial approach to the work. The attention of staff at all levels is rightly focused on making a success of these changes.

3. But at a time of change it is important to ensure that proper standards are maintained in the conduct of public business. Annex 1 to this report sets out a number of failings on which we have reported in key areas of financial control, compliance with rules, the stewardship of public money and assets, and generally getting value for the taxpayer's money. Alongside each of these failings we set out a checklist of points which public bodies need to keep in mind in order to guard against the risk of such lapses in the proper conduct of public business.

4. Annex 2 gives details of examples of such failings which we have examined in recent years. The departments and public bodies concerned have taken action in response to our reports with the aim of tackling these lapses and preventing their repetition. And it is not our purpose in this report to renew these specific criticisms, but to provide a checklist to help all departments and public bodies to avoid future departures from the high standards demanded by Parliament and the public.

5. We make one further point. Some allege that the drive for economy and efficiency must be held back to some extent because of the need to take specific care with public money. Others argue that if economy and efficiency are to be forcibly pursued then traditional standards must be relaxed. We reject both these claims. The first is often urged by those who do not want to accept the challenge of securing beneficial change. And the second is often put forward by those who do not want to be bothered to observe

the right standards of public stewardship. Quite apart from the important moral and other aspects involved we consider that any failure to respect and care for public money would be a most important cause of a decline in the efficiency of public business. But there is no reason why a proper concern for the sensible conduct of public business and care for the honest handling of public money should not be combined with effective programmes for promoting economy and efficiency.

6. We emphasise that we are not calling for any more detailed rules. Almost every case we have examined involved breaches of existing rules or guidance. But detailed rules must be set in a framework in which those to whom authority is delegated are told in unambiguous terms the scope and limits of the delegation. And that framework must include effective systems of control and accountability and above all responsible attitudes on the part of those handling public money. We believe it is important that the drive to provide improved services at reduced cost should be sustained and that this drive should not be stifled by unnecessary bureaucracy. At such a time it is even more essential to maintain honesty in the spending of public money and to ensure that traditional public sector values are not neglected in the effort to maximise economy and efficiency.

7. We shall therefore be paying particular attention in our future examination of accounts and the implementation of programmes to the successful combination of the proper conduct of public business with the energetic pursuit of value for money. To assist us in this task, it would be helpful if the National Audit Office were enabled to examine and inspect all non-departmental public bodies and other organisations which receive the greater part of their income from central government funds, and to report the results to us.

Annex 1

| FAILURES | CHECKLIST |
|---|---|
| <p>Inadequate Financial Controls</p> <ul style="list-style-type: none"> • Inadequate internal accounting systems and controls, leading to waste and a risk of fraud and theft. • Failure to ensure that financial procedures and controls are adapted in line with major changes in the organisation of the business. • Inexperienced staff lacking in financial training and expertise, leading to failure to secure adequate controls especially at a time of change. • Poor monitoring of expenditure on | <ul style="list-style-type: none"> • Departments and public bodies should ensure that from the outset proper financial systems are in place and applied. • Procedures and controls need to be revised from time to time to ensure their continuing relevance and reliability, especially at times of major change. • Care should be taken to provide staff with the financial skills required and to ensure that staff responsible for securing major changes in accounting systems are suitably experienced. • Major capital projects require specific |

capital projects, leading to overspends and waste.

- Paying bills and other outgoings without checking.
- Failure to pursue money owed.

financial and project management skills and experience, and the projects should not be embarked upon unless such skills are available and utilised.

- Bills and other outgoings should be checked and validated before payment is made. They should be supported by evidence that the goods or services have been supplied.
- There should be adequate arrangements to ensure that monies owed are properly monitored and pursued.

Failure to comply with rules

- Payments of grants on the basis of insufficient evidence as to entitlement.
- Provision of redundancy benefits
- Ex gratia payments made without authority on termination of employment, sometimes in circumstances where disciplinary action might have been more appropriate.
- Provision of official cars to senior executives without requiring them to pay for private motoring.
- Failure to secure full recovery of benefits provided to senior executives to which they were not entitled.

- Robust procedures should be in place and applied so that entitlement is clearly established and documented.
- Public bodies should ensure that they do not exceed their delegated powers in making provision for redundancy and other benefits.
- As well as seeking authority from sponsoring departments for any payments to staff going beyond their delegated powers, public bodies should ensure that any such exceptional payments can be fully justified in all the circumstances.
- Public bodies should ensure that they follow the rules laid down for the provision of official cars
- Public bodies should pursue full recovery of all such benefits.

Inadequate stewardship of public money and assets

- Failure by departments to establish effective monitoring of non-departmental public bodies which they fund and sponsor, leading to failure to detect waste and irregularities.
- Inadequate oversight by those in authority (failure to obtain information,

- Departmental Accounting Officers should identify the key information they need on the way in which non-departmental public bodies conduct their business, and ensure they obtain and use such information.
- Chairmen and Members (including non-executives) of public bodies should

infrequent meetings, decisions not properly reached and recorded).

receive adequate training to enable them to discharge their responsibilities.

- Failure to ensure that delegation of responsibility is accompanied by clear lines of control and accountability, leading to the waste of large sums of public money.
- Over-dominant chief executives and senior executives.
- Failure to hold individuals personally accountable for their actions.
- Failure to take prompt corrective action when things begin to go wrong.
- Failure to conduct regular reviews of the necessity and functionality of particular expenditure programmes, and to draw appropriate conclusions from their failure to date.
- Lack of evenhandedness when taking disciplinary action against individuals.
- Concealing information.
- Chairmen and Members should ensure that chief executives and senior executives are clear what their individual responsibilities are.
- Chairmen and Members need to ensure that chief executives and senior executives are regularly and effectively accountable to them.
- Those who have delegated their responsibilities need to ensure that individual responsibility for management decisions can be established, and that such responsibility is made properly accountable so far as the individual is concerned.
- Robust reporting arrangements from all levels of delegated responsibility need to be secured.
- Public bodies should conduct regular internal examinations of the programmes on which they are spending public money, and should, where appropriate, draw into such examinations the employees or contractors who are engaged on the programmes concerned.
- The case for disciplinary action needs to be fully considered in a fair and objective way, irrespective of the seniority of the individual concerned.
- Fear of embarrassment is no justification for withholding information the release of which would be in the public interest.

Failure to provide value for money

- Inadequate management of major building projects, contributing to overspends and failure to identify and address problems as they arise.
- Project management needs should be carefully assessed and met throughout the lifetime of the project.
- Embarking on ambitious computer
- Rigorous financial and risk appraisal

projects on the basis of inadequate appraisal, and failing to ensure that the system delivers what is required.

should be carried out before computer projects are approved, and care taken to ensure that users are fully consulted and the system thoroughly tested at each stage.

- Inadequate re-appraisal of computer etc projects in response to changing circumstances and requirements.
- Generally accepted principles of full and open competition not always observed when privatising or contracting out the provision of goods and services.
- Failure to secure arms' length relationships with private sector consultants, leading to conflicts of interest in decisions to spend public money.
- Project managers should carry out careful re-appraisals of the continuing validity of the project when change occurs.
- Full and open competition should be applied in all save the most exceptional circumstances, (eg where no alternative supplier is available) in order to secure the best the market can provide at the most competitive price.
- Care should be taken to avoid actual, potential, perceived or perceivable conflicts of interest when employing consultants and staff.

Annex 2

INSTANCES OF FAILURES OBSERVED BY THE COMMITTEE OF PUBLIC ACCOUNTS (PAC)

(The Appendix to this Annex lists the relevant Reports of the Committee and the Treasury Minutes concerned)

Inadequate Financial Controls

Foreign and Commonwealth Office

1. During 1989 the Foreign and Commonwealth Office introduced a new computerised accounting system for their four annual appropriation accounts. The system did not work properly and the Comptroller and Auditor General was unable to complete his audit and qualified his opinions on all four accounts. The Department's accounting arrangements were open to strong criticism, and inadequate controls created a climate which was conducive to fraud and theft, and may have heightened the risk of irregularities remaining undetected. It was astonishing that the Department should have allowed a complete turnover in book-keeping staff at the very time when major changes were taking place. The Department have noted our comments, and have ruled that mobile staff leaving the Bookkeeping Section should be replaced by non mobile staff of the Home Civil Service.

Department of Employment

2. The Department of Employment had experienced difficulties in controlling and monitoring expenditure on the Technical and Vocational Education Initiative. The Initiative aims to influence state education in ways which prepare 14-18 year olds better for working life. The Department accepted that their Regional Offices had lacked the financial expertise to manage their budgets effectively. They had started to recruit qualified accountants, while other staff devoted to financial monitoring were being better trained and provided with clear instructions about what they were to. Similar criticisms of the Department had previously arisen over the lack of suitably qualified and trained staff which had continued to undermine the operation of effective financial management of the Employment Training and Youth Training Programmes. The Committee welcomed the action taken by the Department to strengthen staffing both in terms of numbers and expertise.

PSA Services

3. From 1 April 1990, PSA Services were required to operate on a fully commercial basis and had to invoice all departments for work undertaken on their behalf. It was therefore a most serious matter that PSA Services' financial system broke down to the extent that they had to charge £65.6 million to their own Vote instead of being able to recover it from their customers. Moreover, it was unsatisfactory that, despite having had sufficient time to do so, PSA Services were so poorly prepared for such a major change in their status and procedures. We were also concerned about the implications for small firms who had accepted work from PSA Services, and who found that they did not know when they would receive payment for their work, because PSA Services did not know when they themselves would receive payment. The serious systems weaknesses which had arisen also created an environment in which impropriety could both flourish and be difficult to detect.

4. We were most concerned that, despite assurances given to our predecessors, serious invoicing problems continued well into 1991-92. We therefore repeated our predecessors' view and regarded it as most important that close and continuing examination of the possibility of fraud be undertaken. We note that PSA Services have warned staff of this risk and that they accepted the need to continue to be vigilant to guard against any fraud or irregularity.

Insolvency Service

5. The Comptroller and Auditor General's 1989-90 audit of the Account of the Insolvency Service of the Department of Trade and Industry revealed discrepancies between the Account and the computerised records of individual insolvent estates. The previous Committee were concerned that discrepancies between the computer systems and the cashbook at the end of 1988-89 and 1989-90 should have been so large. Since the balances on the estate records are intended to represent the liability to creditors, the discrepancies were a serious reflection on the systems of financial control. Following our predecessors' criticisms, the Service introduced subsidiary controls to minimise the risk of overpayment.

Ministry of Defence 28th Report 6. We were concerned at the failure of Senior Finance Officers within the Ministry of Defence to identify potential irregular expenditure, and were critical of other line managers to reject irregular projects under their efficiency incentive scheme. We asked the Ministry of Defence to report back to the Committee about the measures they proposed to take to strengthen their training procedures to

ensure that all managers, particularly those with responsibility for approving expenditure, were fully aware of their responsibilities. We note that the irregular expenditure has been drawn to the attention of training staff and used as an example of what can go wrong.

Department of Social Security

7. The C&AG's Report on the Department of Social Security's Appropriation Accounts for 1991-92 revealed important weaknesses in the accounting for and control over expenditure charged to administration and miscellaneous services. The Benefits Agency had failed to reconcile the Department's expenditure and receipts for administration with monthly statements from the Paymaster General's Office. This was a serious weakness that went undetected for a long time and had serious consequences for the control of substantial public funds. It pointed to a deficiency of accounting skills within the Department. At the time these weaknesses occurred the Department had nine qualified accountants and 20 under training. They agreed that this did not seem enough for £60 billion of expenditure and told us they were seeking to increase the numbers. We welcome the steps the Department have subsequently taken both to recruit and train qualified accountants, and to develop training programmes for generalist staff employed in financial divisions and for non-financial staff elsewhere.

Wessex Regional Health Authority

8. In attempting to implement their regional information systems plan, the Wessex Regional Health Authority failed to keep control over their capital budget. And the National Health Service Management Executive did not know about substantial overspends on the project against the annual budget until six months after the end of the financial year. We urged both bodies to introduce much better financial control arrangements.

National Rivers Authority

9. The National Rivers Authority, partly funded by the Department of the Environment, mismanaged their headquarters relocation project resulting in wasted expenditure of £1 million. The Board and senior management of the Authority failed to establish effective management and monitoring arrangements for the relocation project. Despite the monitoring and reporting arrangements in place, the Department remained unaware of repeated failures in financial controls. We note that subsequently the Board, Chief Executive and senior managers were reminded of their stewardship responsibilities for public funds.

Failure to comply with rules

Department of Employment

10. The Comptroller and Auditor General qualified his audit opinions on the Department of Employment's 1989-90 and 1990-91 Appropriation Accounts covering training expenditure. Central to these qualifications were large amounts of doubtful and incorrect payments to training providers and to Training and Enterprise Councils, involving some £55 million in 1989-90 and £24.5 million in 1990-91. The previous Committee found this situation unacceptable, and considered it essential that the Department should remain committed to improving financial control of training expenditure if overpayments were to be prevented and fraud and corruption deterred. We note that the Department have

since introduced a number of measures to reduce the risk of overpayments, and to clarify and emphasise Training and Enterprise Councils' contractual obligations on financial controls.

11. The Comptroller and Auditor General subsequently found, on his examination of the 1992-93 account, that the Department and the Employment Service had achieved significant improvements and were continuing to give priority to strengthening financial control. In view of this, and of the substantial reduction in errors and uncertainties, the Comptroller and Auditor General did not consider it necessary to qualify his opinion on the account.

The Welsh Development Agency

12. We noted the tensions that had developed between the Welsh Development Agency and their International Director. As a result he served only nine weeks of a four month posting in the United States before being effectively sent home on eight months' "gardening leave" which took him up to his fiftieth birthday. We were deeply concerned at the artificiality of the arrangements made for his retirement settlement, and at the total cost of the package which exceeded £228,000. We also criticised the Welsh Development Agency for not following the clear legal requirement under which they should have submitted their new redundancy scheme to the Welsh Office for approval before implementing it. And it was unacceptable that the Agency should have provided cars to their Board members and senior executives without requiring them to pay for private motoring.

West Midlands Regional Health Authority

13. The Director of Regionally Managed Services of the West Midlands Regional Health Authority was allowed to leave on redundancy terms after five years' service with the Authority, with an immediate pension of £6,462 a year and lump sums totalling £81,837. The Authority and the NHS Management Executive told us that he should have been dismissed not made redundant. The authority's explanation that they did not have the full facts until later was evidence of their failure to know about and control what their senior staff were doing in their name.

Inadequate stewardship of public money and assets

Welsh Office

14. We considered that the standards applied by the Welsh Development Agency had been well below what the Committee and Parliament had a right to expect. We took a serious view of the apparent lapses which resulted in the Welsh Office being unaware that the Agency had introduced the redundancy and car schemes. We reminded the Welsh Office of their obligations for effective oversight of non-departmental public bodies. We note that all Welsh non-departmental public bodies have been reminded of the need for the highest standards of probity and fairness in the conduct of public business and of the requirement to comply with delegated authorities. We also note the steps taken to ensure that the lessons which have been learned have been notified to and applied by all non-departmental public bodies.

15. In the case of the early retirement of the former Chief Executive of a non-departmental public body (the Development Board for Rural Wales), we were surprised

that the Board went beyond the terms approved by the Treasury, therefore making the payment irregular. We welcome the Treasury's new guidance reminding departments of the need to put in place arrangements designed to ensure that non-departmental public bodies do not make irregular payments and do not act beyond their authority. We note that more detailed guidance on the roles of chairmen of the boards and of the chief executives of non-departmental public bodies has been issued to departments.

Wessex Regional Health Authority

16. It was a matter of grave concern that the Wessex Regional Health Authority wasted at least £20 million in attempting to implement their regional information systems plan, which they abandoned in 1990. This money should have been spent on health care for sick people. The NHS Management Executive and the Regional Health Authority should not have allowed themselves to be kept at arms length for three and a half years over the mismanagement of the project. This represented a serious failure on the part of the Regional Health Authority to secure accountability from the then Regional General Manager and a failure on the part of the Management Executive to act with sufficient urgency.

West Midlands Regional Health Authority

17. We similarly criticised the West Midlands Regional Health Authority for serious shortcomings in the management, control and accountability of their Regionally Managed Services Organisation. This led to a waste of at least £10 million, at the expense of health care for sick people in the West Midlands. The essence of this mismanagement was that the responsible official, new to the National Health Service, was able to follow his own path, making a bonfire of the rules in the process, uncontrolled either by the Regional Health Authority or regional senior management. These were very serious failings at all levels of management, and the Chairman and Members of the Regional Health Authority had seriously neglected their duty to secure the accountability of regional management. The NHS Management Executive should have been aware of, and become involved in, these problems at a much earlier date.

18. In this case two junior members of staff were disciplined for a mistake they had immediately admitted, but only one of all the senior management and Members of the Authority responsible for the catalogue of mis-management and lack of control was the subject of disciplinary proceedings. This lack of evenhandedness reflected a breakdown in the operation of personal responsibility and accountability similar to that dealt with in our report on the Wessex Regional Health Authority.

Forward Civil Service Catering

19. Forward Civil Service Catering is the central catering organisation of the Civil Service. It is part of the Treasury and operates on commercial lines. The Comptroller and Auditor General reported on irregularities on Forward 1991-92 accounts and qualified his audit certificate in the light of continuing uncertainty on key systems and controls and the impact on the propriety and regularity of Forward receipts and expenditure. This case, involving poor control, mismanagement, irregularity, malpractice and fraud, represented a serious failure in the proper conduct of public business in what was - or should have been - a straightforward trading operation. It was particularly unsatisfactory that this situation was allowed to develop in a body which is the direct responsibility of the Treasury and should have been the subject of more effective

oversight. We note that the Treasury acknowledge that there was a serious breakdown in financial control and that they should have exerted tighter control over the organisation at a time when Forward was undergoing considerable change. We note the Treasury's assessment that the necessary improvement in financial control at Forward has been achieved.

Ministry of Defence

20. The Ministry of Defence had incurred irregular expenditure totalling £1.2 million on a scheme designed to reward groups of staff for their part in contributing to efficiency. We endorsed the Accounting Officer's acknowledgement that he was ultimately responsible, and we regarded such personal accountability as a cardinal principle of Parliament's controls over public expenditure. We emphasised, however, that the principle of personal responsibility and accountability for public expenditure extends throughout departments.

National Health Service Management Executive

21. We were concerned about the unsatisfactory arrangements for managing the construction of the Chelsea and Westminster Hospital, and the consequent cost overruns and delays. The Department of Health accepted that the financing of the hospital did not go as planned, and undertook to issue guidance to the National Health Service emphasising the need for full and proper financial planning before any commitment is made to future capital schemes.

22. In connexion with this matter, we also insisted that information relating to the costs of delays contained in our report should be published. We considered that the public, and in particular the people living in the North West Thames Region, were entitled to this information.

Failure to provide value for money

National Rivers Authority

23. The National Rivers Authority's mismanagement of their headquarters relocation project was characterised by inadequate and poorly controlled tendering and contracting arrangements within the Authority, and attendant risks of fraud, corruption and a failure to obtain value for money. The Authority assured our predecessors that arrangements had been put in place to ensure that these sorts of situations would not occur again.

Wessex Regional Health Authority

24. In a number of instances conflicts of interest had arisen between the Wessex Regional Health Authority and contractors who wished to provide, or were already contracted to provide, services to the Authority. For example, the Authority acknowledged that a fundamental conflict between their interests and those of Wessex Integrated Systems Limited arose when the Authority appointed a Director of that company, with whom the Regional Health Authority had a contract to supply computer services, to act as Regional Information Systems Manager. The Authority also allowed a secondeed from IBM to advise them on the purchase, without competition, of an IBM computer for £3.3 million, at a time when it could have been purchased for £0.5 million to £1 million less.

New Town Development Corporations

25. Arrangements adopted by the Milton Keynes, Telford and Warrington & Runcorn Development Corporations encouraged some 800 of their staff to form private business ventures to undertake work for the corporations under contract. By 1987, these ventures had undertaken work worth a total of some £37 million. The limited competition involved in setting up the ventures virtually guaranteed a substantial amount of contract work to those involved; the reliance on "discreet approaches" to selected firms was unsatisfactory; and publicising the privatisation programme more widely might have secured better value for money, including a wider choice of professional skills. The Treasury Minute subsequently accepted that, where contracts for the privatisation of functions are to be let on a competitive basis, there should be appropriate publicity.

Department of Employment

26. We considered that the Department of Employment's investment of £48 million in the Field System represented poor value for money. In our view this computer project suffered from inadequate appraisal, lack of reappraisal in the light of changing requirements and ineffective management. And because the Department engaged consultants in such a haphazard manner, we questioned whether they and the taxpayer obtained full value for money from the £11 million spent on consultancies.

For Appendix to Annex 2 (PREVIOUS PUBLIC ACCOUNTS COMMITTEE REPORTS AND TREASURY MINUTES) see hard copy.