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

UK Overseas Territories

GOOD PRACTICE GUIDE

NOVEMBER 2021

UK OVERSEAS TERRITORIES PROJECT PHASE II

CONTENTS

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Introduction

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.[1] The guidance is intended to stimulate the sharing of good practice and to help Overseas Territories to reflect on, and strengthen, their current practices and procedures.

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 A principles-based approach also helps to ensure that the guidance does not quickly become out-of-date as the professional and statutory environment evolves.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

The model

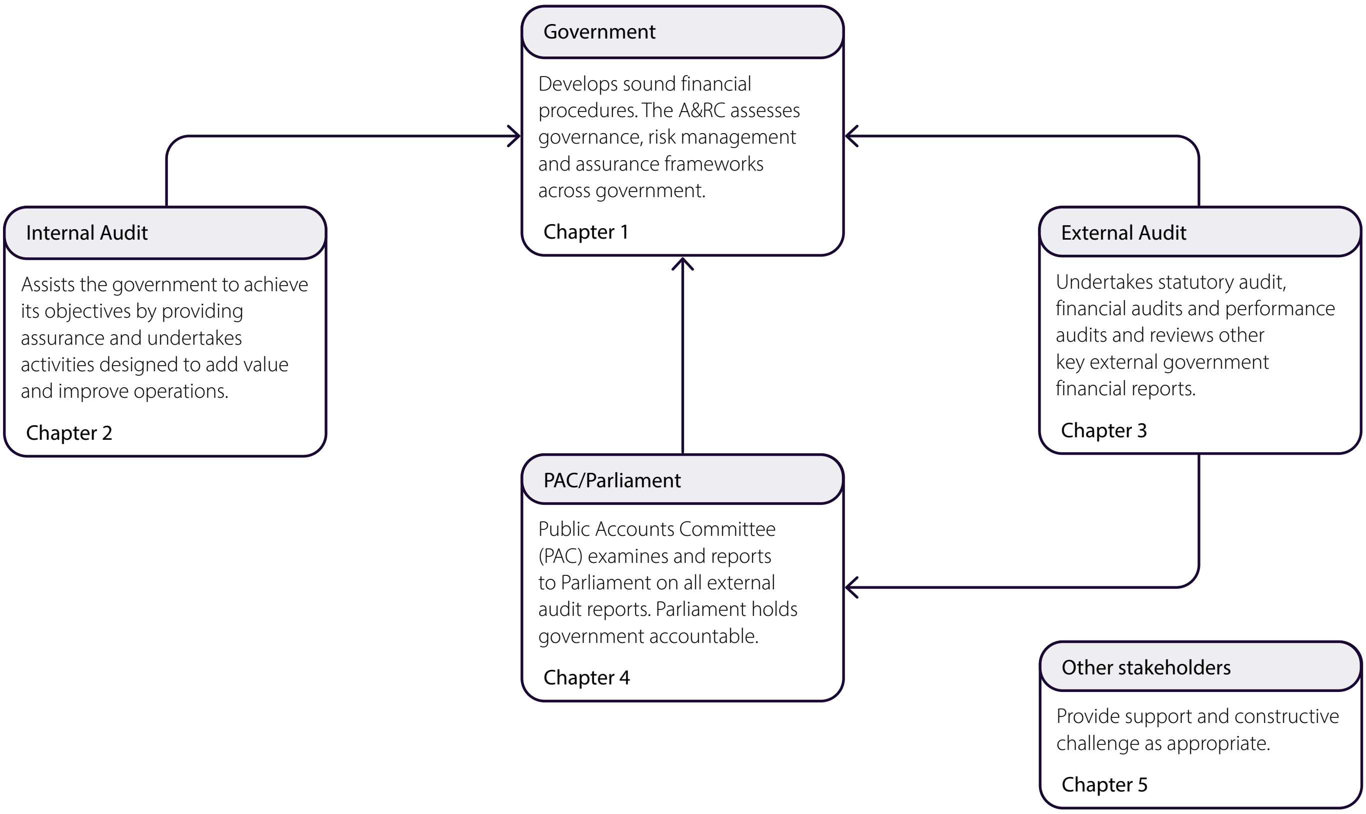
3 The good-practice guidance sets out key responsibilities for public servants including managers, internal audit, the Audit & Risk Committee, external audit, the Public Accounts Committee (PAC) and Parliament/the legislature. It also explains the role of the Foreign, Commonwealth & Development Office (FCDO).

4 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 services, internal audit, the Audit & Risk Committees and the government (that is, the elected members forming the executive council). The main components of external oversight are external audit and the Committee, reporting to the elected members (that is, Parliament/the legislature). Elected members are in turn accountable to the public. This distinction highlights the need to establish and implement an effective Public Accounts Committee (PAC) and Audit & Risk Committee (A&RC).

1 HM Treasury, *Managing Public Money*, 2012, www.gov.uk/government/publications/managing-public-money

Figure 1

Framework for financial oversight in the Overseas Territories



Notes

1 Government comprises (i) the centre of government including the Ministry of Finance and (ii) government departments and other public service delivery bodies.

2 The Audit & Risk Committee (A&RC) comprises non-executive members.

3 Other stakeholders include Foreign, Commonwealth & Development Office (FCDO), the Governor and citizens.

Part One

Responsibilities for the proper conduct of public business

Group and its key financial oversight responsibilities and activities
Senior management
Senior management may be defined as the Governor (and could include cabinet), Deputy Governor, chief financial officer (where it exists) and attorney general. Establishes, maintains and monitors: • 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. Sets the tone at the top and promotes and facilitates the drive to achieve high standards of accountability and transparency of public business. Reports openly and regularly to key external stakeholders such as the executive body, the public and the FCDO.
Audit & Risk Committee
The A&RC comprises non-executive members. Having considered the completeness, reliability and integrity of assurances it has received, the A&RC: • 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, objectivity and understanding, skills, the scope of its work, the effectiveness of its engagement with key issues, and its communications; and • reviews the implementation of internal and external audit reports' recommendations.
Parliament
• ensures that legislation is consistent with international best practice, aligned with fiscal policy and fully supports financial oversight; • enacts anti-corruption, bribery and public interest disclosure legislation; • holds the government to account; and • refers to Public Accounts Committee (PAC) for detailed scrutiny of the audited accounts of all public bodies and performance audit reports and considers the results of PAC inquiry.

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

a a corporate governance framework;

b a framework for the proper conduct of public business; and

c a financial framework to ensure the safe and responsible management of public funds and resources.

A schematic of these three frameworks is provided overleaf.

Corporate governance

This guide covers:

1. Principles of good governance in the public sector
2. Tone at the top and transparency
3. Audit & risk committee

Proper conduct of public business

This guide covers:

1. Establishing standards
2. Recruitment and induction
3. Code of conduct
4. Embedding standards
5. Incentives & sanctions, identifying problems, including whistleblowing
6. Monitoring & compliance

Financial reporting

This guide covers:

1. Fiscal strategy and reports
2. Budgeting and forecasting
3. Authorising expenditure & stewardship of assets
4. Establishing & reviewing controls
5. Preparing and auditing financial statements and other supplementary information
6. Reporting on the results of audits and other external reviews
7. Financial reporting maturity assessments

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 part. 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, taking appropriate action to strengthen them. Such actions may range from providing additional advice and training to staff to prosecuting staff where there is evidence that they 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 Government and the legislature need to ensure that legislation supports the implementation of the principles and frameworks set out in this guide. Where legislation no longer reflects best practice, senior officials should advise Parliament/the legislature on the need to review and update the legislation. Parliament/the legislature should consider the transparency of government business and whether this is promoted by existing legislation. Parliament/the legislature may decide to commission a review of the financial oversight legislation to confirm the extent to which it supports effective financial oversight. Where changes are required, they should be introduced and implemented promptly.

Principles-based guideline

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

a) A framework for corporate governance

1.6 A framework for corporate governance 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. The framework highlights the importance of the public sector's role in particular for maintaining or enhancing the wellbeing of citizens. It also emphasises stakeholders' interest in ascertaining that a public sector entity's planned outputs are achieved and are delivered in an economic, efficient, effective and equitable manner. Consequently, public sector organisations need 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:	A	behaving with integrity, showing commitment to ethical values and respecting the rule of law; and
	B	ensuring openness and comprehensive stakeholder engagement.
Establishing and maintaining effective arrangements for:	C	defining outcomes in terms of sustainable, social and environmental benefits;
	D	determining the interventions necessary to optimise the intended outcomes;
	E	developing organisational and individual capacities including leadership capacities;
	F	managing risks and performance through robust internal controls and strong public financial management; and
	G	implementing good practice in transparency, reporting and audit to deliver effective accountability.

1.8 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 with best practice such as the International framework: Good governance in the public sector, published in 2014 by CIPFA/IFAC. The system of corporate governance should be kept under review.[2]

'Tone at the top' and transparency

1.10 The public expects elected representatives and senior officials to set the 'tone at the top' and be transparent. Setting the tone at the top should address the standards which the civil service expects of 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 elected representatives. The table below sets out some examples of risks and responses.

2 The National Commission on the future of governance in the public sector published its first report in November 2019.

Risk	Reporting response
Excessive hospitality and travel expenses	Publish rules on internal and external websites together with details of all hospitality and travel expenses received above an appropriate threshold.
Unreasonable remuneration	Publish the remuneration of all ministers and senior officials including pension contributions and any ex-gratia payments in the annual report and accounts, which is covered by the external auditor's certificate. Report on how the remuneration of the highest-paid civil servant compares to the median salary for employees.
Conflicts of interest may influence key decisions	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. The executive board and its sub-committees' handbooks should cover independence and conflicts of interest. The board and its sub-committees' meetings should include declarations of interests as a standing item. 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.
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 FCDO and publicise the outcome of the investigations.

Principles-based guidelines

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

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

Audit & Risk Committee

1.13 The A&RC'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 A&RC 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.

1.14 The A&RC works closely with internal audit, approving its strategy and work plan, and ensures that internal audit has adequate resources and access to records, personnel and physical properties to perform effectively.

1.15 In reviewing and advising on government's approach to risk management, the A&RC may review the work of internal and external audit as well as the entity risk register and receive reports from the risk owners on how they are managing the key risks.

1.16 The A&RC 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.

1.17 The A&RC should review the extent to which internal audit recommendations have been implemented and report to the government where there has been slippage. This includes monitoring where management has accepted risk.

1.18 The A&RC should review its own operation and effectiveness against statements of current best practice.

1.19 For those Overseas Territories wishing to establish or strengthen an A&RC, the following references provide guidance:

- HM Treasury's *Audit and risk assurance committee handbook*;[3]
- the Institute of Internal Auditors' guidance for *Independent Audit Committees in Public Sector Organizations*;
- HM Government's *Management of risk – principles and concepts* (the Orange Book, Annex 1); and
- the National Audit Office's Guide for audit and risk committees on financial reporting and management during COVID-19.

Principles-based guidelines

1.20 The A&RC reviews the comprehensiveness and reliability of assurances to senior management, covering risk management, governance, the control environment and financial statements, including an annual report.

1.21 The A&RC 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.

1.22 The A&RC should review its own operation and effectiveness against statements of current best practice.

b) 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.

3 See also the National Audit Office's fact sheet on the handbook.

1.24 This section covers:

- establishing standards;
- recruitment and induction;
- code of conduct;
- embedding standards;
- incentives and sanctions;
- identifying problems; and
- monitoring and compliance.

Establishing standards

1.25 In 1995, the Nolan Committee reported on improving ethical standards in public life in the UK. It established seven broad principles: selflessness, integrity, objectivity, accountability, openness, honesty and leadership, which apply to holders of public office. The principles are not a general moral code, but a set of ethical responsibilities that outline the expectations of public office. In January 2013, the UK's Committee on Standards in Public Life (CSPL) published the results of its review of best practice in promoting good behaviour in public life and in 2020 launched a new review of standards. It will be carrying out a review of the institutions, processes and structures in place to support high standards of conduct. The review will look at best practice and identify any themes and gaps in the way the Seven Principles of Public Life are promoted and maintained.

Principles-based guideline

1.26 Institutions, processes and structures should be put in place to support high standards of conduct in public life with references to the Nolan Principles of Public Life and be reviewed on a regular basis taking account of current best practice including the work of the CSPL.

Recruitment and induction

1.27 The quality of the staff recruited into 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

1.28 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 and other Parliamentary committees.

Good practice

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 FCDO and, where appropriate, a briefing from the UK National Audit Office (NAO).
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

1.29 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

1.30 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/the legislature, government and other public sector employees and external auditors.

1.31 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.

1.32 Parliament/the legislature 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

1.33 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 order to embed standards the following steps may be taken:

- 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.

Principles-based guideline

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

Incentives and sanctions

1.35 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

1.36 Ethical standards are embedded 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.

1.37 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 reported during the assessment period.

1.38 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

1.39 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. 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.

1.40 The UK NAO's internal whistleblowing policy may be used as good-practice guidance. Also the Civil Service Code may be referred to.

Principles-based guidelines

1.41 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.

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

1.43 The FCDO 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

1.44 To ensure that actual behaviour is appropriate, senior officials need to monitor compliance, including by reviewing completed code of conduct returns (incorporating declarations of interest) and staff survey results. The monitoring of the compliance of senior officials should be undertaken by internal audit. Undertaking these tasks also demonstrates the importance of standards of behaviour thereby helping to set the right tone at the top.

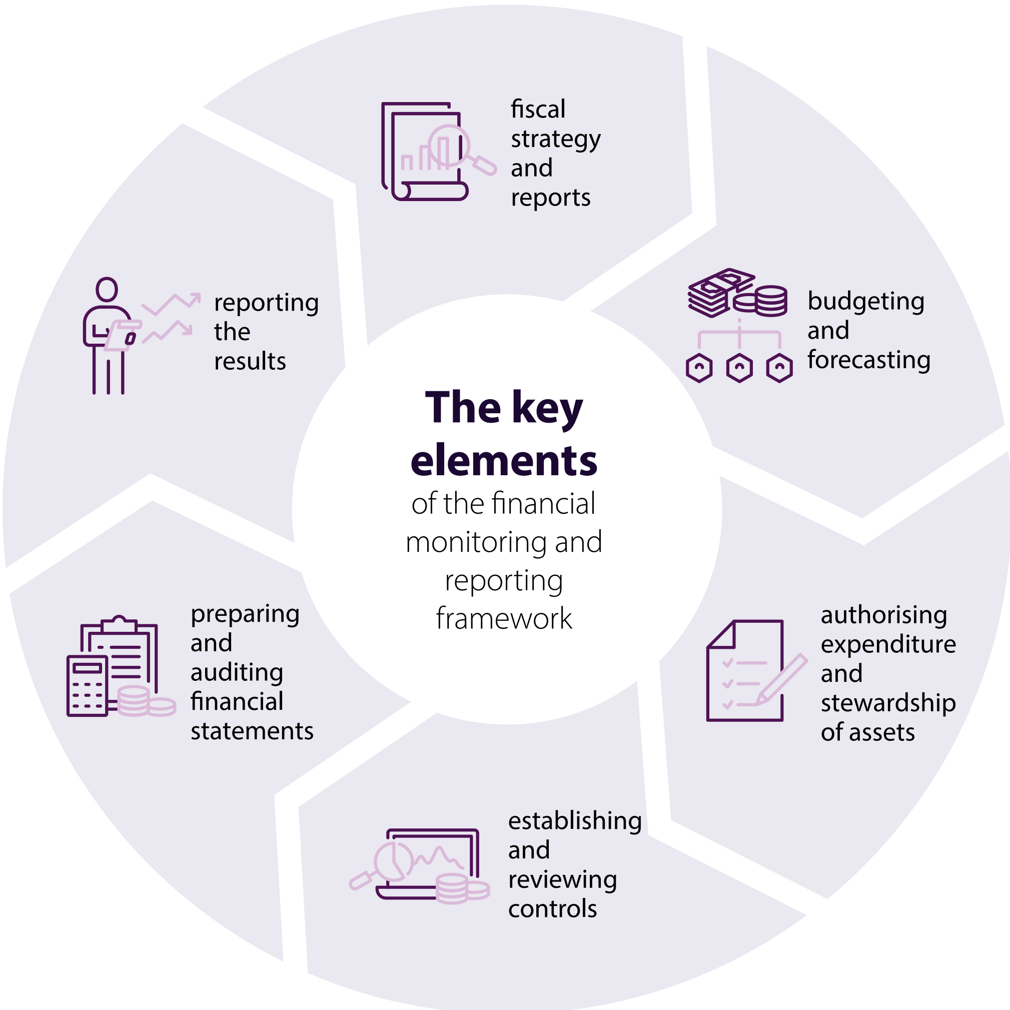
Principles-based guideline

1.45 Senior officials need to monitor compliance, including by reviewing completed code of conduct returns (incorporating declarations of interest) and staff survey results. The monitoring of the compliance of senior officials should be undertaken by internal audit.

c) A framework for financial monitoring and reporting

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 members of Parliament/the legislature, the Governor and senior officials.



1.46 ISA (UK) 260 (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 ... and the members of an audit committee where one exists". In the Overseas Territories, those charged with governance are the PS finances/financial secretaries and accounting officers.

Fiscal strategy and reports

1.47 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, revenue collection and debt financing. 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.

1.48 Periodically and at least bi-annually, 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 and contingent liabilities;
- details of key assets valuation, state and protection;
- updates on major projects and programmes; and
- financial risks and how they are being managed.

1.49 The PAC may request that external audit reviews the fiscal report. Parliament/the legislature 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/the legislature and the Governor for debate.

1.50 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

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

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

1.53 Parliament/the legislature 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

1.54 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

1.55 Parliament/the legislature'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

1.56 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.

1.57 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, and so forth. The risks pertaining to the assets should be identified and addressed and appropriate systems of internal controls introduced.

Principles-based guidelines

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

1.59 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

1.60 Government should establish an effective system of internal control. The internal audit function has a key role in reviewing the adequacy and effectiveness of controls and then reporting the results of its reviews to the management and the A&RC. The International Organization of Supreme Audit Institutions (INTOSAI) includes the following areas among the common internal control practices which should be present in 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

1.61 Government establishes an effective system of internal control. The internal audit function has a key role in reviewing the adequacy and effectiveness of controls and then reporting the results of its reviews to the management and the A&RC.

Reviewing the system of internal control

1.62 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;
- the results of the scrutiny by the PAC, other relevant sub-committees, and the A&RC; and
- identifying, registering and proactively managing risks.

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

Principles-based guideline

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

Preparing and auditing financial statements

1.65 The government is responsible for preparing annual accounts in accordance with local legal requirements and the International Public Sector Accounting Standards (IPSAS) and of a quality which may be efficiently audited in accordance with agreed timetables in line with legislative requirements.

1.66 Government should actively consult with the auditor general when planning its accounts production and internal review procedures. The plan should take into account, and address, any issues which have led to delays and qualifications in the past such as implementing international accounting standards.

1.67 The specific responsibilities and requirements for the production and submission of annual accounts, together with any relevant subsidiary statements, vary depending on the relevant legislation in each of the Overseas Territories. The publication of audited annual accounts is an important means by which the public bodies demonstrate the stewardship and use of public money.

1.68 An annual corporate governance report, which comprises the directors' report, the statement of accounting officer's responsibilities and the governance statement should be published with the annual report and audited accounts.

1.69 Chapter 6 of the Government Financial Reporting Manual (FREM) provides guidance regarding the corporate governance report and the governance statement, which sets out minimum requirements.

1.70 Government may also need to prepare other submissions or returns which may require or benefit from review by the external auditor.

Principles-based guidelines

1.71 Government is responsible for the arrangements for the timely preparation and submission of annual accounts for audit by the external auditor. These arrangements are assessed by the internal audit function and discussed by the A&RC and the PAC.

1.72 The government publishes its corporate governance report as part of the body of the annual report and accounts so that the audit report may 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 A&RC.

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

Form and content of the government's annual accounts

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

1.75 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.

Principles-based guideline

1.76 Where appropriate the government should adopt 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

1.77 Government is responsible for ensuring that the draft annual accounts have been properly prepared and thoroughly reviewed before they are submitted for audit. The accounts need to be provided to the auditors as soon as possible after the end of the financial year so that the external auditors can complete their audit and present their report to Parliament/the legislature within six months ideally of the financial year end and in accordance with any date prescibed in law.

1.78 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

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

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

Management letter and follow-up

1.81 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.

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

Principles-based guideline

1.83 Government is able to demonstrate that it has responded constructively to the recommendations of the external auditor and reports on a regular basis on the progress made in the implementation of those recommendations which were accepted.

Reporting on the results of the audits and other external reviews

1.84 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 address these key risks;
- outline the non-trivial errors detected during the audit and explain how they have been dealt with; and
- include the anticipated audit certificate and report.

1.85 The Overseas Territories' Financial Audit Manual (FAM) includes a template to report the results of the audit to those charged with governance, which is available via the Overseas Territories project portal.

1.86 The A&RC 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.

1.87 The audited accounts should be laid before Parliament/the legislature 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 guidelines

1.88 The auditor general prepares an audit completion report on the results of the audit of government's financial statements, which is presented to the A&RC.

1.89 The audited accounts should be laid before Parliament/the legislature and promptly published. The PAC should examine government's annual accounts and those of government's arm's-length bodies.

Financial reporting maturity assessments

1.90 Government should consider making an assessment of its current financial reporting framework using tailored elements of an assessment tool such as that of the CIPFA's Financial Management Model or Public Expenditure and Financial Accountability, which is used widely by international development organisations including the World Bank.

Principles-based guideline

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

Part Two

Responsibilities of internal audit

Key financial oversight responsibilities and activities

Helps the organisation achieve its objectives by providing objective assurance and by undertaking consultancy activities designed to add value and improve operations.

Conducts internal audits that conform to international internal audit standards.

Conducts regular follow-up of implementation of audit recommendations.

2.1 This part sets out the responsibilities of internal audit in providing, inter alia, effective oversight of public finances in the Overseas Territories. These principles-based expectations and guidelines cover:

a) the role of internal audit;

b) the organisation of internal audit; and

c) internal audit engagements.

2.2 Internal audit services provide independent and objective assurance and consulting to organisations, by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of governance, risk management and controls. Internal audit professionals support organisations as trusted advisers and critical friends.

2.3 The professional conduct of internal auditors operating within the Overseas Territories is set by the Institute of Internal Auditors (IIA-Global) through its principles-based International Professional Practices Framework (IPPF). Internal auditors in the Overseas Territories may apply the International Standards for the Professional Practice of Internal Auditing contained within the IPPF or the version interpreted for the UK public sector, the Public Sector Internal Audit Standards (PSIAS).

a) Purpose, authority and responsibility of internal audit

The internal audit charter

2.4 The purpose, scope, authority and responsibilities of an Overseas Territory's internal audit service is formally agreed by the senior officer accountable for internal audit services within the territory, that is, the chief audit executive (CAE), and government. The agreement is set out in the internal audit charter, which is required by internal audit standards and formalises the governance of internal audit within the relevant territory.

2.5 The internal audit charter should:

- define the internal audit service's purpose, authority and responsibility;
- establish the internal audit service's position within the organisation;
- define the scope of internal audit activities; and
- establish which internal auditing standards the internal audit service works to and if any other laws or regulations have a direct bearing on how internal audit services are conducted.

2.6 The internal audit charter should include, but not be limited to:

- mission and purpose;
- adherence to the public sector internal auditing standards;
- authority levels over scope, access and safeguarding information;
- independence and objectivity;
- scope of internal audit activities;
- responsibility for audit strategy, risk-based plans, coverage, resources, execution, amendments, communication and reporting; and
- the quality assurance and improvement programme.

2.7 The audit charter should be developed and maintained by the CAE. Before being finalised, the charter should be subject to agreement by the accounting officer, supported by the organisation's Audit & Risk Committee (A&RC).

2.8 The accounting officer, supported by the A&RC, should review the charter periodically, to ensure arrangements are appropriate and continue to support the territory's needs.

2.9 The Institute of Internal Auditors' model charter may be found using the link here: IIA model charter.

Internal audit strategy

2.10 The internal audit strategy for an Overseas Territory provides a statement of how the internal audit service should be developed and delivered in accordance with the internal audit charter, and how the annual plan links to the territory's strategic objectives, risks and priorities.

2.11 All Overseas Territories should have an internal audit strategy, agreed with their internal audit service.

2.12 The strategy should be developed and presented to the CAE. It should be reviewed by the A&RC and ratified by the accounting officer before being finalised.

2.13 The strategy supports annual or periodic planning, and should include:

- what internal audit should deliver and how;
- measurement of performance against plan;
- quality assurance arrangements;
- a summary of the risk assessment;
- reliance to be placed on other assurance providers; and
- the rationale behind the plan, and its links to the organisation's objectives and priorities.

b) Organisation of internal audit

Internal audit plan

2.14 Planning ensures that desired outputs and outcomes are likely to be delivered within defined constraints, to meet an agreed strategy.

2.15 An annual or periodic plan for each Overseas Territory should be developed and maintained by the internal audit service provider, in consultation with the accounting officer and senior leadership of the Overseas Territory, setting out intended internal audit activity to be undertaken in the period based on:

- priorities identified using a risk-based approach;
- adequate coverage of core systems;
- management requests for assurance and consultancy work;
- any requirements for real-time or embedded assurance; and
- the funding required to implement the plan and where such funding is sourced.

2.16 The plan should be risk-based and fulfil any requirement to produce an annual internal audit opinion and operate an effective assurance framework.

2.17 The CAE should present the annual audit plan for approval by the audit and A&RC, and subsequent ratification by the accounting officer.

2.18 The plan should be kept under review to ensure it remains current and reflects emerging risks and issues. Changes to the plan should be approved by the A&RC and ratified by the accounting officer.

2.19 The audit strategy and annual plan may be combined in one document.

Risk assessment

2.20 Risk is the effect of uncertainty on objectives, and risk management is fundamental to how an organisation is directed, managed and controlled.

2.21 Risk identification and assessment enables organisations to determine and prioritise how risks should be managed.

2.22 An Overseas Territory's risk assessment helps its internal auditors understand governance, risk management and control arrangements. This should be used to inform the annual audit plan and to ensure that internal audit activity aligns to the organisation's strategies, objectives and risks.

2.23 To support an internal audit engagement, each Overseas Territory should provide evidence of risk assessment, which should include but not be limited to:

- business plans;
- risk registers;
- governance statement;
- assurance maps; and
- management information on performance.

2.24 Risk appetite provides a framework which enables an organisation to make informed management decisions. The risk appetite is the amount of risk that an Overseas Territory is prepared to accept, tolerate, or be exposed to at any point in time. The risk appetite is determined by, and continuously assessed, based on the nature and extent of the principal risks that the Overseas Territory is exposed to and is willing to take to achieve its objectives and the level of risk within which an organisation aims to operate.

2.25 An Overseas Territory's board (or equivalent) is accountable for determining and continuously assessing risk appetite.

2.26 Each Overseas Territory's internal audit service should develop and maintain an assessment of how well risk appetite:

- has been established and is being maintained;
- represents current circumstances and reflects active review by the board (or equivalent) and executive management; and
- is embedded within the activities, limits and reporting of the Overseas Territory.

Assurance maps

2.27 Assurance mapping is a mechanism for linking monitoring and reporting from various sources to the risks that threaten the achievement of an organisation's outcomes and objectives. They can be at various levels, depending on scope. Assurance maps often embed the 'three lines of defence' model.

2.28 Assurance maps should be developed and maintained by organisations to allow for a collective view of assurance across the organisation and to provide:

- a clear statement of assurance processes;
- better understanding of the risk and completeness of assurance;
- identification of major gaps in assurance; and
- better targeting of resources and improved governance and reporting to boards and committees.

Progress reports

2.29 Audit plans should be monitored and reported against using appropriate milestones and performance criteria.

2.30 The CAE is accountable for preparation and quality-checking of periodic progress reports to senior management and the A&RC on progress against plan.

2.31 Progress reports should include, but not be limited to:

- rationale for proposed changes to the plan;
- results of engagements undertaken since the last progress report;
- significant control weaknesses and breakdowns together with a robust root cause analysis;
- insights from real-time or embedded assurance;
- updates on action-tracking;
- key trends, themes and good practice identified;
- potential impact of external developments on the organisation;
- areas where residual risk may be unacceptable to the organisation; and
- the performance and effectiveness of internal audit services, and any changes to resource requirements.

Annual reports and opinions

2.32 The annual internal audit opinion supports the accounting officer by providing a professional judgement on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

2.33 Those Overseas Territories working to the IPPF may produce an annual report and opinion, while those working to PSIAS must produce one.

2.34 The annual opinion is the professional judgement of the CAE, based on the results of individual engagements and internal audit's other activities.

2.35 The annual opinion should consider whether the risk appetite has been established and reviewed through the active involvement of the board (or equivalent) and executive management. It should assess whether risk appetite is embedded within the activities, limits and reporting of the Overseas Territory; and it should report annually to the A&RC its conclusions through the annual opinion.

2.36 The annual opinion should take into account the strategies, objectives and risks including the Overseas Territory's risk appetite and risk tolerance of the organisation and the expectations of senior management, the board and other defined stakeholders. The opinion should be supported by sufficient, reliable, relevant and useful information.

2.37 The annual opinion should be used by the Overseas Territory to inform the governance statement in its annual report.

Assurance

2.38 The purpose of assurance is to provide, through a systematic set of actions, confidence to senior leaders and stakeholders that work is controlled and supports safe and successful delivery of policy, strategy and objectives.

2.39 Internal audit service providers should operate a defined and established quality assurance and improvement programme for internal audit activity, using the IIA assessment framework.

2.40 Typically, assurance should be on at least three separate and defined levels including:

- specified quality checks undertaken at key points in the engagement process by those responsible for management of internal audit engagements;
- compliance and qualitative checks on a sample of completed engagements on a periodic basis by those responsible for quality assurance and improvement, including customer feedback; and
- external quality assessments undertaken by independent assessors.

2.41 Activities should be integrated with the organisation's overall assurance framework.

2.42 Potential improvements should feed into an improvement programme appropriate to the value, complexity and risk profile of the Overseas Territory.

Internal oversight

2.43 A&RCs should consider the effectiveness of internal audit on a periodic basis. This should include how well the internal audit service:

- understands and keeps abreast of the increasing complexity of the relevant areas of public service delivery;
- is respected, taken seriously and has strong relationships with key stakeholders within the business;
- provides relevant, effective, evidence-based and pragmatic advice and recommendations and robust conclusions, drawing on experience of best practice to help improve public service delivery;
- ensures that recommendations, which address their findings, are implemented in line with agreed timescales; and
- acts upon the findings of customer satisfaction questionnaires and other internal quality assurance activity.

External oversight

2.44 An assessment of the adequacy of an internal audit service should be conducted at least once every five years. The assessment should be done by an independent assessor (or assessment team) qualified in the professional practice of internal auditing and the external assessment process.

2.45 The external assessment should consider and report on compliance with the relevant set of internal audit standards.

2.46 The scope of external assessments should be agreed with the CAE before the work is undertaken.

2.47 The results of external assurance, including progress against any resulting improvement plans, should be included in the annual report of the internal audit service provider.

Decision-making

2.48 Decisions should be made in a timely manner by evaluating alternative choices against agreed criteria. Stakeholders and subject matter experts should be consulted.

2.49 Decisions within organisations might relate to:

- approving the audit charter;
- approving the memorandum of understanding;
- approving the audit strategy;
- approving the annual plan;
- approving terms of reference;
- approving draft reports; and
- deciding actions to take in response to audits.

2.50 Decisions should take account of:

- the risks and emerging issues of the organisation;
- relevant board-level management information;
- regular interaction between the organisation's senior leadership and the internal audit service; and
- the adequacy of internal audit resources.

Roles and accountabilities

2.51 Roles and accountabilities should be defined in the organisation's governance and management framework and assigned to people with appropriate seniority, skills and experience. This includes, but is not limited to, the activities, outputs or outcomes they are responsible for, and the person they are accountable to.

2.52 **Accounting officer –** The senior executive in an Overseas Territory's government is accountable to the legislature or other body to which the executive is accountable to and the public for the stewardship of public resources, ensuring they are used effectively and to high standards of probity. The accounting officer should ensure appropriate internal audit provision in their organisation and use the work of internal audit to improve their Overseas Territory's governance, risk management, internal control and performance. The accounting officer should take advice from the organisation's A&RC as necessary. More detail on the role of accounting officers can be found in *Managing Public Money*.

2.53 **Senior sponsor for internal audit services** – Each Overseas Territory should have a senior sponsor for internal audit services to oversee the Overseas Territory's relationship with the internal audit service. This role acts as an intelligent customer for the Overseas Territory and should have the capability and capacity to advise and support those engaged in the activities defined in this standard. The senior sponsor for internal audit services in an organisation is accountable to the accounting officer for:

- agreeing service levels with the Overseas Territory's internal audit service;
- monitoring the effectiveness of the internal audit service;
- acting as an escalation point for issues relating to the internal audit service;
- identifying emerging risks and issues that should be incorporated into the internal audit plan;
- requesting amendments to internal audit plans if changes are needed; and
- promoting coordination, cooperation and communication with the internal audit service.

A senior finance officer such as the chief operating officer or finance director usually undertakes this role.

2.54 **Senior sponsor for an internal audit engagement** – A senior sponsor should be appointed for each internal audit engagement in an organisation. This role is accountable to the senior sponsor for internal audit services in an organisation for:

- agreeing the terms of reference of an audit engagement;
- agreeing the report content and recommendations for action related to individual audit engagements; and
- ensuring that agreed actions are sponsored by a member of the Overseas Territory's board (or equivalent).

2.55 The senior sponsor for an internal audit engagement should ensure that the internal audit service provider has:

- unrestricted access to necessary records, assets, personnel and premises;
- the authority to obtain such information and explanations as it considers necessary to fulfil its responsibilities; and
- prompt access to information requested, including interviews with the organisation's staff, access to third-party suppliers, and answers to queries raised during the audit engagement.

2.56 The senior sponsor for an internal audit engagement can be supported by an individual or team. Appropriate staff resource should be allocated to support an audit engagement, enabling timely and effective provision of information, scheduling of interviews and responses to audit queries.

2.57 The senior sponsor for an internal audit engagement is usually a deputy director or director responsible for the area under review.

2.58 **Audit action owner** – The audit action owner is accountable to the senior sponsor for an internal audit engagement for implementing actions agreed as a result of an internal audit report, and for reporting progress.

2.59 **Chief audit executive (CAE)** – The senior officer accountable for internal audit services within an Overseas Territory. The CAE is accountable to the accounting officer for provision of an effective, efficient and holistic internal audit service. This role can cover one or more organisations. Those undertaking this role should hold a relevant qualification. The CAE should provide and maintain a high-quality internal audit service, including:

- developing and maintaining an internal audit charter for the organisation;
- developing and maintaining an internal audit strategy and plan for the organisation;
- providing progress reports to senior leaders;
- preparing the annual opinion on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control; and
- supporting the organisation to use findings from internal audit engagements to improve the organisation's policy development and operational delivery through action planning and tracking.

2.60 **Internal auditor** – The internal auditor is accountable to the CAE for effective delivery of designated internal audit engagements. Audit engagements should be allocated to auditors of suitable seniority to undertake the work, based on the level of risk and complexity, proficiency and due professional care. A hierarchy of job titles may be specified to indicate the seniority of those undertaking audit engagements. An auditor may be supported by an individual or team. The internal auditor should:

- ensure that internal audit engagements are delivered to meet the quality, time and budget requirements of the relevant internal audit charter, strategy and plan;
- ensure that the senior sponsor for an internal audit engagement is offered the opportunity to discuss the findings and recommendations of an internal audit report before it is finalised;
- issue the final report to the senior sponsor for an internal audit engagement, the Supreme Audit Authority and other recipients as agreed with the sponsor; and
- deliver other assurance products as agreed with customers, in line with quality and time requirements.

2.61 **Specialist internal auditor** – Some audit engagements require specialist expertise, alongside proficiency and professional due care, so where appropriate, a specialist auditor should be appointed, for example relating to data and technology; programme and project management; commercial operations and finance. The specialist auditor may be part of a team comprising auditors and specialist auditors, or the entire engagement may be delivered and managed by specialists accountable to the senior officer accountable for internal audit services in an organisation.

2.62 **Additional roles and responsibilities** – Additional roles and responsibilities outside of internal auditing, such as responsibility for compliance or risk management activities, may impair, or appear to impair, the independence of the internal audit activity or the individual objectivity of the internal auditor. Approval should be sought from the board for any significant additional consulting services not already included in the audit plan, prior to accepting the engagement.

Access and security

2.63 Internal audit services should ensure that auditors have appropriate security clearance for the work being done so that internal auditors can be given full access to relevant client information.

Resourcing

2.64 An Overseas Territory should define the level of internal audit service expected, with sufficient resources to deliver a service in line with required standards (including conducting the work needed to inform the annual audit opinion).

2.65 Internal audit service providers may use competent third parties to provide specialist services that are not otherwise available, or to meet additional demand that cannot otherwise be met.

c) Internal audit engagements

Engagement types

2.66 An internal audit engagement is a specific internal audit assignment, task, or review activity, such as an internal audit, control environment self-assessment review, or consultancy. An engagement may include multiple tasks or activities designed to accomplish a specific set of related objectives and might require specialist knowledge.

2.67 **Internal audit engagements** – should be undertaken in accordance with the requirements and timing defined in the internal audit plan. They provide an objective assessment of the framework of governance, risk management and control to support the three lines model and to inform the annual audit opinion. Provision of internal audits is the primary role of internal audit services in government.

2.68 **Control environment self-assessment review** – a review of expected controls and the control environment supports organisations to identify and manage areas of risk exposure, as well as highlighting potential opportunities for better risk mitigation. These aim to:

- create clear lines of accountability for controls;
- reduce the risk of fraud and/or error;
- provide assurance that internal controls systems are reliable through examination of data to flag unusual patterns of activity; and
- lower an Overseas Territory's risk profile.

2.69 **Consulting engagements –** Consulting engagements are advisory in nature and are generally performed at the specific request of the organisation (or organisations), with the aim of improving governance, risk management and control. This can include providing advice and guidance on current best practice in governance, risk management, systems design and development, internal controls and management.

2.70 **Specialist engagements –** Engagements requiring specific skills, such as Digital Data and Technology or Project and Programme Management, are commonly known as specialist engagements.

2.71 **Real-time or embedded assurance –** is where an internal audit resource is embedded within programmes, projects or committees, rather than being used to conduct individual engagements. This arrangement can be used to provide ongoing real-time assurance and advice to management, where needed. Assurance may be provided verbally or in writing. Real-time or embedded assurance may highlight areas of risk. This can trigger revisions to the audit plan, which may include specific internal audit engagements. Findings from real-time or embedded assurance should be used to support any annual opinion provided.

Engagement scoping and planning

2.72 The senior sponsor for an internal audit engagement in an organisation should provide information on the audit area to facilitate the scoping and planning of the engagement, such as policies and procedures, structure charts and risk registers.

2.73 The internal auditor should prepare terms of reference for the engagement, including but not limited to:

- engagement title;
- name of senior sponsor(s);
- scope, including limitations of scope;
- assurance objective;
- strategic objectives for the work under review, and the risks to achievement of the objectives defined by the organisation;
- adherence to relevant standards and controls;
- approach to delivery of the engagement including deliverables, timetable and audit engagement team;
- security requirements; and
- distribution list (at draft and final reporting stages).

2.74 The terms of reference should meet quality requirements agreed between the organisation and the internal audit service. The senior sponsor for the audit engagement should review the terms of reference and provide ratification before the audit engagement starts, in consultation with the internal auditor and other stakeholders if required.

2.75 Internal audit engagements should be planned to minimise disruption to the organisation's work, avoiding overlaps with other assurance activities and duplication of effort, while remaining rigorous.

2.76 Work programmes for consulting engagements may vary in form and content depending upon the nature of the engagement.

Performing the engagement

2.77 The engagement should evaluate the design and operating effectiveness of the organisation's policies and processes. It should:

- take account of the organisation's strategic objectives;
- review operational performance and outcomes planned or achieved;
- consider the organisation's risk appetite; and
- take account of espoused values and ethics.

2.78 Relevant, reliable, sufficient and useful evidence should be obtained of the adequacy and effectiveness of operational and other control arrangements.

Control

2.79 Control is an action taken by management, the board and other parties to manage risk and increase the likelihood that established objectives and goals can be achieved.

2.80 Organisations should operate an internal control environment that provides the discipline and structure for the achievement of its primary objectives.

2.81 Audit engagements should consider, but not be limited by, the following aspects of the control environment:

- integrity and ethical values;
- management's philosophy and operating style;
- organisational structure;
- assignment of authority and responsibility;
- human resource policies and practices; and
- competence of personnel.

2.82 A control framework should be defined and established, to enable auditors to assess:

- the design and effectiveness of the control environment;
- how well the operation of controls is working; and
- the impact of any gaps in or ineffective operation of controls.

2.83 Audit engagements should include recommendations for improvement in the control environment, including embedding lessons learned.

Communicating results

2.84 The internal auditor should prepare a draft report on the findings and recommendations, including recommendations based on root cause analysis, arising from the fieldwork and evaluation undertaken, that are solution-focused and feasible. This should provide an opinion on the overall adequacy and effectiveness of the framework of governance, risk management and control relating to the work within scope.

2.85 The draft report should meet quality requirements agreed between the internal audit service provider and the organisation. Where opinion ratings are given, rating definitions should conform to standard definitions set by the relevant internal audit service.

2.86 The senior sponsor for an internal audit engagement in an organisation should review the draft report and work with the auditor to finalise it, within agreed timescales. This should include:

- drawing upon expertise where needed to confirm factual accuracy;
- ensuring that agreed consultees have an opportunity to review the draft report and provide comments; and
- developing an action plan to respond to each recommendation, which might include management comments where no action is proposed.

2.87 The final report should incorporate the organisation's action plan to address findings. The senior sponsor for internal audit in the organisation, or another senior executive represented on the organisation's board, should be identified as accountable for ensuring that the actions are delivered.

2.88 Communication of the progress and results of consulting engagements might vary in form and content depending upon the nature of the engagement and the needs of the customers. The senior officer responsible for the delivery of the internal audit strategy is responsible for communicating the results of consulting engagements to customers. Communicating progress and results should be agreed with the sponsor of the engagement at the planning stage and contained within the terms of reference.

2.89 During consulting engagements, governance, risk management and control issues might be identified. Whenever these issues are significant to the organisation, they should be communicated to senior management and the board and should be considered in forming the annual opinion.

Monitoring

2.90 Monitoring is an integral part of the day-to-day supervision, review and measurement of the internal audit activity. Ongoing monitoring is incorporated into the routine policies and practices used to manage the internal audit activity and uses processes, tools and information considered necessary.

2.91 The CAE should agree with the A&RC how tracking the completion of agreed audit actions should be delivered and the division of associated responsibilities such as progress reporting as agreed in the audit charter.

2.92 The senior sponsor for the internal audit engagement should develop and provide an action plan for implementing each recommendation in the audit report, or a management comment where no action is proposed. The action plan should include realistic and achievable timescales for completion.

2.93 In order to ensure that the expected enhancements to governance, risk management and/or control are achieved, the action owners should ensure prompt completion of actions or where there are delays, provide an explanation of the delay and assessment of the impact of the delay on achievement of objectives and/or value for money.

2.94 The CAE may conclude that management has accepted a level of risk that might be unacceptable to the Overseas Territory concerned. Where this arises, the accounting officer should be alerted and consulted. If the CAE determines that the accounting officer has not resolved an issue of unacceptable risk, they should escalate the matter to the organisation's board (or equivalent) via the A&RC.

Sharing learning

2.95 Overseas Territories should share relevant learning from audit engagements across the government to strengthen the first and second lines, and improve governance, risk management and control.

2.96 Engagement and communication by internal audit service providers should be planned to meet the needs of client organisations and include feedback mechanisms and effectiveness measures. Customer feedback helps improve the quality of internal audit services, through a better understanding of the needs of the organisation and perceived quality of delivery. Internal audit service providers should seek feedback on individual engagements and engage regularly with organisation sponsors to discuss performance. This may include surveys to measure customer satisfaction. Organisations should respond promptly to requests for feedback on individual engagements.

Part Three

Responsibilities of the external auditor

Key financial oversight responsibilities and activities
Undertakes the statutory audit and certification of government accounts in accordance with international external audit standards.
Carries out performance (value-for-money) audits.
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.
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 (for example, Foreign, Commonwealth & Development Office (FCDO)-funded projects).
Supports the Overseas Territory's Public Accounts Committee (PAC) and engages with the Audit & Risk Committee (A&RC).
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.
Conducts regular follow-up of implementation of recommendations and reports to PAC where action has been inadequate.

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."

The International Organization of Supreme Audit Institutions (INTOSAI) states that Supreme Audit Institutions (SAIs) 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.

3.2 This part 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:

a) independence of the external auditor, including appointment and accountability, remit and access rights, resources and staffing, and accountability;

b) the external auditor's responsibility to make a difference to citizens;

c) undertaking financial audit;

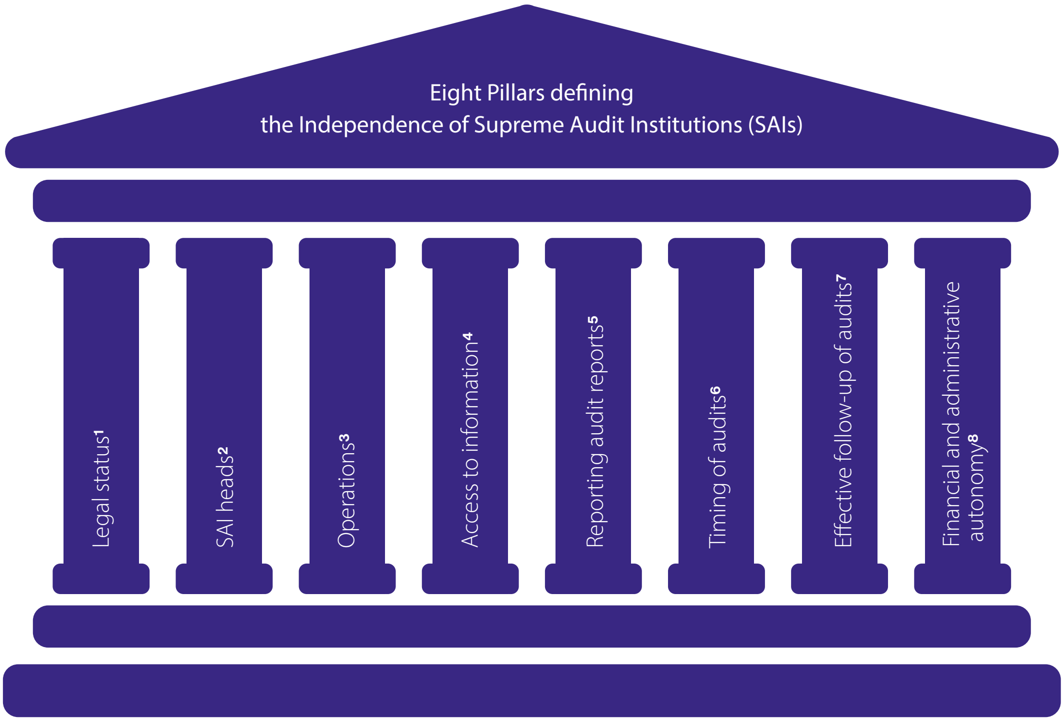
d) undertaking value-for-money (VFM) / performance audit; and

e) coordination and cooperation between external auditors and internal auditors.

a) Independence of the external auditor

3.3 In its 2014 Resolution (A/66/209) on SAI independence, 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 as set out in the Mexico Declaration on SAI Independence (**Figure 2** on page 43).

Figure 2
The Pillars of Independence



Notes

1 Legal status – The existence of an appropriate and effective constitutional/statutory/legal framework and the de facto application provisions of this framework.

2 SAI heads – The independence of SAI heads, including security of tenure and legal immunity in the normal discharge of their duties.

3 Operations – A sufficiently broad mandate, and full discretion in the discharge of SAI functions.

4 Access to information – Unrestricted access to information.

5 Reporting audit reports – The rights and obligation to report on their work.

6 Timing of audits – The freedom to decide the content and timing of audit reports, and to publish and disseminate them.

7 Effective follow-up of audits – The existence of effective follow-up mechanisms on SAI recommendations.

8 Financial and administrative autonomy – Financial and managerial/administrative autonomy and the availability of appropriate human, material and monetary resources.

Source: Mexico Declaration on SAI Independence, INTOSAI

Appointment

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, 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 five 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 employment laws.

Remit and access rights

3.7 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. The arrangements for external audit are covered by the Overseas Territories' constitutions and other legislation.

3.8 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.

3.9 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.

3.10 The external auditor is required to conduct an annual financial (including regularity or compliance) audit of all public entities. The number of VFM or performance audits is discretionary and may be agreed with Parliament/the legislature as part of the budget-setting process.

Principles-based guidelines

3.11 The legislative framework governing external audit empowers the auditor general to undertake all necessary types of audit including financial and VFM audit. It makes it clear which audits are obligatory and which discretionary. It also defines the frequency with which audits are undertaken.

3.12 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.

3.13 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 the funding.

Resources, staffing and accountability

3.14 Most of the Overseas Territories' external auditors are members of the civil service. However, INTOSAI ISSAI-P 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". In turn, the auditor general should be accountable for how they use their powers and resources.

3.15 Overseas Territory audit offices need be properly resourced to carry out their work to a professionally acceptable standard. The level of resourcing required should be agreed annually with Parliament/the legislature and/or the Governor. Where inadequate 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.

3.16 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.

3.17 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.

3.18 The auditor general is accountable to the Governor and Parliament/the legislature for their use of resources and for the overall performance of their office.

3.19 The Commonwealth Parliamentary Association UK Overseas Territories Project programme has set up a portal which allows the pooling and sharing of expertise www.ukotp-portal.com.

3.20 Auditors generals may be able to pool resources and undertake peer review of each other's 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.

3.21 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.

Principles-based guidelines

3.22 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.

3.23 The external audit programme and budget are presented to Parliament/the legislature, possibly via the PAC, a public accounts commission or a board, for formal discussion and endorsement. The budget approved by Parliament/the legislature is the budget which is received by the auditor general during the year.

3.24 The auditor general maintains managerial and financial autonomy in the use of resources allocated to the audit office.

b) 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/the legislature 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 lives of citizens are set out in INTOSAI ISSAI-P 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, 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 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, external auditors can help government strengthen its accountability, transparency and integrity by auditing public sector operations and reporting their findings. To do this effectively, 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 model organisations 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/the legislature 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.

3.32 Where appropriate, a statutory board or a public accounts commission is created to oversee the governance of the external auditor and provide a strategic perspective.

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.

c) Financial audit

3.33 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 sufficiently high quality.

3.34 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.

3.35 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.

3.36 The external auditor's certificate and report on government's annual accounts should include the three components 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 Parliament/the legislature.

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.
- 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.

3.37 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/the legislature 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.

3.38 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 A&RC should monitor progress.

3.39 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.

3.40 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

3.41 The external auditor conducts financial audits in accordance with its mandate and complying with international auditing standards.

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

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

3.44 Users of the governance statement can take assurance from it being reviewed by the external audit. International standards on auditing on the Auditor's Responsibilities Relating to Other Information (ISA (UK) 720 and ISSAI 2720) require the auditor 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.

3.45 The Commonwealth Parliamentary Association (CPA) OT project produced a financial audit manual for the Overseas Territories in 2018, which was updated in 2020, which provides detailed guidance on financial audit and is available on the Overseas Territories project portal.

d) Value-for-money audit

3.46 In addition to an annual financial audits, most audit offices conduct periodic reviews of the performance of government in the use of the resources made available to them (a performance or VFM audit). VFM audits seek to examine the extent to which governments are using these resources economically, efficiently and/or effectively. This section sets out the key responsibilities of the external auditor and the audited body and when these audits are conducted. In some Overseas 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

3.47 In carrying out VFM audits, the external auditor needs to follow internationally accepted standards. INTOSAI has developed performance audit 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/the legislature, civil society or business.

3.48 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.

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

3.50 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

3.51 The external auditor conducts VFM audits in accordance with its mandate and complying with international auditing standards.

3.52 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.

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

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

Responsibilities of the audited body in a VFM audit

3.55 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.

3.56 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 conclusions 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.

3.57 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.

3.58 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

3.59 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.

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

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

3.62 The National Audit Office has prepared a Performance Audit Manual, which is available the CPA UK Oveseas Territories portal https://www.ukotp-portal.com.

e) Coordination and cooperation between external auditors and internal auditors

3.63 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.

3.64 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;
  - risk management;
- documenting the audit entity's systems and operational processes; and
- investigating fraud and corruption allegations.

3.65 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

3.66 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.

Part Four

Responsibilities of those charged with Parliamentary oversight

Key financial oversight responsibilities and activities, Public Accounts Committee (PAC)

Examines and reports to Parliament on all external audit reports including both financial and performance audit work and any ad-hoc investigations.

Examines any matters referred to it by Parliament (Legislative Council), including where appropriate:

- audited financial statements of all public bodies laid before Parliament;
- statements of expenditure in excess; and
- government's response to any recommendations made by the PAC.

Considers the adequacy of government's arrangements for the management of financial risk and implementation of its fiscal strategy:

- 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.
- Reports on matters which the Governor has referred to PAC.

4.1 This part covers the key responsibilities of a Public Accounts Committee (PAC) working within a small Parliament/ legislature and provides principles-based guidelines to help the PAC to discharge its responsibilities. It covers the PAC's:

a) remit;

b) access rights;

c) membership and resources;

d) work programme and inquiries; and

e) relationships with Parliament/the legislature and the auditor general/external audit providers.

4.2 An effective PAC is vital to the transparency of, and accountability for, public expenditure. In particular, PACs can oversee the implementation of government policy and the quality of administration of departments and other public bodies. In 2012 the then-Foreign & Commonwealth Office 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.

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/the legislature. This is usually achieved by reviewing the reports of the auditor general and calling witnesses to account for their actions.

a) Remit

4.4 The right to establish a PAC is sometimes protected by the Overseas Territories' constitutions. The PAC's remit needs to be set out so that it can operate both financially and organisationally 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 standing committees. The remit might be limited to examining the audited accounts and reports issued by the auditor general and reporting the results of its examinations to Parliament. There are benefits in a wider remit which include:

- 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/the legislature on the effectiveness of the regulation by government of bodies to whom Parliament/the legislature or government has granted franchises to provide services of a public nature;
- reporting to Parliament/the legislature as to whether expenditure in excess should be allowed to stand as part of the government account;
- reporting on matters which the Governor has referred to the PAC; and
- reporting formally to Parliament/the legislature at least annually.

4.6 To make best use of available resources, where an Audit & Risk Committee (A&RC) is not yet fully functional or where reports are not produced by the external auditor, Parliament/the legislature may consider (as an interim measure) extending the remit of the PAC to include examining 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/the legislature, including those of arm's-length bodies;
- the economy, efficiency and effectiveness of public expenditure;
- any other matters connected with its function; and
- reporting formally to Parliament/the legislature at least annually.

b) 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 PAC may choose to call ministers or other witnesses such as subject experts or service users or request written submissions from them.

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 it 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.

4.13 The Commonwealth Parliamentary Association UK (CPA UK) has facilitated a virtual PAC workshop which included an examination of good practice regarding the role and responsibility of witnesses. The workshop covered accounting officers' understanding of PAC and their role and the conduct of evidence sessions and questioning witnesses effectively.[4]

4 Commonwealth Parliamentary Association, UK Overseas Territories Project, Anguilla Public Accounts Committee Workshop Report, November 2020 Anguilla Public Accounts Committee Workshop: Report Published – Latest – UKOTP (ukotp-portal.com).

c) Membership and resources

4.14 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.

4.15 To reinforce its independence from government, the chair of the PAC is usually a member of the opposition with the requisite attributes, skills and experience. 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/the legislature.

4.16 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/the legislature. Members need to be committed to improving financial management and accountability. Where there are insufficient members of Parliament/the legislature with the required expertise for PAC to be effective, non-Parliamentarians with appropriate skills may be used as expert witnesses. This can also reinforce the non-partisanship of the PAC. The Governor has a role in the appointment process.

4.17 Members of Parliament/the legislature 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 through regular declarations of interests, which may be reviewed by the Governor and the auditor general.

4.18 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 PAC's work, including arranging public hearings, analysing reports, preparing briefing papers for the PAC members and drafting PAC reports. Training should be available to members to enable them to understand their roles and how to exercise their powers including induction training for new members and refresher training for returning members.

Principles-based guidelines

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/the legislature with independent assurance.

4.20 The PAC chair is sufficiently independent of the government, is usually a member of the opposition, has access to training, and can request assistance from the auditor general and the Foreign, Commonwealth & Development Office (FCDO).

4.21 Training is available to members to enable them to understand their roles and how to exercise their powers.

Good practice

Some Overseas 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 Overseas 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.

d) The PAC's work programme and inquiries

4.22 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 PAC and secretariat in consultation with the auditor general and shared with government, Parliament/the legislature and other relevant bodies. Key witnesses are notified of the forward plans to ensure that they are available and properly prepared for meetings.

4.23 In addition to reviewing audited financial statements and the auditor general's reports on the financial statements, the PAC typically discusses the following items:

- value-for-money (VFM) audits;
- the auditor general's future work programme including VFM audits and public interest investigations;
- the future conduct of PAC meetings; and
- the role and remit of the PAC.

4.24 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 policy; it should instead focus on the effectiveness and efficiency of the implementation of that policy and not the merits of that policy.

4.25 Effective meetings require proper planning, execution and follow-up. PAC preparatory meetings are intended to ensure that the PAC can achieve the intended results or outcomes. The chairperson should have the leading role in planning for the PAC meeting. The clerk and the PAC members should assume a supporting role. Meeting notices including the agenda and other relevant documentation should be sent well in advance to the PAC members to enable proper preparation of the meeting. A preparatory meeting with the auditor general can serve as briefing session on the topics that will be covered. Such a preparatory session will give an adequate opportunity for PAC members to clarify their understanding of issues with the auditor general.

4.26 To enhance the transparency of government business, formal hearings are open to the public and media although in some circumstances may need to conduct business in private where there are issues of commerical sensitivity or other confidential matters. 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.

4.27 The main formal output of a PAC inquiry is the report, which contains the PAC's conclusions, and often recommendations, on the subject. While the PAC report may include or refer to recommendations made in the auditor general's report, the PAC will wish to add additional recommendations and issues which arise from the hearing. In some jurisdictions where the PAC does not have ample staff, the auditor general may help draft the initial PAC report. However, no matter how the PAC report is drafted in the final report, and especially the recommendations it contains, it must be owned and agreed by PAC. An advantage of this approach is that the auditor general will have been immersed in the issues under discussion.

4.28 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/the legislature and in the public domain. Government departments that provide late or inadequate responses may be recalled by the PAC to provide explanations.

Principles-based guidelines

4.29 The PAC has a forward work programme, prepared in consultation with the auditor general and shared with government and Parliament/the legislature.

4.30 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.

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

4.32 Meeting notices including the agenda and other relevant documentation should be sent well in advance to the PAC members to enable proper preparation of the meeting. A preparatory meeting with the auditor general can serve as briefing session on the topics that will be covered.

4.33 In some jurisdictions where the PAC does not have ample staff, the auditor general may help draft the initial PAC report. However, no matter how the PAC report is drafted the final report, and especially the recommendations it contains, have to be owned and agreed by the PAC.

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

4.35 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 chair, 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.

e) Relationships with Parliament/the legislature and the auditor general

4.36 The work of PAC needs to be recognised, supported and encouraged by the Parliament/the legislature of which it forms a part. In addition to its reports on specific inquiries, PAC should make a formal report to Parliament/the legislature 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 PAC, the findings of which should be recorded. The debate may generate appropriate actions for further improvement in financial oversight or in public services.

4.37 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 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

4.38 The PAC reports formally to Parliament/the legislature at least annually, providing a summary of its work.

4.39 The PAC report is debated in Parliament/the legislature as a matter of public record.

4.40 The PAC and the auditor general work closely together, increasing their effectiveness but without compromising their independence.

4.41 The CPA UK Overseas Territories project has further practical guidance available at the Overseas Territories project portal. This includes Commonwealth Association of Public Accounts Committees (CAPAC) PAC Principles. (It is noted that the PAC Principles should serve as a set of guidelines in order to give a sense of direction for PACs to operate in a more effective way. Different jurisdictions have diverse constitutional set-ups, political, economic, social and cultural contexts in which they operate. Therefore, all the guidelines are meant to be considered within the distinctive circumstances of specific territories.) Other CPA UK Overseas Territories portal resources include: 'Six questions the Public Accounts Committee should really ask' regarding the right questions to ask of the witnesses who appear before them by Ross Campbell of the Institute of Chartered Accountants in England and Wales (ICAEW) and 'How to prepare your communication plan' and 'How to write a press release'.

Part Five

Role of the Foreign, Commonwealth & Development Office and the Governor

Key financial oversight responsibilities and activities, UK Government

The Foreign, Commonwealth & Development Office works with, and provides support and guidance to, the Overseas Territories to strengthen good governance arrangements, public financial management and economic planning.

Improves the range and quality of support available to the Overseas Territories.

Reviews the fiscal report and other key reports such as the annual report and accounts and, where applicable, the Overseas Territory's financial management progress reports to the UK government.

5.1 This part covers the role of the Foreign, Commonwealth & Development Office (FCDO) and the Governor in respect of the Overseas Territories. The FCDO 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: Security, success and sustainability') set out the UK government's commitment to a whole-of-government approach in engaging with and supporting the Overseas Territories: "As part of this strategy, all UK government departments are committed to engaging with and supporting the Overseas Territories."

a) UK responsibilities for Overseas Territories

5.2 The FCDO aims to:

- improve the governance, environment and security of the Overseas Territories;
- encourage more diverse and sustainable economic development;
- enable the Overseas Territories to better deal with international crime and natural disasters; and
- ensure compliance with international obligations.

5.3 The UK supports and aims to influence good governance and prudent management of risk in the Overseas Territories. The role of the 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/legislature. In general, the Governor is constitutionally responsible for external affairs, defence and internal security, as well as appointments of public officers. The Governor is also charged with ensuring good governance in their Overseas Territory and explaining the views of the Overseas Territory to the UK government. The public services of the Overseas Territories are ultimately under the authority of the Governor as the head of government. In the populated Overseas Territories the head of the public service is usually the locally appointed Deputy Governor.

5.4 The establishment of Frameworks for Fiscal Responsibility (FFRs) was an important development in the UK's relationship with the Overseas Territories. During the 2012 Joint Ministerial Council (JMC), commitments were made by all the populated, non-Official Development Assistance (ODA) Overseas Territories to adopt a framework for public finances encapsulating the borrowing guidelines. FFRs are now in place with most of the populated Overseas Territories. The FFRs place some obligations on the Overseas Territories, including a requirement to produce an annual medium-term fiscal plan. The FFRs also encapsulate the FCDO's borrowing guidelines – debt sustainability targets for the Overseas Territories to meet on net debt, debt servicing and liquidity ratios. The FCDO and the Governors' offices monitor the Overseas Territories' adherence to the FFRs, including the borrowing ratios. If these borrowing ratios are breached, dependent on the specifics of the FFR, UK ministerial approval of an Overseas Territory's medium-term fiscal plan, and/or budget, may be required until the target is met again. More information on FFRs is in Appendix Three.

5.5 If governance and financial oversight go badly wrong in an Overseas Territory then the FCDO may intervene to, for example, issue specific instructions through the Minister of State or Order in Council to take corrective action.

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

- the JMC;
- the Heads of Public Service meeting; and
- conferences for Overseas Territories' attorneys general and directors of human resources.

5.7 There is currently no specific forum for convening Overseas Territory finance ministers, although in practice finance ministers often attend the JMC (and in many cases the chief minister or premier would also hold the ministry of finance portfolio). The Communiqué from the 2014 JMC included a commitment to build capacity for medium- to long-term financial and economic planning in the Overseas Territories. The Communiqué from the 2020 JMC highlighted the UK's commitment to supporting the building of resilient economies in the UK Overseas Territories. This includes supporting them through technical support and encouraging best practice in financial management.

5.8 The meeting of Overseas Territory Heads of Public Service is important for the good governance agenda, although it remains a largely informal gathering for sharing best practice (for example, on the role and functions of Public Accounts Committees (PACs)). The Commonwealth Parliamentary Association (UK) ran a Westminster Workshop on financial scrutiny in Parliamentary committees, which led to the creation of a Commonwealth Association of Public Accounts Committees (CAPAC), and some Overseas Territories have since joined as associate members.

5.9 The FCDO works with the Conflict, Stability and Security Fund (CSSF). The CSSF is a cross-government fund which is managed by the Joint Funds Unit of the National Security Secretariat. The CSSF is intended to support and deliver activity to tackle instability and to prevent conflicts that threaten UK interests. It supports UK Overseas Territories, including through the UK Overseas Territories Project, which is delivered through the Commonwealth Parliamentary Association UK, the Government Internal Audit Agency and the National Audit Office.

b) Supporting development in Overseas Territories

5.10 The former-Department for International Development (DFID) played a key role in delivering the UK government's white paper vision and commitments, in the aided Territories of Montserrat, St Helena, Tristan da Cunha, and Pitcairn. DFID managed aid to focus on three areas:

- Meeting the reasonable assistance needs of the Overseas Territories cost-effectively. Budgetary assistance was provided to three Overseas 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 was clear that it would deliver strategic investments in the aided Overseas Territories where these facilitated 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 worked closely with the then-Foreign & Commonwealth Office (FCO) to monitor and improve fiscal management in the Overseas Territories to increase resilience and head off potential problems.

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

5.12 DFID periodically undertook Fiduciary Risk Assessments that helped identify specific fiduciary risks as they related to UK funding. These assessments built upon Public Expenditure and Financial Accountability (PEFA) assessments and often recommended specific actions to improve internal and external audit.

5.13 In September 2020, DFID merged with FCO. FCDO now has responsibility for supporting development in Overseas Territories.

Appendix One

Self-assessment against principles based guidance

This appendix provides a self-assessment checklist of principles-based guidance which reviewers may wish to use to record their assessment of fulfilment.

		Full compliance	Partial compliance	Not implemented	Not appropriate	Action required
	Responsibilities for the proper conduct of public business (Part One)					
A	Responsibilities for the proper conduct of public business					
	Legislation – Overseas Territories Governments and their legislature ensure that legislation is periodically reviewed and updated as necessary to ensure that it effectively supports standards in public life, financial oversight and open government. [Paragraph 1.5]					
B	A framework for corporate governance					
	Tone at the top and transparency – A system of corporate governance should be established consistent with best practice such as the International framework: Good governance in the public sector, published in 2014 by CIPFA/IFAC. The system of corporate governance should be kept under review. [Paragraph 1.9]					
	Tone at the top and transparency – Government should publish transparency data on its internal and external websites. The data should be accessible, user-friendly and up-to-date. [Paragraph 1.11]					
	Tone at the top and transparency – Those charged with governance (typically the executive council or the cabinet) should periodically assess the risks and responses associated with inappropriate behaviour. [Paragraph 1.12]					
	The Audit and Risk Committee – The Audit & Risk Committee reviews the comprehensiveness and reliability of assurances to senior management, covering risk management, governance, the control environment and financial statements, including an annual report. [Paragraph 1.20]					
	The Audit and Risk Committee – 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. [Paragraph 1.21]					
	The Audit and Risk Committee – The Committee should review its own operation and effectiveness against statements of current best practice. [Paragraph 1.22]					
C	A framework for the proper conduct of public business					
	Establishing standards Institutions, processes and structures should be put in place to support high standards of conduct in public life with references to the Nolan Principles of Public Life and be reviewed on a regular basis taking account of current best practice including the work of the CSPL. [Paragraph 1.22]					

		Full compliance	Partial compliance	Not implemented	Not appropriate	Action required
	Responsibilities for the proper conduct of public business (Part One) *continued*					
	Recruitment and induction – 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 and other parliamentary committees. [Paragraph 1.28]					
	Code of conduct – 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/the legislature, government and other public sector employees and external auditors. [Paragraph 1.30]					
	Code of conduct – 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. [Paragraph 1.31]					
	Code of conduct – Parliament/the legislature 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. [Paragraph 1.32]					
	Embedding standards – Government publishes the civil service code of conduct. It should establish, publish and apply sanctions for inappropriate behaviour. It also considers publishing details of action it has taken in respect of proven breaches of the code [Paragraph 1.34]					
	Incentives and sanctions – Ethical issues can be reinforced by induction training, performance management, refresher training covering values and conduct, disciplinary procedures and ultimately through legal proceedings [Paragraphs 1.36-1.38]					
	Identifying problems – 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. [Paragraph 1.41]					
	Identifying problems – Government establishes procedures for considering and investigating concerns raised by employees and third parties. [Paragraph 1.42]					
	Identifying problems – The FCDO 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). [Paragraph 1.43]					
	Monitoring compliance – Senior officials need to monitor compliance, including by reviewing completed code of conduct returns (incorporating declarations of interest) and staff survey results. The monitoring of the compliance of senior officials should be undertaken by internal audit. [Paragraph 1.45]					
D	**A framework for financial monitoring and reporting**					
	Fiscal strategy and reports – The Government should set and publish its fiscal strategy which sets out its medium-term objectives and priorities for public sector finances. [Paragraph 1.51]					
	Fiscal strategy and reports – The Government should prepare a fiscal report covering an assessment of its financial health and progress with delivering the fiscal strategy. [Paragraph 1.52]					

	Full compliance	Partial compliance	Not implemented	Not appropriate	Action required
Responsibilities for the proper conduct of public business (Part One) *continued*					
Fiscal strategy and reports – Parliament/the legislature 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. [Paragraph 1.53]					
Budgeting and forecasting – Parliament/the legislature'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. [Paragraph 1.55]					
Authorising expenditure and stewardship of assets – There should be clearly defined and understood procedures for authorising expenditure and approving payments, underpinned by a system of delegated financial authorities. [Paragraph 1.58]					
Authorising expenditure and stewardship of assets – 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. [Paragraph 1.59]					
Establishing and reviewing controls – Government establishes an effective system of internal control. The internal audit function has a key role in reviewing the adequacy and effectiveness of controls and then reporting the results of its reviews to the management and the Audit & Risk Committee. [Paragraph 1.61]					
Reviewing the system of internal control – There should be a framework for identifying and registering risks, considering the appetite for different types of risk, and pro-actively managing risks. [Paragraph 1.64]					
Preparing and auditing financial statements – Government is responsible for the arrangements for the timely preparation and submission of annual accounts for audit by the external auditor. These arrangements are assessed by the internal audit function and discussed by the Audit & Risk Committee and the PAC. [Paragraph 1.71]					
Preparing and auditing financial statements – The Government publishes its corporate governance report as part of the body of the annual report and accounts so that the audit report may 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. [Paragraph 1.72]					
Preparing and auditing financial statements – The audited annual financial statements of government and all statutory bodies and publicly-owned or controlled enterprises should be laid before Parliament/the legislature to ensure transparency and the exercise of oversight by Parliament/the legislature across the public sector. [Paragraph 1.73]					
Form and content of the Government's annual accounts – Where appropriate the Government should adopt International Accounting Standards or International Public Sector Accounting Standards thus preparing accounts which report income, expenditure, assets and liabilities, and cash flows. [Paragraph 1.76]					
Quality and timeliness of government accounts – Government presents the audited financial statements to the legislature within the statutory deadlines and works with the external auditors towards ideally presenting audited accounts within six months of the end of the financial year. [Paragraph 1.79]					

		Full compliance	Partial compliance	Not implemented	Not appropriate	Action required
	Responsibilities for the proper conduct of public business (Part One) *continued*					
	Quality and timeliness of government accounts – Where there are difficulties meeting such standards, government has a clear strategy for addressing any shortfalls. [Paragraph 1.80]					
	Management letter and follow up – Government is able to demonstrate that it has responded constructively to the recommendations of the external auditor and reports on a regular basis on the progress made in the implementation of those recommendations which were accepted [Paragraph 1.83]					
	Reporting on the results of the audits and other external reviews – 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. [Paragraph 1.88]					
	Reporting on the results of the audits and other external reviews – The audited accounts should be laid before Parliament/the legislature and promptly published. The PAC should examine government's annual accounts and those of government's arm's-length bodies. [Paragraph 1.89]					
	Financial reporting maturity assessments – Government considers making an assessment of its financial reporting framework [Paragraph 1.91]					
	Responsibilities of Internal Audit (Part 2)					
A	**Role of Internal Audit**					
	The internal audit charter – The purpose, scope, authority and responsibilities of an Overseas Territory's internal audit service is formally agreed by the senior officer accountable for internal audit services within the territory, i.e. the Chief Audit Executive (CAE), and government. The agreement is set out in out in the internal audit charter, which is required by internal audit standards and formalises the governance of internal audit within the relevant territory [paragraph 2.4]					
	The internal audit charter – The audit charter should be developed and maintained by the CAE. Before being finalised, the charter should be subject to agreement by the Accounting Officer, supported by the organisation's audit and risk assurance committee[paragraph 2.7]					
	The internal audit charter – The Accounting Officer, supported by the audit and risk assurance committee, should review the charter periodically, to ensure arrangements are appropriate and continue to support the territory's needs. [paragraph 2.8]					
	Internal audit strategy – All Overseas Territories should have an internal audit strategy, agreed with their internal audit service. [paragraph 2.11]					
	Internal audit strategy – The strategy should be developed and presented to the CAE. It should be reviewed by the audit and risk committee and ratified by the Accounting Officer before being finalised. [paragraph 2.12]					
B	**Organisation of Internal Audit**					
	Internal audit plan – An annual or periodic plan for each Overseas Territory should be developed and maintained by the internal audit service provider, in consultation with the Accounting Officer and senior leadership of the territory, setting out intended internal audit activity to be undertaken. [paragraph 2.15]					
	Internal audit plan – The plan should be risk-based and fulfil any requirement to produce an annual internal audit opinion and operate an effective assurance framework. [paragraph 2.16]					

		Full compliance	Partial compliance	Not implemented	Not appropriate	Action required
Responsibilities of Internal Audit (Part 2) *continued*						
	Internal audit plan – The CAE should present the annual audit plan for approval by the audit and risk assurance committee, and subsequent ratification by the Accounting Officer. [paragraph 2.17]					
	Internal audit plan – The plan should be kept under review to ensure it remains current and reflects emerging risks and issues. [paragraph 2.18]					
	Risk assessment – An Overseas Territory's risk assessment helps its internal auditors understand governance, risk management and control arrangements. This should be used to inform the annual audit plan and to ensure that internal audit activity aligns to the organisation's strategies, objectives and risks. [paragraph 2.22]					
	Risk assessment – A territory's board (or equivalent) is accountable for determining and continuously assessing risk appetite. [paragraph 2.25]					
	Assurance maps – Assurance maps should be developed and maintained by organisations to allow for a collective view of assurance across the organisation [paragraph 2.28]					
	Progress reports – Audit plans should be monitored and reported against using appropriate milestones and performance criteria [paragraph 2.29]					
	Annual reports and opinions – Those Overseas Territories working to the IPPF may produce an annual report and opinion, while those working to PSIAS must produce one. [paragraph 2.33]					
	Assurance – Internal audit service providers should operate a defined and established quality assurance and improvement programme for internal audit activity, using the IIA assessment framework. [paragraph 2.39]					
	Internal oversight – Audit and risk assurance committees should consider the effectiveness of internal audit on a periodic basis. [paragraph 2.43]					
	External oversight – An assessment of the adequacy of an internal audit service should be conducted at least once every five years. The assessment should be done by an independent assessor (or assessment team) qualified in the professional practice of internal auditing and the external assessment process. [paragraph 2.44]					
	Roles and accountabilities – Roles and accountabilities should be defined in the organisation's governance and management framework and assigned to people with appropriate seniority, skills and experience. [paragraph 2.51]					
	Access and security – Internal audit services should ensure that auditors have appropriate security clearance for the work being done so that internal auditors can be given full access to relevant client information. [paragraph 2.55]					
	Resourcing – Internal audit service providers may use competent third parties to provide specialist services that are not otherwise available, or to meet additional demand that cannot otherwise be met. [paragraph 2.65]					
C	**Internal Audit engagements**					
	Engagement scoping and planning – The senior sponsor for an internal audit engagement in an organisation should provide information on the audit area to facilitate the scoping and planning of the engagement, such as policies and procedures, structure charts and risk registers. [paragraph 2.72]					
	Engagement scoping and planning – The internal auditor should prepare terms of reference for the engagement. [paragraph 2.73]					

	Full compliance	Partial compliance	Not implemented	Not appropriate	Action required
Responsibilities of Internal Audit (Part 2) *continued*					
Engagement scoping and planning – The terms of reference should meet quality requirements agreed between the organisation and the internal audit service. [paragraph 2.74]					
Performing the engagement – The engagement should evaluate the design and operating effectiveness of the organisation's policies and processes. [paragraph 2.77]					
Performing the engagement – Relevant, reliable, sufficient and useful evidence should be obtained of the adequacy and effectiveness of operational and other control arrangements. [paragraph 2.78]					
Control – Audit engagements should consider, but not be limited by, the following aspects of the control environment: ● integrity and ethical values; ● management's philosophy and operating style; ● organisational structure; ● assignment of authority and responsibility; ● human resource policies and practices; and ● competence of personnel. [paragraph 2.81]					
Control – Audit engagements should include recommendations for improvement in the control environment, including embedding lessons learned. [paragraph 2.83]					
Communicating results – The internal auditor should prepare a draft report on the findings and recommendations, including recommendations based on root cause analysis, arising from the fieldwork and evaluation undertaken that are solution focussed and feasible. This should provide an opinion on the overall adequacy and effectiveness of the framework of governance, risk management and control relating to the work within scope. [paragraph 2.84]					
Communicating results – The final report should incorporate the organisation's action plan to address findings. The senior sponsor for internal audit in the organisation, or another senior executive represented on the organisation's board, should be identified as accountable for ensuring that the actions are delivered. [paragraph 2.87]					
Monitoring – The CAE should agree with the audit and risk committee how tracking the completion of agreed audit actions should be delivered and the division of associated responsibilities such as progress reporting as agreed in the audit charter. [paragraph 2.91]					
Responsibilities of the external auditor (Part 3)					
Appointment – The Governor, 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. [Paragraph 3.5]					
Appointment – 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 employment laws. [Paragraph 3.6]					
Remit and access rights – The legislative framework governing external audit empowers the Auditor General to undertake all necessary types of audit including financial and VFM audit. It makes it clear which audits are obligatory and which discretionary. It also defines the frequency with which audits are undertaken. [Paragraph 3.11]					

	Full compliance	Partial compliance	Not implemented	Not appropriate	Action required
Responsibilities of the external auditor (Part 3) *continued*					
Remit and access rights – 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. [Paragraph 3.12]					
Remit and access rights – 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 the funding. [Paragraph 3.13]					
Resources, staffing and accountability – 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. [Paragraph 3.22]					
Resources, staffing and accountability – The external audit programme and budget are presented to Parliament/the legislature, possibly via the PAC, a public accounts commission or a board, for formal discussion and endorsement. The budget approved by Parliament/the legislature is the budget which is received by the Auditor General during the year. [Paragraph 3.23]					
Making a difference to the lives of citizens – 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. [Paragraph 3.29]					
Making a difference to the lives of citizens – The Auditor General maintains high standards by operating an effective quality assurance system and reporting annually to Parliament/the legislature and the Governor on the governance and performance of the audit office. [Paragraph 3.30]					
Making a difference to the lives of citizens – 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. [Paragraph 3.31]					
Making a difference to the lives of citizens – Where appropriate, a statutory board or a public accounts commission is created to oversee the governance of the external auditor and provide a strategic perspective. [Paragraph 3.32]					
Financial Audit – The external auditor conducts financial audits in accordance with its mandate and complying with international auditing standards. [Paragraph 3.41]					
Financial Audit – The external auditor monitors and reports on progress of audited bodies in implementing agreed recommendations contained in the management letters. [Paragraph 3.42]					
Financial Audit – The external auditor responds appropriately to the risks of financial impropriety, fraud and corruption. Where such cases have emerged, appropriate action is been taken. [Paragraph 3.43]					

	Full compliance	Partial compliance	Not implemented	Not appropriate	Action required
Responsibilities of the external auditor (Part 3) *continued*					
The external auditor conducts VFM audits in accordance with its mandate and complying with international auditing standards[Paragraph 3.51]					
Value-for-money audit – 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. [Paragraph 3.52]					
Value-for-money audit – The external auditor gives the audited body opportunity to comment on the draft VFM audit report and comments are given due attention. [Paragraph 3.53]					
Value-for-money audit – The external auditor has arrangements in place to follow up implementation of recommendations. [Paragraph 3.54]					
Value-for-money audit – 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. [Paragraph 3.59]					
Value-for-money audit – The audited body carefully reviews the draft report offering constructive comments to improve the accuracy and usefulness of the final report. [Paragraph 3.60]					
Value-for-money audit – The audited body develops an action plan to implement agreed recommendations and reports on progress to the external auditor and the PAC. [Paragraph 3.61]					
Coordination and cooperation between external auditors and internal auditors – 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. [Paragraph 3.66]					
Responsibilities of those charged with Parliamentary oversight (Part 4)					
Remit – The PAC is free to select the scope of its inquiries without direction by the government. [Paragraph 4.7]					
Remit – The PAC has a clear remit which covers examining and reporting on: ● all public accounts that are required to be laid before Parliament/the legislature, including those of arm's-length bodies; ● the economy, effectiveness and effectiveness of public expenditure; ● on any other matters connected with its function; and ● reporting formally to Parliament/the legislature at least annually. [Paragraph 4.8]					
Access rights – The PAC, and its agents, have unambiguous, proportionate rights of access to all records relating to the accounts, reviews and investigations in its remit. [Paragraph 4.10]					
Access rights – 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. [Paragraph 4.11]					
Access rights – 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. [Paragraph 4.12]					
Membership and resources – 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/the legislature with independent assurance. [Paragraph 4.19]					

	Full compliance	Partial compliance	Not implemented	Not appropriate	Action required
Responsibilities of those charged with Parliamentary oversight (Part 4) *continued*					
Membership and resources – The PAC Chair is sufficiently independent of the Government, is usually a member of the opposition, has access to training, and can request assistance from the Auditor General and the FCDO. [Paragraph 4.20]					
Membership and resources – Training is available to members to enable them to understand their roles and how to exercise their powers. [Paragraph 4.21]					
The Committee's work programme and inquiries – The PAC has a forward work programme, prepared in consultation with the Auditor General and shared with government and Parliament/the legislature. [Paragraph 4.29]					
The Committee's work programme and inquiries – 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. [Paragraph 4.30]					
The Committee's work programme and inquiries – The PAC meets regularly. Its formal hearings are open to the public and media, with transcripts produced for public distribution. [Paragraph 4.31]					
The Committee's work programme and inquiries – Meeting notices including the agenda and other relevant documentation should be sent well in advance to the Committee members to enable proper preparation of the meeting. A preparatory meeting with the Auditor General can serve as briefing session on the topics that will be covered. [Paragraph 4.32]					
The Committee's work programme and inquiries – In some jurisdictions where the PAC does not have ample staff, the Auditor General may help draft the initial PAC report However, no matter how the PAC report is drafted the final report, and especially the recommendations it contains, have to be owned and agreed by the PAC. [Paragraph 4.33]					
The Committee's work programme and inquiries – PAC reports are timely and accessible and are placed in the public domain. [Paragraph 4.34]					
The Committee's work programme and inquiries – The PAC has formal processes to ensure close monitoring of the implementation of its recommendations. [Paragraph 4.35]					
Relationships with Parliament/the legislature and the Auditor General – The PAC reports formally to Parliament/the legislature at least annually, providing a summary of its work. [Paragraph 4.38]					
Relationships with Parliament/the legislature and the Auditor General – The PAC report is debated in Parliament/the legislature as a matter of public record. [Paragraph 4.39]					
Relationships with Parliament/the legislature and the Auditor General – The PAC and the Auditor General work closely together, increasing their effectiveness but without compromising their independence. [Paragraph 4.40]					

Appendix Two

Table of key accountability outputs

Key accountability outputs
Senior management (Part One)
A report to Parliament on the need for a review of and possible updates to the financial oversight legislation. [indicatively every five years]
Staff surveys and follow-up reports. [indicatively every three years]
Financial reporting reviews and follow-up reports. [indicatively every five years]
An annual report, published shortly after the end of the financial year, including: • 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.
A progress report on the quality improvement plan for the annual accounts, which addresses issues which have been raised internally and by external audit. [indicatively annually when relevant]
Reports on the outcome of reviews of the transparency agenda information and website [indicatively annually once relevant].
Audit & Risk Committee (A&RC) (Part One)
Approved internal audit strategy and annual plan.
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.
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.
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.
A short report on the outcome of the annual self-assessment of its own effectiveness with evidence of follow-up action.
An annual report on the extent to which internal audit recommendations are implemented.
Parliament (Part One)
A documented/published review of the legislation covering all aspects of Parliamentary financial oversight and audit arrangements (as and when appropriate but should be considered once every five years).
A published summary of relevant legislative changes with an indication of how each change has/should improve public financial management, oversight and accountability. (As above, as and when appropriate but should be considered once every five years).
A published record of the debate on public expenditure plans and the voted funds produced immediately after the debate(s).
A published record of the debate on government's annual report and accounts produced immediately after the debate.
A published record of the debate on government's fiscal strategy produced immediately after the debate.
A published record of the debate of the PAC's annual report produced immediately after the debate.

Key accountability outputs *continued*
Internal audit (Part Two)
A risk-based internal audit strategy with an annual plan.
Internal audit assurance reports and consultancy reports.
Head of internal audit's annual report including an assurance opinion to the A&RC (where it has been established) in the first instance and then to senior management.
A current quality assurance and improvement plan for the internal audit team function.
External audit (Part Three)
The external audit plan, covering financial and performance audits.
Certification of all relevant annual financial statements within the agreed timeframe.
Published reports with recommendations for future action where warranted on all key outputs.
The external audit plan, covering financial and performance audits.
Evidence of compliance with best integrity practices, including completion of code of conduct, declaration of interests, and other transparency reporting.
Annual follow-up on progress in implementing external audit recommendations.
Public Accounts Committee (Part Four)
Reporting at least annually to Parliament on the PAC's work programme and follow-up action.
Her Majesty's Government (Part Five)
A delivery plan for strengthening good governance arrangements, public financial management and economic planning.
A record of follow-up discussions and agreed actions.
A report to the Overseas Territories' heads of civil service, heads of government and the FCDO Minister for the Overseas Territories.
A record of the allocation of budget to provide specialist advisory service to the Overseas Territories on financial oversight matters.

Appendix Three

Frameworks for Fiscal Responsibility (FFR)

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 HM Treasury's Autumn Statement).
- Robust governance processes to ensure major public projects are value-for-money.
- Robust definitions and controls on public finances, including debt and contingent liabilities (pensions, healthcare, and so on).
- Approvals process for Secretary of State for Foreign, Commonwealth and Development Affairs. Breach or potential breach of fiscal rules = Secretary of State for Foreign and Commonwealth Affairs agreement needed (in most Overseas Territories, but precise detail of lever varies).

UK responsibilities:

- Annual assessment of the Overseas Territory's economy including the state of the public finances.
- Provide technical assistance by monitoring compliance with the Framework and the Public Finance Management laws.
- Provide support in identifying sources of expertise on request.

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