

Report of the Working Group on the Accountability of Secretaries General and Accounting Officers

July 2002

Foreword

The Working Group examines issues concerning the accountability of Secretaries General and Accounting Officers, an aspect of which involves appearances before Oireachtas Committees. The Decision of the Supreme Court on the Abbeylara appeal which included 7 judgements was given towards the end of the Group's deliberations. The Decision was specific to the Abbeylara appeal but the Group notes that there were issues addressed in the course of the judgements that may prove to have a bearing on aspects of the Group's report. In view of the importance of the judgement and its complexity as well as the number of parties potentially affected by it the Group felt that it would be inappropriate for them to seek to address separately the implications of the judgements, if any, for the Accounting Officer and Secretary General functions.

Where Departments have been named in the report they refer to the Departmental structure up to 6 June 2002 with the exception of those mentioned in paragraph 1.3.

The Group would like to record its appreciation of those who made submissions to it and those who met with it during the course of its deliberations.

It would like to thank officials from the Treasury Office of Accounts team (UK Treasury), the Treasury Board of Canada and the Canadian Auditor General's Office as well as the Finnish Ministry of Finance and the State Audit Office, who met with sub-groups of the Working Group and who provided much useful documentation.

In particular, the Group would like to thank the Office of the Attorney General for its comprehensive response to requests for legal advice from the Department of Finance on the Group's behalf.

Finally, the Group would wish to acknowledge the outstanding contribution which our Secretary, Mary Golden, has made throughout our deliberations. The quality of thought, resourcefulness and reliability which she brought to her role have been of the highest order, and have been critical to our work at all stages.

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EXECUTIVE SUMMARY

(including recommendations)

Background

1. The high level Working Group on the Accountability of Secretaries General and Accounting Officers (hereafter referred to as "the Group") was established by the Minister for Finance, following a Government Decision of 30 May 2000, to examine the authority, responsibility and accountability of Secretaries General and Accounting Officers in relation to financial management in the context of the Performance Management Initiative within the overall Strategic Management Initiative. On the basis of that examination the Group was asked to prepare rules of good governance for the consideration of the Government taking account of the complexities and sensitivities of the relationship between Secretaries General and Ministers as well as the specific functions exercised by Secretaries General who are Accounting Officers. The Terms of Reference of the Group are set out in Chapter 1. This is a summary of the Group's report to the Minister for Finance.

Overview of the Secretary General and Accounting Officer Roles

2. Both the Secretary General (originally Secretary) and Accounting Officer functions are long established. They are key elements in the system of public administration. The Secretary General is the civil service head of the Department with responsibility, under the Minister, for a wide range of functions including managing the Department and implementing Government policy. Normally, a Secretary General is also the Accounting Officer for the Department with statutory responsibility for preparing the Appropriation Accounts of the Department and giving evidence before the Committee of Public Accounts in relation to the stewardship of public funds. The Accounting Officer role has its origins in the reform of British financial administration in the 1860's. [1.12 - 1.16]

3. The Group found that while both roles are long-established, they have developed as the complexity of government has grown during the course of the 20th century. Developments in governance have also led to a greater expectation of scrutiny in respect of the discharge of statutory responsibilities. An extensive period of public service reform has clarified issues of responsibility and accountability and has brought into greater focus the importance of accountability to citizens both as users of public services and as taxpayers who finance the expenditure required to ensure the delivery of these services. [1.17]

4. A number of principles emerged during the course of the Group's work that are reflected in the Group's conclusions and recommendations. They are

- The need for clarity in relation to responsibility and accountability, and the constitutional and legal basis for same, in both existing and new State entities.
- The need for a rounded, multi-dimensional view of the Secretary General/Accounting Officer roles that would include service delivery, value for money, compliance and organisational improvement.
- The desirability of making full use of existing accountability mechanisms.
- The requirement that the existing system provide for an increasing focus on the performance of the Secretary General/Accounting Officer.
- The importance of having management and governance systems balanced to support constructive review and continuous improvement while having the capacity to deal with serious issues as they arise.[1.19]

The Secretary General Role

5. The legal basis for the establishment of the Irish system of public administration is the Constitution and the *Ministers and Secretaries Act, 1924* (the 1924 Act). The role and status of Ministers in relation to Departments and their responsibility to Dáil Éireann are set out in the Constitution and in that Act. [2.2]

6. The 1924 Act created the Departments of State and provided that the Government, on the recommendation of the Minister, appoint the *principal officer* of the Department, then known as Secretary of the Department. The position of Secretaries General differs from that of other civil servants who are appointed by their Minister. [2.2]

7. As part of the process of civil service modernisation the *Public Service Management Act, 1997*, (the 1997 Act) has provided greater clarity in relation to the authority, responsibility and accountability of Secretaries General. Specific duties are assigned to the Secretary General within the Department, including managing the Department, implementing Government policies appropriate to the Department, delivering outputs as determined with the Minister, providing advice to the Minister and using resources so as to meet the requirements of the *Comptroller and Auditor General (Amendment) Act, 1993* in relation to regularity and propriety as well as to economy, efficiency and effectiveness. The list of duties specified in the 1997 Act while extensive, are not necessarily exhaustive and the Secretary General may also be required, under the Act, to carry out other functions on behalf of the Minister. [2.9 - 2.10]

8. The 1997 Act does not diminish the constitutional and statutory role and responsibility of Ministers who remain responsible for the functions of the Department pursuant to the 1924 Act and amendments thereto. The management structures set out in the 1997 Act, operate 'under the Minister' and contain a number of safeguards that are designed to maintain the authority of the Minister in relation to the Department. Nor does the Act supplant the Carltona Doctrine whereby the powers of a Minister are normally exercised under the authority of the Minister by responsible officials of his or her Department save in respect of certain powers and issues of significant importance where the Minister is required to act personally. [2.7]

9. The 1997 Act contains a number of new elements in relation to the Secretary General function which are given added weight by being put on a separate statutory basis. These include the preparation of Strategy Statements by the Secretary General which should set out the key objectives, outputs and related strategies (including the use of resources) to be pursued by the Department. This requires the Secretary General to specify how government policy will be implemented in his/her Department. The Strategy Statement is submitted to and approved by the relevant Minister (with or without amendment) who arranges for it to be laid before the Oireachtas. There is also a requirement to prepare progress reports (annual reports) on its implementation. The

objective in building the concept of outputs into the departmental Strategy Statement and in making them subject to consideration by Oireachtas Committees was to broaden the scope of accountability beyond the focus on inputs to include a greater emphasis on the outputs and performance of public services. [2.12 - 2.13]

10. One of the objectives of the Strategic Management Initiative is to promote the devolution of responsibility within Departments. The 1997 Act provides a statutory framework for the assignment of specific functions for which the Secretary General is responsible to officers or grades of officers within Departments. Officers within Departments who are assigned functions are accountable to the Secretary General. The Act also gives the Secretary General responsibility for managing all matters relating to appointments, performance, discipline and dismissal of staff below the grade of Principal in the civil service (subject to amendments, inter alia, to the *Civil Service Regulation Act, 1956* and the *Civil Service Commissioners Act, 1956* currently under review by the Department of Finance). [2.13 - 2.14]

Accountability of Secretaries General to the Minister

11. Secretaries General are accountable to the Minister for carrying out the duties specified in Section 4 of the 1997 Act in accordance with directions issued from time to time by the Government. A Government Direction issued in 1997 stated that the framework of accountability of Secretaries General under the Act should comprise the departmental Statement of Strategy and progress reports thereon. While the Group considers that the Strategy Statement and the progress reports constitute a very important framework for accountability, the Secretary General is also accountable to the Minister for all the functions set out in Section 4 of the Act including the financial management responsibilities set out in that section. [2.16 - 2.17]

12. As noted in paragraph 10, an important element in the *Public Service Management Act, 1997* is the assignment of functions to other officers within the Department. The Secretary General retains concurrent power with the person to whom the performance of functions has been assigned to carry out the task in question. As such, the Secretary General is still responsible to the Minister for the adequate carrying out of the function. In an environment of increased devolution of responsibility, there is an onus on the Secretary General to ensure that officers to whom responsibility for the performance of functions has been assigned are competent to perform their duties and that s/he is supported by adequate management control and review systems within the Department. [2.25 - 2.26]

Relationship with the Minister

13. The working relationship between the Secretary General and the Minister who is in charge of the Department is a key factor in the effective administration of Government Departments. The constitutional, legislative and administrative framework within which Departments operate necessitate that civil servants operating under the authority of the Minister implement Government policy set by the Minister. Within the statutory framework, Secretaries General have considerable authority within Departments of State subject to the overriding authority of the Minister. They have a pivotal role in providing independent advice to the Minister and in managing the interface between the Department and the Minister. In their capacity as managers of Departments they have a responsibility to ensure that the systems and procedures are in place to enable it to perform its functions within the resources available and to enable the Minister to answer for the performance of those functions to the Dáil. This requires the Minister to place trust and confidence in the Secretary General. The distinctive relationship of trust and confidence between the Minister and the Secretary General is crucial to the effective administration of Departments of State and places the Secretary General in a different

position to other civil servants. The relationship extends beyond the Minister and requires the Government as a whole to place confidence in the Secretary General. [2.31 - 2.38]

14. Secretaries General in their Accounting Officer capacity are answerable to the Committee of Public Accounts (the PAC), which in turn reports to the Dáil, in respect of their stewardship of public funds. The nature of the Accounting Officer's responsibilities has implications for the relationship between the Secretary General and the Minister in relation to the areas for which the Accounting Officer has a specific responsibility. [2.31]

Appearance before Oireachtas Committees

15. Secretaries General, in common with other senior officials, may be required to appear before Oireachtas Committees (apart from the PAC in their Accounting Officer capacity) on a variety of issues relevant to the Department including departmental Strategy Statements. The capacity in which Secretaries General (or other civil servants) appear before Oireachtas Committees (other than as Accounting Officers before the PAC) is on behalf of the Minister as part of the Minister's constitutional responsibility. Reflecting the different responsibilities of Ministers and civil servants there is a statutory prohibition on civil servants expressing an opinion on the merits or the merits of the objectives of a particular policy. [2.19 - 2.23]

The Accounting Officer Role

16. There is a long-established system of accountability for public money (dating back to UK reforms of the system of financial administration and parliamentary scrutiny of public funds in the 1860s). This arose from public and parliamentary expectations as to the manner in which taxpayers money is accounted for. Of particular relevance in that regard is the requirement for an open and transparent system for scrutinising the manner in which funds have been utilised having regard to established principles such as regularity and propriety and, in more recent times, value for money. [3.5]

17. Key elements in the accountability framework are the *Committee of Public Accounts* which undertakes the scrutiny of public funds and reports to Dáil Éireann; scrutiny by the PAC is based on audits and examinations carried out by the *Comptroller and Auditor General*, on behalf of the Dáil; the *Department of Finance* which has statutory responsibilities, under the *Ministers and Secretaries Act, 1924* for the administration and business generally of the public finances of Ireland; and the *Accounting Officer*, who is appointed under warrant by the Minister for Finance. [3.9 - 3.25]

18. The Accounting Officer concept, a key element in the system of accountability for public money in the UK since the late 19th Century, was adopted by the new State on its establishment. Traditionally, the civil service head of the Department has been appointed Accounting Officer because s/he alone has sufficient authority within the Department to discharge the responsibilities attaching to the role. Although of very long-standing, the term "Accounting Officer" was defined for the first time in legislation in the *Comptroller and Auditor General (Amendment) Act, 1993*. [3.26 - 3.32]

19. Under that Act, the Accounting Officer gives evidence before the PAC on the regularity and propriety of the transactions in the Appropriation Accounts bearing his/her signature and in other accounts which s/he or the Department is required, under statute, to prepare. Reflecting the expansion in the scope of public audit in the later decades of the 20th century, the Accounting Officer's responsibilities under the Act also encompass giving evidence on economy and efficiency in the use of resources and on the systems, practices and procedures used by the Department for the purpose of evaluating effectiveness (VFM). S/he may also be required to give evidence on matters affecting the

Department in reports of the Comptroller and Auditor General in respect of audits, examinations or inspections carried out under the 1993 Act or any other enactment. [3.33]

20. Apart from the statutory provisions, Accounting Officers operate within established principles and conventions that are derived from the Constitution and from the institutional and financial relationships that have developed between Parliament and the Government over the years. The reports and recommendations of the PAC are one of the main sources of these principles and conventions. The principles of Government Accounting are set out in the guide *Public Financial Procedures* which is prepared by the Department of Finance as part of its executive function. [3.35]

21. The responsibilities of the Accounting Officer set out in *Public Financial Procedures* are extensive. They include:

- The safeguarding of public funds and property under the Accounting Officer's control.
- Ensuring that all relevant financial considerations are taken into account and, where necessary, brought to the attention of the Minister where they concern the preparation and implementation of policy proposals relating to income or expenditure for which s/he is Accounting Officer.
- Economy and efficiency in the administration of the Department including having adequate financial management systems in place.
- The adequacy of arrangements within the Department to ensure the correctness of all payments; and the efficient recovery and bringing to account of all receipts connected with the Vote, or with any fund for which the Department is responsible; and ensuring that Finance sanction for expenditure has been obtained.
- Responsibilities in respect of internal audit with a view to ensuring that s/he is getting the desired quality of assurance in relation to the Department's internal control system.
- Responsibilities in respect of grants-in-aid to outside agencies.
- The Accounting Officer also has responsibilities for ensuring that there is a clear framework for control and accountability of public funds in bodies operating under the aegis of the Department. [3.36]

22. Issues may arise from time to time as to the extent of Accounting Officer's responsibilities, particularly in respect of bodies under the aegis of the Department which are in receipt of public funds. This issue presents challenges to accountability not only in Ireland but also abroad, particularly in regard to achieving a balance between allowing the body concerned the freedom to perform its functions effectively while at the same time meeting accountability requirements for public funds. The Group considers that good governance arrangements in the bodies concerned are one of the most important elements in any arrangement to safeguard public funds. In that connection the Group welcomes the *Code of Practice for the Governance of State Bodies* issued recently by the Department of Finance. In so far as Accounting Officers are concerned the Group considers that they should satisfy themselves, through the reporting arrangements, that the requirements of the Code of Practice are being implemented in State bodies under their aegis; and that, if reports indicate a problem has emerged, appropriate corrective action is taken by the body as soon as possible. [3.48]

23. The Group recommends that

In the interest of more clearly defining the responsibility of the Accounting Officer and of the Chief Executive Officer, or equivalent, in respect of bodies under the aegis of the Department, which are in receipt of Exchequer funds,

their respective roles and the framework and processes of accountability should be set down in writing. This would be facilitated by the preparation of guidance by the Department of Finance. [3.51]

Significant features of the Accounting Officer role

24. A significant feature of the Accounting Officer role is the personal responsibility of the most senior official for the regularity and propriety of the transactions in the accounts for which s/he is answerable, the control of assets held by the Department, economy and efficiency in the use of the Department's resources and for the systems, practices and procedures used to evaluate the effectiveness of its operations. The concentration of responsibility in one individual differs from arrangements in the private commercial sector where responsibility normally rests with the Board. [3.52 - 3.56]

25. The fact that Accounting Officers have a particular responsibility to see that appropriate advice is tendered to the Minister on, inter alia, matters of financial propriety means that the role is seen as a personal responsibility to safeguard the interests of the taxpayer. It is also an important tool for accountability within Departments and can help to produce the necessary incentives to ensure that Departments carry out their functions with due regard to regularity, propriety and value for money. [3.59]

Appearances before the Committee of Public Accounts

26. The Accounting Officer system is unusual in that, while being accountable as Secretary General to the Minister for managing the Department and for the other duties under the 1997 Act the Accounting Officer is also personally answerable to the PAC for regularity, propriety and value for money (in the terms set out in the *Comptroller and Auditor General (Amendment) Act, 1993*). [3.56]

27. In appearing before the PAC the Accounting Officer appears in his/her own right rather than as a representative of the Minister as part of the Minister's constitutional responsibility. The duties of the Accounting Officer are thus outside the normal system of civil service delegation where, in general, civil servants act in the name of the Minister. [3.57]

Dual Responsibility of Secretaries General and Accounting Officers

28. There are significant overlaps between the responsibilities of the role of Secretary General and that of the Accounting Officer. The Group found that the financial management responsibilities of the Accounting Officer also necessarily constitute part of the general management responsibilities of the Secretary General. [4.5 - 4.6]

29. While many aspects of the role of the Accounting Officer can also be seen as an important part of the role of the Secretary General, Accounting Officers have statutory responsibilities to prepare the Appropriation Accounts and to give evidence to the PAC on issues arising from the C&AG's audits and examinations. These functions are not assigned to Secretaries General under the 1997 Act nor was it intended that they should be. [4.10]

30. The Accounting Officer's responsibilities are personal to that role. For that reason the relationship between the Accounting Officer and the Minister is somewhat different from the relationship that which otherwise exists between a Minister and his/her Secretary General. This is emphasised by the fact that while there are procedures that enable the Minister to override the Accounting Officer in relation to an area for which the Accounting Officer has a responsibility, in these circumstances the papers are sent to the

Comptroller and Auditor General. This procedure, while rarely used, is an important component in the checks and balances in the system of accountability for public money. It would also be a matter for the PAC to examine any issue brought to its attention, on foot of this procedure, by the C&AG. [4.11]

31. There are also important synergies arising from the dual role. The responsibilities of Accounting Officers give them considerable authority within the Department, particularly in relation to advice given to the Minister, while at the same time maintaining the ultimate authority of the Minister who is in charge of the Department. The requirements on Accounting Officers also provide an important focus for managerial accountability for regularity, propriety and value for money within the Department. [4.15 - 4.16]

32. In view of the significant overlap in functions, the improvements in systems and structures recommended below should contribute to the discharge of both the Secretary General and the Accounting Officer responsibilities.

Recommended Improvements to Systems/Structures to Support the Discharge of the Secretary General and Accounting Officer Responsibilities

33. The complexity of modern Government means that the Secretary General cannot be expected to be familiar with every action or decision taken in the Department. For that reason Secretaries General, including in their Accounting Officer capacity, must have systems and procedures in place to enable them to discharge their responsibilities. The Group focused on two main areas - (i) the processes introduced under the Strategic Management Initiative and (ii) Internal Control and Internal Audit- as areas which can contribute significantly to the discharge of both the Secretary General and the Accounting Officer role.

Contribution of the Strategic Management Initiative

34. The Strategic Management Initiative (SMI) is significant from an accountability perspective because it makes more explicit what Secretaries General (and other officers) are responsible for and to whom they are accountable. It also provides a framework, through the processes introduced, to facilitate the discharge of these statutory accountabilities. [5.1]

35. The Group sees developments under the Strategic Management Initiative (including Freedom of Information, the Quality Customer Service Initiative, the preparation of Strategy Statements and business plans as well as the Performance Management and Development System) as having a significant contribution to make to strengthening the general control framework within Departments. [5.4 - 5.7]

36. Within Departments there are now integrated processes involving the setting of high level goals/objectives, proactive management on the basis of business plans prepared at section/divisional level, and aligning individual and team performance with the goals of the organization through the Performance Management and Development System. [5.8]

Strategy Statements and Progress Reports

37. The Group sees the Strategy Statement and the progress reports as part of the process of providing information to the Oireachtas and to citizens on the objectives of Departments and the progress in achieving them. It concluded that the Strategy Statement and the progress reports provide an ideal opportunity to review plans and to assess progress. There is already a mechanism whereby Joint Oireachtas Committees may consider Strategy Statements. The Group would welcome more use by the

Oireachtas of this mechanism as it considers that this would, in turn, provide a further incentive for results-based management. [5.17]

Financial Management

38. The Group is strongly of the view that the *Management Information Framework (MIF)* initiative under the *SMI* is a key element in supporting both the Secretary General and the Accounting Officer. It has the capacity to enable them and other officers to discharge their responsibilities for financial management as well as other management responsibilities. It should also improve the link between financial analysis and decision-making. [5.19 - 5.23]

For that reason the Group recommends that

Secretaries General should give priority to the implementation of the MIF in their Departments. [5.24]

39. The Group sees other elements of the reform process such as the *Expenditure Review Initiative* as continuing to provide an important mechanism in the evaluation of programme efficiency and policy effectiveness. [5.25]

40. While Secretaries General, including in their Accounting Officer capacity, can secure significant benefits from the *SMI*, they also have responsibilities for ensuring that the initiatives are successfully promoted and embedded in the organization. The Group has, in chapter 5 of the Report, identified a number of factors that it considers important in relation to the reform of the financial management systems. [5.31 - 5.32]

Internal Control and Internal Audit

41. The requirements of parliamentary accountability has resulted in a strong emphasis on internal control, particularly internal financial control, in Departments. More recently the focus of internal control internationally has been widened to encompass the systems and procedures used to secure the achievement of an organisation's objectives. As part of best management practice internationally, risk management, which consists of an evaluation of the risks to the achievement of objectives across a range of categories including financial risk, is being put on a more formal and systematic footing. [6.1]

42. The Group makes a number of recommendations in regard to internal control. In so doing it is conscious of the need to avoid overload in Departments/Offices that are implementing the various initiatives under *SMI* as well as dealing with the normal requirements of public business. The timescale for implementing these recommendations is dealt with in Chapter 8.

Internal Financial Control

43. Internal financial control is a key element in the safeguarding of public funds.

For that reason the Group recommends that

Accounting Officers evaluate their systems of internal financial control with a view to ensuring that they have:

Clearly defined responsibilities at management level with corresponding accountability.

Clear reporting arrangements at all levels where responsibility for financial management has been assigned.

Staff in Finance Units/Accounts Branches with skills commensurate with their responsibilities.

Staff throughout the Department who are appropriately trained in the management of public funds (including the requirements of public financial procedures) and, when they become available, in the use of management accounts.

Appropriate controls including the segregation of duties particularly where the processing of transactions/receipts is involved; systems of delegation including authorisation limits for the making of payments.

Documented procedures for internal financial control (including desk instructions for staff that translate statutory and other requirements into a set of operating procedures).

Adequate systems for budgetary control (including systems for comparing results with budgets throughout the year).

Systems for monitoring the effectiveness of internal financial control including internal audit and audit committees, management reviews etc.

An assessment of significant financial risks. [6.20]

44. The Group also recommends that

Accounting Officers, submit with the Appropriation Accounts, a descriptive Statement on Internal Financial Control, broadly similar to the format required for the Chairperson of State Bodies. The Statement should be reviewed by the Comptroller and Auditor General for consistency with information of which he was aware from the audit of the financial statements.

Any such statement would have to be qualified to the effect that the systems of internal financial control can provide only reasonable and not absolute assurance against material error. [6.22]

Internal Control

45. Internal control in the wider sense is a management responsibility primarily concerned with ensuring that the business of the organisation is carried out efficiently, that management practices are adhered to, that assets are secured and that records are accurate and complete. A sound system of internal control should provide reasonable assurance (no system can provide absolute assurance) that the actions taken by the organisation will achieve their objectives. A sound system of internal control, because it relates to all the activities of the Department, is particularly relevant to the management

responsibilities of Secretaries General. [6.25 - 6.26]

46. Historically, Government Departments have had procedures in place to manage financial risks particularly in so far as they relate to the stewardship of public funds. Systematic risk management across a range of risks (strategic, operational, financial and reputational) is becoming recognised as an increasingly important part of the internal control framework as the identification and management of risk is seen as necessary to maximize the achievement of desired outcomes. [6.29 - 6.32]

47. The Group considers that risk assessment and management are important elements in a robust system of internal control which should be integrated into the management processes of Departments. It recommends that the following approach be adopted in introducing a formalised risk management system:

- *Central guidance on the development of a risk strategy, appropriate to Government Departments, should be prepared by the Department of Finance. This should address the principal elements of the risk identification and management process.*
- *Within Departments the risk management system should concentrate on the principal risks to the organisation as well as the principal risks arising from its relationship with other organisations. The risk assessment and management process should be integrated into existing management systems and should be kept as simple and straightforward as possible.*
- *In introducing a risk management programme full use should be made of existing systems, processes and procedures. For example, Audit Committees could advise on Departmental risk management strategies. Risk assessment should also be formalised into the processes for the preparation of the Strategy Statement, business plans, PMDS and annual reports.*
- *Risk management should feature on the agenda of divisional meetings and of the meetings of the Management Advisory Committee. [6.32]*

Internal Audit

48. Internal audit is an important element in providing assurance to the Accounting Officer on the system of internal control. By providing independent opinion on systems, procedures and controls, internal audit assists both the Accounting Officer and the Secretary General functions in discharging their respective responsibilities in relation to the reliability and integrity of the systems underlying the financial transactions and the financial statements of the organisation. [6.40]

49. Internal audit has a role in relation to the systems and procedures for securing value for money. It can also contribute to providing assurance or otherwise on the systems of internal control in the wider sense including the adequacy or otherwise of the systems in place to assess and manage risk. [6.42 - 6.44]

50. For these reasons the Group regards internal audit as a very important function in the governance arrangements of Government Departments.

It recommends that

(i) Departments/Offices should have either (a) a fully functioning, adequately resourced internal audit unit (capable of undertaking broad audit coverage of the organisation) whose staff are appropriately trained, preferably to an appropriate professional standard,

or (b) where the size or the risk to the Department/Office does not warrant a separate unit that they have access to such a unit through a joint venture or client arrangement with another Department; or some other appropriate arrangement.

(ii) The information on internal audit in the Statement on Internal Financial Control to be signed by the Accounting Officer should include appropriate information on the unit.

(iii) The Internal Audit Unit, including the head of Internal Audit (who should not have other responsibilities), should have sufficient status and access within the organisation to promote the unit's independence and to ensure follow-up on its recommendations.

(iv) Consideration should be given to further developing the Department of Finance's central role in (i) co-ordinating issues relevant to the development of the internal audit function (ii) the training of internal auditors leading to appropriate professional qualifications and (iii) promoting best practice in Internal Audit in conjunction with Internal Audit Units, Accounting Officers and the Office of the Comptroller and Auditor General. [6.46 & 6.48]

Audit Committees

51. Audit Committees are becoming an increasingly important part of the corporate governance framework in both the public and private sectors. They can perform a number of very useful functions including acting as another source of independent advice to the Accounting Officer, reviewing the plans and reports of the internal audit unit, and quality assuring the work of the unit. [6.49 - 6.51]

52. The Group considers that audit committees, particularly if they have external representation, can make a valuable contribution to strengthening internal control in Departments.

It recommends that

There be a formally constituted Audit Committee in each Department/Office (or in the case of small Offices which would not justify a separate committee, that there be a separate committee that covers a number of the smaller Offices).

Each Audit Committee should

- *Operate under a written charter.*
- *Have significant external representation (at least 2 members), including, in the normal course, representatives from the private sector with appropriate expertise. The Chairperson of the Committee should come from outside the Department.*
- *Prepare an annual report to the Accounting Officer reviewing its operations.*
- *Invite the Comptroller and Auditor General, or his nominee, to meet the Committee at least once a year. [6.53]*

Rules and Standards

53. The Group recommends that

(i) A separate Accounting Officer Memorandum should issue to Accounting Officers on appointment. The memorandum should be an expanded version of the material contained in Public Financial Procedures and drawing, where relevant, on the clarifications and contents of this report.

(ii) An explanatory document should be drawn up, from time to time, by the Department of Finance of the most serious common failings, inadequacies, issues etc. identified in recent reports of the C&AG and of the PAC and the categories within which they fall (failure to observe rules; inadequate financial controls etc.). This should provide greater clarity to newly appointed, as well as existing, Accounting Officers as to the issues of concern to the PAC and the standards expected of them. [6.57]

Governance Arrangements for Secretaries General/Accounting Officers

54. Apart from improvements to systems and structures within Departments, the Group examined the governance arrangements in place for Secretaries General. It considered issues of performance and discipline and whether there should be any change to the existing arrangements.

55. In considering these issues the Group was influenced by a number of factors arising from its examination of the Secretary General and Accounting Officer roles. These included:

- The nature of the governance arrangements in the civil service where the Minister is the political head of the Department and the Secretary General is the managerial head of the Department under the Minister makes the relationship between the Secretary General and the Minister one that is crucial to the effective working of Departments of State.
- The complexity of the Secretary General role which encompasses a range of issues such as performance in meeting objectives, management skills, compliance with relevant statutory and other requirements and value for money. The complexity of the role is given added emphasis by the Accounting Officer function particularly in the light of the Accounting Officer's personal responsibility for the safeguarding of public funds under his/her control and the specific statutory responsibility to give evidence to the PAC. [7.2 - 7.3]

Performance Evaluation and Management (including discipline)

56. Under the SMI there is a strong emphasis on improving performance at all levels in the civil service including the management of individual performance within Departments through the Performance Management and Development System. While elements of the PMDS are in place for Secretaries General, formal review mechanisms to evaluate the extent to which Secretaries General are achieving their objectives are still relatively underdeveloped. [7.7]

57. There are aspects of a Secretary General's functions that do not lend themselves readily to objective external review and evaluation such as giving advice to the Minister. There are, however, mechanisms in place that can be used to review the performance of the Department under the leadership of the Secretary General, in particular the Progress Reports on the Strategy Statement. In that regard the Group sees the review of progress by Oireachtas Committees as an important element in evaluating a Department's

performance. They also provide a mechanism for the Minister to assess the performance of the Department and that of the Secretary General, as principal officer of the Department, within the context of the range of duties for which the Secretary General is accountable to the Minister under Section 4 of the 1997 Act. As regards the Accounting Officer function there is rigorous independent examination of regularity, propriety and value for money by the Comptroller and Auditor General and by the PAC. [7.9 - 7.12]

58. The Group also examined civil service disciplinary provisions as they apply to Secretaries General. In so doing the Group would make a distinction between, on the one hand, serious or repeated cases of negligence and an action taken by a Secretary General in the knowledge that it is wrong and a failure in management systems on the other. In the first case, the personal culpability of the Secretary General, including in his/her Accounting Officer capacity, would be a very serious issue. A failure in systems may be less clear-cut and it would be a matter of judgement, in individual cases, as to whether it would warrant disciplinary action against the Secretary General/Accounting Officer. [7.14]

The Group concluded as follows:

(i) The Government is the appropriate authority in relation to any disciplinary issues relating to Secretaries General.

(ii) In the case of any very serious issue arising in the exercise of either the Secretary General or the Accounting Officer⁽¹⁾ function which results in the officer concerned losing the confidence of the Government, the Government may dismiss him/her as Secretary General providing it acts fairly and meets the requirements of natural justice.

(iii) Secretaries General are not subject to the disciplinary measures, short of dismissal, provided for in Section 15 of the *Civil Service Regulation Act, 1956*. The introduction of disciplinary measures, short of dismissal, for Secretaries General would be a matter for the Government and might require legislation. The Group would, however, tend to the view that the efficacy of introducing formal disciplinary measures, short of dismissal, for Secretaries General would be open to question given the nature of the relationship between the Secretary General and the Minister and the consequences for that relationship and for the authority of the Secretary General within the Department, were a Secretary General to be subject to disciplinary action, short of dismissal, in the same manner as other civil servants. Conduct that might merit demotion or reduction in pay in the case of a civil servant of a lesser rank could irreparably damage the relationship between the Secretary General and the Minister, and the authority of the Secretary General, to the extent that the Government, might consider it necessary, provided it acted fairly, to dismiss him/her. [7.42]

Use of Existing Mechanisms in relation to the Accounting Officer function

59. The Group also found that there was scope for using existing mechanisms more fully to encourage the more effective discharge of the Accounting Officer function.

60. The PAC, while it does not have executive responsibilities, exercises considerable influence because of the weight given to its conclusions and recommendations by the Government. The fact that it can revisit issues also provides a powerful incentive for the Accounting Officer, as principal witness before the Committee, to ensure that action is taken on those recommendations. [7.40]

61. There is also scope for the Committee to make recommendations in relation to serious regularity issues that might arise in the course of its examination of the Appropriation Accounts and the Comptroller and Auditor General's reports thereon.

Specifically, while the procedure does not appear to have been used for sometime, the PAC has recommended in the past that expenditure be disallowed in serious cases. If the Minister for Finance agreed with the Committee's recommendation, the normal practice was for the sanction of the Dáil to be sought by way of a Supplementary Estimate designed to regularise the matter. While it is a matter in the first instance for the PAC to decide what approach it wishes to adopt, a recommendation to disallow expenditure does offer the opportunity to bring a serious regularity issue to the attention of the Dáil. [7.41]

62. Apart from such regularity issues, the PAC is in a position to bring serious issues emerging from its scrutiny of public funds to the attention of the Dáil by means of its reports. While the reports are not normally the subject of a debate, it is open to the Dáil to debate them. [7.44]

63. The Group considered whether the Minister for Finance could separately remove a person as Accounting Officer, as a disciplinary measure, while s/he would remain as Secretary General. While individual circumstances would have to be taken into account it concluded that removal of an Accounting Officer, following the identification of a serious issue in the exercise of that role, would be so serious a reflection upon a Secretary General, that it would be very difficult for a him/her to remain as Secretary General having lost the role of Accounting Officer. [7.23]

64. The Group also considers that it would not be practical to introduce disciplinary measures, short of dismissal, separately for Accounting Officers as a very serious issue which might arise in the exercise of the Accounting Officer function would have implications for his/her position as Secretary General. [7.43]

65. Having considered the existing system for performance evaluation (including discipline) the Group considers that there is adequate scope within the system to provide for an assessment of the performance of the Secretary General/Accounting Officer functions, balanced to support constructive review and continuous improvement, and to deal with serious issues as they arise. [7.45]

