



HM Treasury

Accounting Officer System Statements: guidance

April 2017



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Preface

This guidance sets out how central government departments should construct an Accounting Officer System Statement (AOSS) covering all of their relevant accountability relationships. This should include relationships with arm's length bodies and third party delivery partners.

It is for Principal Accounting Officers of central government departments, and officials who support them in managing the governance arrangements between those departments and their arm's length bodies.

Chapter 1 explains the background to these AOSS, their purpose and their guiding principles.

Chapter 2 proposes a structure and content for an AOSS, recognising that each department will have its own systems, some more complex than others. The AOSS should cover accountability for all of the public money and other public resources which fall within each department's policy responsibilities, with separate sections for:

- the scope of the department's accountability system
- a diagram showing all parts of the system
- responsibilities within the core department
- relationships with arm's length bodies
- local funding arrangements
- third party delivery partnerships
- grants to private and voluntary sector bodies
- major contracts and outsourced services
- investments, joint ventures and other assets

Chapter 3 gives guidance on how to include arrangements for monitoring, assurance and improvement in each section, including aligning them with financial and performance data in annual reports and accounts, and performance indicators in Single Departmental Plans.

Chapter 4 offers guidance on how to publish an AOSS, and sources of further information and guidance on areas which are covered in this document.

In recent years, government has increased its use of more complex delivery methods, including devolution to local areas, outsourced contracts, government companies and cross-cutting initiatives. In 2016, both the National Audit Office and the Public Accounts Committee of the House of Commons expressed concerns that this has often not been accompanied by clarity over accountability arrangements. Accounting Officer System Statements will now be able to provide that clarity across the full scope of each department's systems.

This guidance replaces the previous guidance on Accountability System Statements issued by the Department for Communities and Local Government in 2011, which applied only to departments which distribute grants to local government, schools, similar local government organisations and/or the NHS. The 2011 guidance continues to provide useful background to the accountability issues raised by these local arrangements.

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1 What is an Accounting Officer System Statement?

Background

1.1 Since 2011, government departments have been required to incorporate into the Governance Statement section of their Annual Report and Accounts a summary account of how they achieve accountability for the grants they distribute to local government organisations, schools and the NHS. It has been expected that this part of the governance statement should be backed up by a fuller accountability system statement on the department's website.

1.2 In 2016, the Public Accounts Committee recommended, as part of its wider work on accountability to Parliament for taxpayers' money, that all departments should prepare accountability system statements, covering all of the accountability relationships and processes within that department, making clear who is accountable for what at all levels of the system from the Accounting Officer down.¹ The government has agreed that Principal Accounting Officers of the main central government departments should provide a statement of their accountability systems, covering all of the relevant accountability relationships within the department, including relationships with arm's length bodies and third party delivery partners.

1.3 These statements are now to be known as Accounting Officer System Statements (AOSS), to signify the change in scope from the previous accountability system statements, and to emphasise that they are a part of an Accounting Officer's personal responsibility to account to Parliament for the public resources under his or her control.

1.4 *Managing Public Money*² is the principal guide to Accounting Officers on the expectations of their role. It sets out the demanding standards expected of all public services in the UK, including the standards of honesty, impartiality, openness, accountability, accuracy, fairness, integrity, transparency, objectivity and reliability. Accounting Officers are personally responsible for ensuring that proposals to commit public money measure up to standards of regularity, propriety, value for money and feasibility, and for reporting to Parliament on the way that public funds have been used.

1.5 An AOSS will be one part of the way in which Accounting Officers can fulfil these responsibilities:

- it is important that each Accounting Officer takes personal responsibility for ensuring that the organisation he or she manages delivers the standards of governance, decision-making and financial management set out in *Managing Public Money*
- the Accounting Officer of a sponsor department should make arrangements to satisfy himself or herself that each arm's length body (ALB) has systems adequate to meet these standards

¹ PAC report: Accountability to Parliament for taxpayers' money – Session 2015-16 (HC 732)

² Available from: www.gov.uk/government/publications/managing-public-money

- the Accounting Officer of a funding organisation is responsible for ensuring that grant recipients are eligible and use the grant in the way envisaged in the founding legislation, striking an appropriate balance among: ensuring prudent management of funds; achieving value for money; assurance that grants are used as envisaged; and allowing recipients reasonable freedom to take their own decisions

1.6 The AOSS stands alongside the governance statement of the department's annual Report and accounts but its focus is different. It is not intended to replace or repeat the necessary assurance information given there. The AOSS will set out systems which the accounting officer has put in place to gain that assurance.

Purpose and guiding principles

1.7 The purpose of an AOSS is to provide to Parliament a single statement setting out all of the accountability relationships and processes within a department, making clear who is accountable for what, from the Principal Accounting Officer down.

1.8 An AOSS should be:

- a **personal statement** by the relevant Accounting Officer
- **comprehensive**, covering all of the accountability arrangements within the system
- **clear and simple** with brief systemic statements rather than detailed, complex descriptions of internal administrative processes
- **supported by diagrams** where this aids clarity
- **as concise as the system allows**, so that the whole statement contains only the information it needs to explain the system

1.9 The AOSS should ensure accountability for all of the public money and other public resources which fall within a single accounting officer's responsibilities. It should include funding for:

- the activities of the core department
- activities of its arm's length bodies;
- delivery through local partners, private and voluntary sector bodies, and other third party arrangements
- major contracts and outsourced services, and any financial investments or commercial joint ventures

1.10 The AOSS should be comprehensive and concise, ensuring that all of the department's activities can be shown to be included. It should outline processes which apply generally within the department, identifying significant areas of activity, and describing specific areas where bespoke arrangements apply. This will include the department's responsibilities to account for:

- all expenditure of money voted to the department through its Estimate
- any additional Estimate or Trust Statement for which the department is responsible
- any income raised through fees, charges, taxes and levies, even if the income is retained by the bodies which raise the income
- the management of shareholdings, financial investments, and other publicly owned assets

1.11 A well-constructed AOSS will also be useful to Accounting Officers and those who support them in managing the arm's length relationships across the breadth of their responsibilities. It will provide one way of assessing how well the system is working.

1.12 It should be drafted in a way that members of the public can understand. Accounting Officers should test and update their system statements regularly, to ensure they are relevant and can be used in a practical sense to hold them and their delivery bodies to account.

Who should prepare an Accounting Officer System Statement?

1.13 All the main central government departments are expected to prepare an AOSS. However, some smaller departments, and many Non-Ministerial Departments, will have simpler arm's length relationships, and might be able to cover these in the Governance Statement section of their annual report. In these cases, it will be for the Accounting Officer to judge whether or not to produce a separate AOSS. The Accounting Officer should be prepared to defend that judgement in Parliament if challenged.

1.14 Although the annual report and accounts, and its governance statement, look back over a completed financial year, an AOSS should be a current statement of the system which exists at the time of publication and looking forwards. The subsequent governance statement will then be able to report on how well those systems have worked.

1.15 ALBs are not expected to produce their own AOSS, as the ALB and its systems will already be included within the sponsor department's AOSS. Some larger ALBs may have complex or distributed accountability arrangements of their own. In these cases, the Accounting Officer of the ALB may choose to publish an AOSS, if this would aid public understanding of the accountability arrangements within the ALB. The primary expectation remains that the accountability system, including the ALB and all of its systems, will be explained in sufficient detail in the sponsor department's AOSS.

1.16 The AOSS should reflect processes agreed with ALBs, for example in their framework documents. It should not contain new requirements or expectations on them. If the AOSS highlights weaknesses or gaps in a relationship, any new arrangements should only be included in the AOSS once agreed with the ALB.

1.17 An AOSS should be prepared and published alongside a department's Annual Report and Accounts. A copy should also be placed in the Library of the House of Commons. The AOSS should be reviewed annually alongside the preparation of each year's accounts, and re-published if there are any material changes. If a department's accountability structures or systems change significantly in the middle of a year (for example, with the creation of a new ALB), consideration should be given to revising the AOSS at that point.

1.18 Machinery of Government (MoG) transfers can also give rise to structural and system changes, as policy responsibilities are re-allocated between departments with a transfer of staff and funding, and responsibility for associated ALBs. These changes normally involve transitional accountability arrangements between the date of the MoG transfer and the subsequent Parliamentary Estimates. In these cases, and others involving a temporary change, departments should avoid revising an AOSS solely to explain the interim arrangements, and focus instead on publishing a clear revised AOSS once the new permanent arrangements have come into effect.

1.19 Departments should also discuss their AOSS with their Treasury Spending Team. Treasury approval should be sought before publication of an AOSS.

Content of a System Statement

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This chapter gives guidance on the content of an AOSS. The overall structure of an AOSS should follow the outline in this chapter, but it is a guide to the issues to be covered rather than a rigid structure. Each individual AOSS will place different levels of emphasis on different parts, reflecting the structure of the department and the nature of the specific system. Some systems may also raise issues that are not covered here but which the Accounting Officer will want to include.

1st section: Scope of the system

2.1 This section should include a simple list of policy responsibilities for the central department. This should link to the scope of the Principal Accounting Officer's responsibility as set out in their most recent appointment letter, and relate closely to the ambit of any Parliamentary Estimate for which they are responsible, and the scope of any Trust Statement which they must prepare.

2.2 An example of the statements an accounting officer might make is set out in **Box 2.A**. This will be similar to the statement of responsibilities in the governance statement of an Accounting Officer's Annual Report & Accounts, and should be consistent with it. The AOSS will make a forward-looking statement about the system which applies at the time it is published, so should not rely solely on the governance statement relating to previous years. The AOSS will include all of an Accounting Officer's responsibilities, relating closely to the scope of responsibilities set out in their appointment letter. It will therefore need to be consistent with the governance statement in all sets of accounts which the Accounting Officer prepares.

2.3 This section might also include a brief summary of the Accounting Officer responsibilities set out in Chapter 3 (Accounting Officers) and Annex 5.1 (Grants) of *Managing Public Money*, or other relevant parts. It should include a statement that the Accounting Officer is personally responsible for safeguarding the public funds for which he or she has charge.

2.4 The role of ministers is also important. The *Ministerial Code*¹ sets out the general principle that ministers have a duty to Parliament to account, and be held to account, for the policies, decisions and actions of their departments and agencies. But ministers also look to the department's accounting officer to delegate within the department to deliver the minister's decisions and to support the minister in making policy decisions and handling public funds.

2.5 While later sections will focus on Arm's Length Bodies (ALBs) and third party relationships, some departments might find it helpful to include a brief overview of the nature of the system being described in this statement. Some departments will have relatively simple systems, others will have a more complex system of arm's length relationships. A brief outline of the system in this section will help readers identify what they might expect to find in the rest of the document, and so how it compares to other departments' systems.

2.6 For example, the overview could include a list of the types of ALB, grant schemes, local funding arrangements and other responsibilities which are included. This should aim to give an

¹ www.gov.uk/government/publications/ministerial-code, paragraph 1.2

overview of the scale and complexity (or otherwise) of this particular AOSS. It might include an indication of the overall amounts of funding involved, broken down between the most significant funding areas (at the highest level), with a diagram where this aids clarity.

2.7 Chapter 3 contains further guidance on issues to consider when describing each part of the system.

Box 2.A: Example text for a statement of Accounting Officer responsibilities

I am the Principal Accounting Officer to the Department for *[name of department]*. This System Statement sets out all of the accountability relationships and processes within my department, making clear who is accountable for what at all levels of the system.

My department has policy responsibility for *[list of main policy areas]*.

The Secretary of State for *[department]* and other departmental ministers have a duty to Parliament to account, and be held to account, for the policies, decisions and actions of this department and its agencies. They look to me as the department's accounting officer to delegate within the department to deliver their decisions and to support them in making policy decisions and handling public funds.

As Accounting Officer, I am personally responsible for safeguarding the public funds for which I have been given charge under the *[name of department]* Estimate and *[any additional accounts, Estimates, Trust Statements etc listed in the AO appointment letter]*. Where I have appointed additional Accounting Officers, their responsibilities are also set out in this system statement.

It covers my core department, its arm's length bodies and other arm's length relationships. It describes accountability for all expenditure of public money through my department's Estimate, all public money raised as income, and the management of shareholdings, financial investments and other publicly owned assets for which I am responsible.

This system statement helps me ensure that I am fulfilling my responsibilities as an Accounting Officer, in accordance with the Treasury's guidance set out in *Managing Public Money*.

This system statement describes the accountability system which is in place at the date of this statement, and which will continue to apply until a revised statement is published.

2nd section: A diagram showing all parts of the system

2.8 This section should consist of a simple diagram which aims to encompass all parts of the accountability system covered by the statement. It will show the core department and its consolidated ALBs. It will also show any arm's length relationships with local government, devolved administrations and other parts of the public sector. It will include any major grant schemes or contractual delivery partnerships with the private or voluntary sector, and any companies which are owned or invested in by the department.

2.9 Annex A includes a working template which indicates areas which might be included. Many departments will not need to include all of the different elements in this template; others will have bespoke additional relationships to include; some will have more emphasis on one type of relationship than others. Departments should use this as a guide to working out what kind of a diagram might best be used to represent their particular system clearly.

2.10 The diagram could also include the value of budgets within the system and summary of policy deliverables, if this can be done without reducing clarity. Departments should choose a way of presenting the diagram which best suits their individual accountability systems.

3rd section: Responsibilities within the core department

2.11 This section should set out how the accounting officer has organised the core department to account for its own spending and directly managed delivery functions.

2.12 This should reflect the assurance statements given in the Governance Statement section of the annual report. It can also include the support the accounting officer receives from the finance directors, internal audit, management information reporting, and other internal assurance processes.

2.13 The AOSS is a statement of the arrangements which apply in the current year in which it is published, while the governance statement will be looking back over a completed reporting year, so any relevant changes should be reflected in the AOSS.

2.14 If additional accounting officers have been appointed within sections of the core department, their responsibilities should be summarised here, and how they relate to those of the Principal Accounting Officer.

4th section: Relationships with ALBs

2.15 The focus of this section should be on the core department's relationships with its ALBs. Many of those will be within central government, and consolidated into the department's own accounts (including Executive Agencies and NDPBs). Relationships with Non-Ministerial Departments, Trading Funds and public corporations should also be included, and any other public sector bodies which are not included in the 5th section (on local and devolved funding arrangements).

2.16 For each category of ALB, this section should set out:

- how the funding flows work
- who provides the funding
- how performance is monitored
- who is accountable for spending decisions

2.17 The emphasis should be on brief, simple statements rather than complex descriptions. Where similar arrangements apply across a broad category of ALB, there should be no need to list each individually, unless there are exceptions to the general statement. **Box 2.B: below** gives some indicative examples.

2.18 The AOSS should ensure that all public money is included. This should include all money that comes into the possession of, or is distributed by, a public body, and money raised by a private body where it is doing so under statutory authority. For ALBs which collect and retain their own income (through fees and charges, or trading activities), accountability for both income and expenditure should be considered.

Box 2.B: Example statements of ALB relationships

Executive Agencies (EA) receive their funding direct from the department. Each EA has an Accounting Officer appointed by the Principal AO, and a sponsor team in the core department which monitors financial and performance data.

- [Agency x] also derives [x]% of its income from charges for its services. It reports on its charging schemes in its annual reports.

Non-Departmental Public Bodies (NDPBs) receive grant-in-aid from the core department, and may charge for their services. Each NDPB has an independent Board, and an Accounting Officer, normally the Chief Executive, and a sponsor team in the core department.

- [NDPB x] is established as a government-owned company limited by guarantee. The Secretary of State is the sole member. It has an independent Board with a non-executive Chair.
- The Chairman of [NDPB y] is its accounting officer. He has a statutory role which includes formal responsibility for the funds allocated to him. He is supported by a Chief Executive who manages the day-to-day activities of this public body.

2.19 All Accounting Officers within the system should be identified. Where additional Accounting Officers have been appointed within the core department, the scope of their individual responsibilities should be stated. The ALBs (or categories of ALB) which have their own Accounting Officer should be identified, and those which do not should also be explained. Where there is no additional Accounting Officer, it should be made clear that the Principal Accounting Officer remains personally accountable.

2.20 Individual Accounting Officers are named on the department's Estimate and do not need to be named in the AOSS, particularly where there are a large number and the list is likely to change regularly. The AOSS should refer to the Estimate as the place where the list of Accounting Officers can be found.

2.21 The Cabinet Office has established a code of good practice on *Partnerships between departments and arm's-length bodies*.² The code sets out common principles which should underpin effective partnerships. Departments should use this section of their AOSS to state whether or not they are applying these principles and standards to their relationships with ALBs, and explain any variations from them for particular cases (for example, where particular aspects of the code are not considered relevant for individual or groups of ALBs).

2.22 The preparation of an AOSS should also follow these principles. The AOSS should describe accountability relationships, and not impose new requirements on ALBs. It should reflect agreed partnership arrangements, for example as set out in framework documents.

2.23 Advisory bodies should also be included where they form part of the system. Some are constituted as Advisory NDPBs, others as 'expert committees' or statutory advisory panels within the core department. Their role and structure should be explained briefly, and how they contribute to providing assurance of value for money in decision-making in a particular area.

² www.gov.uk/government/publications/partnerships-with-arms-length-bodies-code-of-good-practice

5th section: Local funding arrangements

2.24 Many departments distribute grants to devolved administrations, local government including combined authorities, schools, the NHS and similar local organisations. Since 2011 they have been required to back up the Governance Statement in their annual report with a fuller accountability system statement. This section of the AOSS should now fulfil that requirement.³

2.25 The overall aim of this section should be to describe how the system allows the Accounting Officer to fulfil his or her responsibilities whilst strengthening and complementing local accountability arrangements. The AOSS should summarise the framework for securing proper use of money at the local level, by including, for example:

- the statutory or regulatory framework
- any external or independent scrutiny which local bodies are subject to
- accountability of decision makers to local voters, or scrutiny by locally elected representatives
- transparency through local publication of budgets and spending data, performance against objectives etc

Box 2.C: The funding system for local government

The Department for Communities and Local Government (DCLG) is the lead department responsible for maintaining the overall accountability system for local government.

Within that system, the Department for Education (DfE) has policy responsibility for maintained schools and children's services; the Department of Health (DH) has policy responsibility for adult social care and public health; Defra has policy responsibility for waste management; and the Department for Transport (DfT) has policy responsibility for local transport major schemes. To describe this system:

- DCLG would include a full description of the local funding and accountability system in its AOSS
- this will include different arrangements in different places, for example where devolved countries or regions are included with tailored funding and accountability arrangements
- DfE would include in its AOSS a description of how it allocates funding and assures vfm for spending on local education and children's services, with a reference to DCLG's AOSS for more detail on the system overall
- DH, Defra and DfT similarly focus on their own areas in their own AOSS, with reference to DCLG's AOSS

2.26 Accountability System Statements for local funding systems have been required since 2011. The new AOSS will replace those previous system statements, but the AOSS should aim to describe the system which is already in place. It should not impose new requirements on local authorities or other local delivery partners, unless these have been previously agreed.

³ For more information, *Accountability: adapting to decentralisation*, Sir Bob Kerslake, 2011
www.gov.uk/government/publications/accountability-adapting-to-decentralisation--2

2.27 In some cases this summary information is already covered in another department's AOSS. Where a funding stream involves contributions from more than one department or public body, the lead Accounting Officer for the system as a whole should include full details of the system in their System Statement. This section of the AOSS should be agreed with the lead department.

2.28 Accounting Officers for other departments who contribute to this local system should focus on explaining their part in the system, identifying who the lead Accounting Officer is for the system as a whole, and referencing the more complete AOSS. **Box 2.C: above** gives an example of how this might work.

Box 2.D: Questions to consider in the 'local funding' section of an AOSS

Scope of the system - what is covered by the statement

- What is the departmental Accounting Officer responsible for – particularly important where more than one body is contributing funding?
- **Outcomes** – what is government seeking to achieve through the system, with the money voted by Parliament?

What are the responsibilities within the delivery chain

- What are individual organisations within the delivery chain responsible for, and to whom?
- Who is accountable for their budgets? Who is the responsible person that money is devolved to within an organisation, and will be held to account for its use?

Distribution

- How does the system for distributing central government funding secure regularity, propriety, and value for money?
- What is the system for distributing the money?
- What information are decisions on distribution based on?

Framework at the local level to secure regularity, propriety and value for money

- What is the **framework** for securing proper use of money at the local level?
- **Rules** – what is the statutory or regulatory framework?
- **External scrutiny** – what external/independent scrutiny are local bodies subject to? (e.g. external audit, independent regulators, government inspection)
- **Democratic pressure** – accountability of decision makers to voters, scrutiny by elected councillors etc
- **Restrictions on budgets**
- **Choice and competition**
- **Transparency** – publication of budgets, spend data, performance against objectives etc. feeds arm chair auditors and pressure groups.

Source: *Accountability: Adapting to decentralisation*, DCLG, 2011

2.29 Some questions to be considered for each local funding system in this section of the AOSS are summarised in **Box 2.D: above**. The list is not prescriptive, and departments should only include elements which are relevant to their own systems. To assist people in navigating the system departments should include a diagram that summarises the relationships between different bodies and the flows of funding and accountability.

6th section: Third party delivery partnerships

2.30 Public sector organisations often deliver public services more successfully working with another body. This section should set out delivery partnerships with commercial or civil society sector organisations.

2.31 In this part of the AOSS, departments should outline the accountability arrangements for partnerships which are used to deliver core parts of their public service remit, rather than grants or contracted services. Central government departments that delegate certain functions to their own ALBs, or share services with another part of government, should include these in the third section of their AOSS.

2.32 Government can find it helpful to harness the expertise of commercial or civil society sector delivery partners where they can provide skills and leverage not available to the public sector. In these cases, each organisation needs to be able to maintain autonomy, while providing sufficient accountability to give Parliament and the public confidence that public resources are being used wisely.

2.33 The third party in these arrangements will typically not be in the public sector, or not be within the central government boundary. It might include a delivery partner in a local or devolved government.

2.34 None of these organisations has its own Accounting Officer, so the AOSS should explain how the Principal Accounting Officer gains assurance on regularity, propriety and value for money when making funding decisions, and receives assurance on performance and outcomes as the service is delivered.

2.35 This section may also include a summary of the benefits of choosing this delivery model, for each partnership arrangement described.

7th section: Grants to private and voluntary sector bodies

2.36 Central government departments normally offer two kinds of financial support to third parties, using statutory powers:

- **grants:** made for specific purposes, under statute, and satisfying specific conditions, e.g. about project terms, or with other detailed control
- **grants in aid:** providing more general support, usually for an NDPB, with fewer specific, but more general controls on the body, and less oversight by the funder

2.37 This section should focus on the first of these only – grants for specific purposes to private sector and voluntary sector organisations. It should include any statutory or *ex gratia* payment schemes, such as welfare benefits or EU grants, administered by the department.

2.38 Grants should not be confused with contracts. A public sector organisation funds by grant as a matter of policy, not in return for services provided under contract. Grants and grant schemes usually require their own statutory grant awarding power. Contracted services (that is, any arrangements with third parties which fall within the scope of the Public Contract Regulations⁴) should be covered in the 7th section of the AOSS.

2.39 Wherever possible, the AOSS should describe the systems in place for each grant scheme, rather than individual grant recipients. If the same systems are used for a number of schemes, the AOSS should group them together rather than describing each one. If any individual grant is

⁴ The Public Contracts Regulations 2015 (SI 2015/102)

so significant to the scope of the department's activities, with bespoke accountability and assurance arrangements, it should be included separately.

2.40 Cabinet Office maintains the *Government Grant Information System* (GGIS) and publishes the annual *Government grants register*.⁵ The AOSS should reference the grants register as a source of further information on individual grants if their grants are included in it.

2.41 The Cabinet Office has also set minimum standards, which promote effective grant making in central government grant schemes.⁶ The standards focus on gaining assurance of regularity, propriety and value for money before awarding any grant, and monitoring of outcomes against the purposes for which it was awarded. There is also guidance on how to apply these standards.

2.42 The AOSS should explain briefly how the Accounting Officer gains this assurance for each scheme (or type of scheme if the systems are the same). Departments should also indicate the amounts of public money which are spent through their grant schemes. Departments can use this section of their AOSS to state whether or not they are applying the minimum grant standards to their grant schemes, and explain any variations from them for particular schemes. Departments should aim to agree this assessment with the Cabinet Office before publishing it in the AOSS.

8th section: Major contracts and outsourced services

2.43 Departments enter into contracts with large numbers of third party suppliers in the normal course of business. They do not need to include all of their contracts with suppliers in this section of the AOSS, but they should set out the general arrangements for ensuring value for money from their contracts.

2.44 Some contracts are more significant in ensuring that a department can deliver its core services. For example, a key part of the department's service delivery might be outsourced to the private sector; or a key supplier, such as an IT provider, might play a significant role in the department's interface with the public to deliver online services.

2.45 For these significant contracts, the AOSS should indicate the scale and significance of the contract, and summarise the arrangements in place to ensure that the Accounting Officer can gain assurance that the money committed to delivering these services is achieving good value.

9th section: Investments, joint ventures and other assets

2.46 Many departments own shares or other investments in third party businesses, either within the public sector or outside it. These might include:

- **public corporations** which are wholly owned, majority owned or public sector controlled
- **minority shareholdings** in private sector companies, held for specific policy reasons, or as a result of past policy interventions in an industrial sector
- **joint ventures** to exploit the commercial value of publicly owned assets
- **government owned companies** which are used to facilitate financial transactions at the interface with the private sector in a commercial environment (sometimes referred to as 'special purpose vehicles')

⁵ www.gov.uk/government/publications/government-grants-register

⁶ www.gov.uk/government/publications/grants-standards

2.47 If arrangements under any of these structures also involve the delivery by a company's staff of a public service which is the policy responsibility of the sponsor department, they should be included in an earlier sections which describes the relevant delivery partnership arrangement.

2.48 Departments and their ALBs might also have responsibility for managing other significant publicly owned assets, such as historic buildings or national collections, or key parts of the national infrastructure. Each organisation needs to devise an appropriate asset management strategy to define how it acquires, maintains, tracks, deploys and disposes of the various kinds of assets it uses.

2.49 In cases where a department's interest in a company is treated solely as a financial investment, the Accounting Officer remains responsible for assuring the regularity, propriety and value for money of the management of the investment, just as for the original decision to invest. For each arrangement, the AOSS should set out the policy rationale for the department's investment of public funds, and the arrangements in place to gain assurance of continuing value for money. It should also include any stated policy for when the investment will be sold or otherwise brought to an end, and how the criteria for disposal will be assessed.

2.50 This section of the AOSS should also include a complete list of any government owned companies for which the Accounting Officer is responsible, which have not been included in earlier sections. This should include an explanation of the policy reasons for owning such companies. If the companies are dormant, or operate as a 'shell company' for other activities, this should be explained.

2.51 In some cases, companies may be owned for policy reasons which are sensitive or might need to be kept confidential. In these cases, departments should consider what level of disclosure might be given without prejudicing those sensitivities, but this might not be possible in all cases. Departments should be aware of the risk that exclusion from the AOSS list might draw more attention to these sensitive companies, if they can be identified from other sources such as the Companies House database. The National Audit Office published an analysis of government companies it had identified this way in December 2015.⁷

⁷ Companies in government, National Audit Office, December 2015
www.nao.org.uk/report/companies-in-government

3 Monitoring, assurance and improvement

3.1 In the AOSS, departments should have covered all of the accountability relationships which are the responsibility of the Principal Accounting Officer. Different arrangements will apply to different parts of the system, but there are common features which should be present in each.

3.2 To assess accountability arrangements within a system, the Treasury has developed a four-stage model which can be used to check whether the descriptions in each section are sufficient to satisfy the expectations of Parliament and others who scrutinise government. Under this model, a system is expected to outline the **R**esources, **O**utputs and outcomes, **C**heck and **C**hallenge ('ROCC') features of the system design. This model is explained in **Box 3.A: below**.

Box 3.A: The Treasury's ROCC model for assessing accountability systems

A robust system of accountability should be able to demonstrate the following features:

R esources	an assessment of what was provided and from what source
O utputs and outcomes	associated with the resources to achieve good value
C heck	on spending through monitoring and audit of data
C hallenge	to ensure a named individual can be called to account to justify their actions, normally through an independent democratically elected body

3.3 Departments should aim to apply this ROCC model across the AOSS. This might include:

- 1 a summary of the **resources** committed and **outputs and outcomes** to be delivered within the descriptions of each element of sections describing ALBs and other third party relationships
- 2 how the department **checks** that the different areas of spend are achieving their stated purposes (see below)
- 3 **challenge** through scrutiny by the UK Parliament, stated as an overarching feature in the Accounting Officer's opening section
- 4 **challenge** by the elected chambers of local or devolved administrations where relevant in the section on local funding arrangements

3.4 **Box 3.B: below** sets out a range of issues which might be considered to explain how an accounting officer can check that spend in a particular area is achieving good value.

3.5 Overall, the aim is to keep the AOSS clear and simple. It should not need to repeat details of internal governance arrangements which are already included in the annual report and accounts. A good AOSS will make it clear how the elements of the ROCC model can be seen to apply across all parts of the system, by using the minimum detail necessary to achieve clarity.

3.6 Some departments might find it helpful to include a summary of their internal assurance systems in a separate section of the AOSS, because the same assurance systems apply across the full range of their accountability relationships. Others might prefer to include a summary of the assurance arrangements in each section of the AOSS where different arrangements are in place.

Box 3.B: Issues to consider when checking whether the system is working

How does the accounting officer know the system is working?

- How will the Accounting Officer be able to demonstrate to Parliament that the system is robust in practice – for instance, that is delivering value for money nationally?
- What arrangements have been made for external scrutiny – e.g. external audit, independent regulators, government inspection?
- What data monitoring arrangements have been put in place – e.g. collection and aggregation of local data to monitor performance?
- How is risk identified and assessed at different levels within the system?

What is the process for dealing with failure or underperformance?

- How will localised and systemic failure or underperformance be defined?
- How will it be identified?
- Who will be responsible for managing it and what is the process?
- What will the aim of any intervention be? (e.g. we will intervene in a market to protect the interests of service users not to save a particular provider)

Work to strengthen the system

- Are there reforms in hand that will strengthen the system?
- What effect will these reforms have?

Source: Accountability: Adapting to decentralisation, DCLG, 2011

Financial and performance data

3.7 The AOSS should be clear on the core data and information flows that the system will rely on. Departments should identify how accountability systems align with the financial and performance data set out in their Annual Report and Accounts, and the performance indicators set out in Single Departmental Plans (SDPs).

3.8 Departments should indicate within their AOSS how the performance metrics and financial data are aligned with those other sources of performance data. AOSS are not expected to repeat the detailed data published elsewhere.

3.9 For example, where a particular ALB is responsible for delivering a service which produces key performance data which is covered within a department's SDP, that data system should also be mentioned in the description of the ALB in the relevant section of the AOSS.

Further information and guidance

4

An Accounting Officer System Statement (AOSS) forms one part of the system of accountability for central government bodies in the UK. To understand that system fully, this Chapter gives further information on the background to the current system of accountability, other sources of guidance, and references to material mentioned earlier in this guidance

How to publish an AOSS

4.1 This guidance sets out the requirement for an AOSS to be prepared by the Principal Accounting Officer of each central government department. The AOSS backs up the governance statement of the Accounting Officer's Annual Report & Accounts. The first AOSS is expected to be produced alongside each department's Annual Report & Accounts for 2016-17.

Subsequently, the AOSS should be reviewed each year as the governance statement is prepared, and republished when there are material changes.

4.2 The AOSS does not form part of the Annual Report & Accounts. It stands alongside it, but its focus is different:

- the **governance statement** looks back over a completed reporting year
- the **AOSS** describes the system in place at the date on which it is published

4.3 In many cases, where systems are well established and do not change frequently, this will make very little difference. But where systems are still evolving or, for example, where a governance statement reports on a weakness or a gap in the system, the AOSS might contain new information about changes which have been made to address this. Also, where new parts of the system (such as new arm's length relationships, or machinery of government transfers) take effect from the start of a new financial year, they will be included in the AOSS but not appear in the governance statement until the following year.

4.4 Because it relates closely to the governance statement, the AOSS should be published alongside the department's Annual Report & Accounts – normally on GOV.UK or the department's own website. It should be easy to find by those who are seeking it among the department's other corporate publications.

4.5 Parliament also has an interest in these accountability systems. The AOSS is not to be produced as a formal parliamentary document but, as with the Annual Report & Accounts, a copy should be placed in the Libraries of both the House of Commons and the House of Lords when it is published on the website.

Guidance on financial reporting and accountability

Managing Public Money

4.6 The Treasury's guidance document *Managing Public Money* sets out the main principles for dealing with resources in UK public sector organisations. Its key themes are the fiduciary duties of those handling public resources to work to high standards of probity; and the need for the public sector to work in harmony with Parliament:

- www.gov.uk/government/publications/managing-public-money

4.7 Chapter 3 of *Managing Public Money* sets out the personal responsibilities of an Accounting Officer, including the requirement to sign a governance statement alongside an annual report and accounts.

4.8 Annex 3.1 of *Managing Public Money* gives guidance on the content of the governance statement, including the requirement for it to be backed up by a System Statement in some circumstances. Annex 3.1 will be updated to reflect this new guidance on the AOSS.

The Financial Reporting Manual

4.9 The government *Financial Reporting Manual* (FReM) is the technical accounting guide for the preparation of financial statements:

- www.gov.uk/government/collections/government-financial-reporting-manual-frem

4.10 It includes the requirement for the annual report to include a *corporate governance report* which contains:

- the directors' report
- the statement of Accounting Officer's responsibilities
- the governance statement

Budgeting and Supply Estimates

4.11 The Treasury is also responsible for the design of the budgeting system for central government departments. It sets this out in the *Consolidated Budgeting Guidance*. This explains to departments how different types of financial transaction should be treated within their budgeting systems.

4.12 Supply Estimates are at the heart of public spending control. It is through the Estimates that government seeks Parliament's authority for its spending plans and without such authority comparatively little public expenditure could take place. Accounting Officers are ultimately responsible for the content of their Estimates.

4.13 The *Supply Estimates guidance manual* includes the requirement for each Estimate to include a note setting out the details of who in the department is accountable to Parliament for the Estimate. In many cases a single, principal, Accounting Officer is responsible for all spending set out in the Estimate. Where additional Accounting Officers have been appointed for specific sections (Estimate Lines) of spending within the Estimate, or for separate arm's length bodies, they must also be included in this note. The Principal Accounting Officer remains responsible for the Estimate as a whole:

- www.gov.uk/government/publications/supply-estimates-guidance-manual

Background information on the accountability system

The National Audit Office and the Public Accounts Committee

4.14 In 2015 the National Audit Office conducted its fieldwork for a landscape review into *Accountability to Parliament for taxpayers' money*. The National Audit Office proposed four 'essentials of accountability' which it considered necessary for any system of accountability, and which should apply both to the accountability between Accounting Officers and Parliament, and throughout the system for spending taxpayers' money. The report was published in February 2016:

- www.nao.org.uk/report/accountability-to-parliament-for-taxpayers-money

4.15 The Public Accounts Committee took evidence on this report from the Cabinet Secretary the Permanent Secretary to the Treasury, and the Chief Executive of the Civil Service, and reported in May 2016, recommending that all departments should prepare system statements covering all of the accountability relationships and processes within that department, making clear who is accountable for what at all levels of the system from the Accounting Officer down:

- www.parliament.uk/business/committees/committees-a-z/commons-select/public-accounts-committee/inquiries/parliament-2015/accountability-taxpayers-money-15-16

4.16 In its response in November 2016, the government agreed that Principal Accounting Officers of the main central government departments should provide a statement of their accountability systems, covering all of the relevant accountability relationships within the department, including relationships with arm's length bodies and third party delivery partners. It also agreed that these should include an expectation that departments will identify how accountability systems align with the financial data set out in their Annual Report and Accounts, and the performance indicators set out in Single Departmental Plans:

- www.gov.uk/government/publications/treasury-minutes-november-2016

Previous reports on the accountability system

4.17 Accountability system statements were first recommended by Sir Bob Kerslake, then Permanent Secretary for the Department for Communities and Local Government, in his report *Accountability: Adapting to decentralisation* in September 2011. These system statements were to set out the system to be used for each major decentralised funding stream, through which Accounting Officers would provide the necessary assurances to Parliament:

- www.gov.uk/government/publications/accountability-adapting-to-decentralisation--2

4.18 Prior to that, in February 2000, Lord Sharman was appointed by the then Chief Secretary to the Treasury to conduct an independent review to examine the arrangements for accountability and audit in central government in the 21st century. He published his report, *Holding to Account: The Review of Audit and Accountability for Central Government*, in February 2001:

4.19 In its response in March 2002, the government welcomed Lord Sharman's findings and agreed with his observations on the accountability system.

- www.public-audit-forum.org.uk/publications

Contacts and further information

HM Treasury

4.20 Departments should also discuss their AOSS with their Treasury Spending Team. Treasury approval should be sought before publication of an AOSS.

4.21 The Treasury Officer of Accounts (TOA) team in HM Treasury is responsible for the production of this guidance. Please contact the Treasury for further information about this guidance, or assistance on the application of the guidance in specific cases.

Cabinet Office

4.22 The grants function in the Cabinet Office aims to address the strategic and operational risks present in government grants administration leading to increased efficiency and effectiveness and reduced losses from fraud and error. The focus is on improving grants data through the *Government Grants Information System*, setting minimum standards to improve quality, consistency and increase value for money and professionalism in grant making through quality training:

- www.gov.uk/government/publications/grants-standards

Contact: grantsefficiency@cabinetoffice.gov.uk

4.23 The Cabinet Office *Public Bodies Reform Team* is responsible for promoting good governance and accountability for arm's length bodies. As part of this, it has produced a set of principles and standards to help departments and arm's length bodies to establish effective working relationships:

- www.gov.uk/government/publications/partnerships-with-arms-length-bodies-code-of-good-practice

Contact: publicbodiesreform@cabinetoffice.gov.uk

A System diagram template

The AOSS should include a simple diagram which aims to encompass all parts of the accountability system covered by the statement. This annex provides a template to help those developing an AOSS to consider what to include.

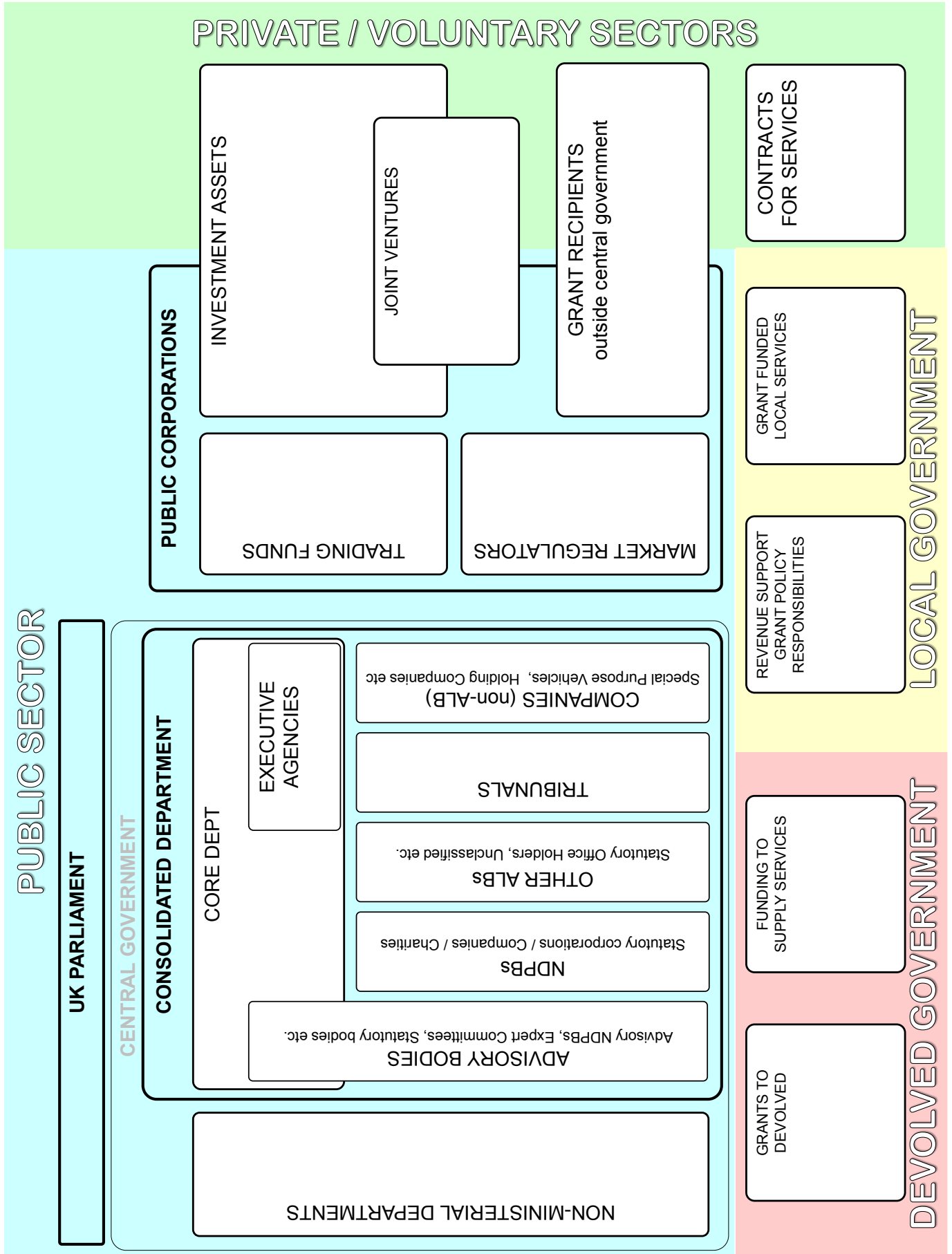
A.1 The template below is intended to be a working aid which indicates areas which should be included in the system diagram. Many departments will not need to include all of the different elements in this template; others will have bespoke additional relationships to include; some will have more emphasis on one type of relationship than others.

A.2 Departments should use this as a guide to working out what kind of a diagram might best be used to represent their particular system clearly. There is no need to show empty boxes for categories of ALBs or funding relationships which do not apply.

A.3 The diagram could also include the value of budgets within the system and summary of policy deliverables, if this can be done without reducing clarity.

A.4 Final presentation of the diagram in the published AOSS need not follow this template. Departments should choose a way of presenting the diagram which best suits their individual accountability systems.

Figure A.1: Template for System Statement diagrams



HM Treasury contacts

This document can be downloaded from
www.gov.uk

If you require this information in an alternative
format or have general enquiries about
HM Treasury and its work, contact:

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