



Department
for Environment
Food & Rural Affairs

Accountability Systems Statement

September 2016



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1. Introduction

1.1 The Defra Secretary of State has overall responsibility for the Department. The Secretary of State is supported by junior Ministers from the House of Commons and a Lords Minister. Each member of the Ministerial team has specific roles and responsibilities within the Department and they are directly accountable to both Houses on all aspects of Defra policy and delivery decisions.

Principal Accounting Officer's statement

1.2 As Permanent Secretary, I am appointed by HM Treasury as the Principal Accounting Officer for the Department with responsibility for all funding covered by the Defra Estimate approved by Parliament. I also receive, directly from HM Treasury, a set of delegated spending authorities which specify the circumstances when I must seek separate additional Treasury approval to commit resources.

1.3 As Principal Accounting Officer (PAO) for Defra, I am accountable:

- to Parliament for the proper stewardship of the resources allocated to the Department. Key responsibilities are set out in the HM Treasury Guidance Managing Public Money, particularly Chapter 3;
- to HM Treasury for ensuring that Defra spends its resources in a manner which ensures regularity, propriety and value for money; and
- for the system of governance and reporting through which the Department operates. Should it fail to provide the necessary assurances, I would make the appropriate recommendations for change.

This document summarises the systems I have in place to assure HM Treasury (HMT) that I can provide this accountability.

1.4 A significant percentage of Defra's Exchequer funding is distributed to its Executive Agencies, Non-Departmental Public Bodies (NDPBs) and Non-Ministerial Departments. These are Defra's Delivery Bodies, known collectively with core Defra as the Defra group. The Defra group also includes a number of mostly self-financing bodies.

1.5 Delivery Bodies within the Defra group have their own systems of accountability which specify how each individual Accounting Officer oversees the use of their organisation's resources. The Rural Payments Agency Chief Executive Officer is responsible for the Single Payment Scheme funding which Defra currently receives from the European Union.

1.6 Defra group accountability is provided through a clear, evidence-based business planning process, supported by governance, monitoring, audit and assurance and risk processes.

1.7 Defra Directors and Accounting Officers of Defra Delivery Bodies have the delegated authority to commit resources within predefined limits, together with the responsibility for proper stewardship of these resources and compliance with the requirements of HM Treasury's *Managing Public Money*. Accountability is formalised through Delegated Authority Documents (DADs) at the start of the financial year. Directors are accountable to the Permanent Secretary for ensuring that they deliver their priorities within these delegations.

1.7 The Permanent Secretary confirms the appointment of the Chief Executive Officers (CEOs) of the Department's Delivery Bodies as the Accounting Officers for these bodies.

1.8 The Defra [strategy](#) sets out the group's vision and objectives. In alignment with the strategy, the [Defra group business plan](#) sets out the priorities, success measures and resource allocations to deliver the strategic objectives. It is in turn supported by action plans for each of the policy clusters and delivery bodies. Directors and CEOs report on delivery of their action plans through the performance reporting framework, and report on maintaining forecasted financial positions within budget limits. Where relevant, they are responsible for ensuring that their activities have been through an Internal Assurance process and/or Government Major Projects Portfolio Gateway process.

1.9 Management Information on the progress against Defra group business plans is collated quarterly, and is being further developed to identify significant group risks or issues, and setting out performance against budget forecasts.

Audit

1.10 Delivery Body Audit and Risk Committees advise the Delivery Body Management Boards on governance, control and risk management for most bodies. A representative of the Defra internal audit function regularly attends ARC meetings for those bodies with more significant budget share and associated risk. Their attendance informs assurance to Defra's PAO and the group Chief Financial Officer (CFO) and ensures that central assurance needs from the network bodies are considered.

1.11 Defra's Internal Audit and Assurance team undertakes a programme of risk-based internal audits and advisory work to provide assurance to the Permanent Secretary as PAO, the Defra group ARC and the Board on the overall adequacy and effectiveness of the Department's framework of governance, risk management and control. The Defra group ARC is chaired by a Defra Board Non-Executive and the members are Non-Executive ARC Chairs of key group bodies.

1.12 External Audit is provided by the National Audit Office (NAO) which is responsible on behalf of Parliament for holding Defra to account for the way it uses public money, thereby safeguarding the interests of taxpayers. This is achieved through the independent audit of Defra's annual financial statements on behalf of Parliament and through its programme of value for money reviews.

1.13 The Defra Governance Statement in Defra's Annual Report and Accounts evaluates the effectiveness of the Department's governance arrangements, risk management, and the system of internal control throughout the relevant financial year. In deciding the specific issues to cite in the Governance Statement, advice is provided by colleagues

within the Department leading significant projects, supported by the information within Director Assurance Statements (self-assessments carried out by each Director). The Head of Internal Audit's Annual Opinion also informs the governance statement. The statement reflects upon significant issues that affect the Defra group, recognising that Defra's Agencies and NDPBs also publish their own governance statements which evaluate in more detail the effectiveness of their governance, risk management and internal controls.

Risk

1.14 A central strategic risk register is maintained and updated regularly. The risk register is being developed to present a better evaluation of the cross-group strategic risks, ensuring these are escalated appropriately.

2. Defra's Delivery Bodies

2.1 The delivery of Defra's policies is largely delegated to the Delivery Bodies and other public bodies, and through working with local government, the voluntary sector and other organisations. Framework documents contain more specific detail of the accountability of individual bodies. A number of bodies have framework documents in place whilst others are working on draft framework agreements with Financial Memoranda and Management Statements still in place. Internal schemes of delegation have been made in accordance with the draft frameworks and agreed annually with Treasury. Although not all the framework documents have been finalised, there is effective and clear governance in place. In addition, Defra has recognised that for all of its bodies, governance documents, including framework documents, will need revision following the transformation programme which is integrating its ALBs in its decision-making. For bodies that do not have a current framework document in place, Defra has undertaken to have framework documents written and sent to HMT by the end of 2016. Systematic reviews of framework documents already in place will be carried out to keep them current.

Executive Agencies

2.2 Defra's Executive Agencies operate within a framework of direct accountability to the Department and to Ministers who remain accountable for their overall performance. They are part of the Department; the Chief Executive Officer (CEO) is appointed as the Accounting Officer for each agency.

2.3 Defra's four Executive Agencies are:

- **Animal and Plant Health Agency (APHA):** APHA was launched on 1 October 2014. It merged the former Animal Health and Veterinary Laboratories Agency (AHVLA) with the parts of the former Food and Environment Research Agency (Fera) responsible for plant and bee health to create a single agency responsible for animal, plant and bee health.
- **Centre for Environment, Fisheries and Aquaculture Science (Cefas):** Cefas is a world leader in marine science and technology, providing innovative solutions for the aquatic environment, biodiversity and food security. It provides the UK's most

diverse centre for applied marine and freshwater science and research, covering an unrivalled breadth of specialist areas to provide a fully integrated, multi-disciplinary approach to all its customers' needs.

- **Rural Payments Agency (RPA):** The RPA is the paying agency for the EU's Common Agricultural Policy (CAP) schemes in England. It makes payments to farmers, traders and land owners. It also makes payments on behalf of Natural England, and manages over 40 schemes to help ensure a healthy rural economy and strong rural communities.
- **The Veterinary Medicines Directorate (VMD):** VMD's role is to protect public health, animal health and the environment and promote animal welfare by assuring the safety, quality and effectiveness of veterinary medicines.

2.4 The DG Chief Operating Officer (DGCOO) acts as the Corporate Owner in relation to all of the Executive Agencies, providing line management for the Chief Executives (with the exception of the CEO of Rural Payments Agency for whom the Permanent Secretary has line management responsibility). The DGCOO holds CEOs to account for performance measured against targets and agency internal processes, and takes a longer term strategic view of the agencies' interaction with the core Department. Executive Agency CEOs are members of Defra's senior governance bodies (comprising the Executive Committee and its sub-committees).

2.5 Each agency has a management board, which may be chaired by either the agency CEO or lead NED and includes other NEDs and the agency senior team. A senior Defra official is also a member of each Executive Agency's management board, bringing an understanding of Defra and wider government policy to the agency.

Non-Departmental Public Bodies (NDPBs)

2.6 Defra has two types of NDPB - **Executive** and **Advisory** - and the governance for each one reflects the nature, responsibilities and risks of that body.

Executive NDPBs

2.7 Defra's Executive NDPBs are *Natural England, Environment Agency, Marine Management Organisation, Royal Botanical Gardens Kew, Joint Nature Conservation Committee, Consumer Council for Water, the Agriculture and Horticulture Development Board and Sea Fish Industry Authority*¹. They are created through legislation, which specifies their purpose and functions, what powers are invested in them, and how they should be financed. NDPB Accounting Officers' responsibilities include providing a signed governance statement in the entity's Annual Report & Accounts, reporting on the operation and effectiveness of its governance arrangements throughout the financial year.

2.8 Each NDPB has its own independent Board, Chairman and Executive Management Team, with the Chief Executive Officer (CEO) designated as the Accounting Officer for that organisation.

¹ The *Committee and Consumer Council for Water, the Agriculture and Horticulture Development Board and Sea Fish Industry Authority* are levy funded bodies.

2.9 NDPBs operate with statutory independence and are not under day-to-day ministerial control. Nevertheless, Ministers are ultimately accountable to Parliament for NDPBs' efficiency and effectiveness. The Secretary of State appoints the Chair and Board Members and they are directly responsible to the Secretary of State; the NDPB's Board appoints the Chief Executive, in agreement with the Secretary of State; and the Principal Accounting Officer confirms the Chief Executive as the NDPB Accounting Officer. For larger bodies, the Secretary of State holds performance reviews with the Chair to consider progress against the organisation's Corporate Plan and Defra's ministerial priorities.

2.10 A Delegated Authority letter from the Principal Accounting Officer to the Chief Executive confirms the Chief Executive's delegated budget and responsibilities as Accounting Officer for that organisation and for ensuring delivery of their action plan.

2.11 Ministers agree funding and key objectives for each NDPB and hold them to account. The Chief Executive is responsible for establishing appropriate governance, control and risk management measures in their organisation.

2.12 A designated Defra Policy Director acts as the strategic relationship lead for each NDPB. Strategic relationship managers, with support from policy teams where appropriate, are in day-to-day contact with delivery counterparts in the NDPB and help to ensure that business plan targets deliver agreed policy outcomes. CEOs of the larger NDPBs are members of Defra's senior governance bodies (comprising the Executive Committee and its sub-committees).

2.13 The NDPB Board and Accounting Officer receive advice on governance, control and risk management from their Audit and Risk Committees, advisory committees comprised of Non-Executives. The minutes of the NDPB Audit and Risk Committee are shared with Defra. NDPB ARC Chairs meet periodically with the Defra ARC Chair, individually and as a group.

Advisory NDPBs

2.14 Defra's **Advisory NDPBs** are the *Advisory Committee on Releases to the Environment*, *Independent Agricultural Appeals Panel*, *Science Advisory Council* and *Veterinary Products Committee*. Advisory NDPBs receive minimal or no funds from Defra, usually limited to the fees and expenses of the members. Governance arrangements reflect this via a risk-based approach. Some have a Board and Framework Document (Advisory Committee on Releases to the Environment); some are accountable through other bodies (e.g. Independent Agricultural Appeals Panel via the Chief Executive of the Rural Payments Agency).

Non-Ministerial Departments and Public Corporations

2.15 The *Forestry Commission* is a Non-Ministerial Department included in Defra's Estimate and falling inside the Departmental accounting boundary. Defra ministers also have lead policy responsibility for the *Covent Garden Market Authority* (a Public Corporation) and *Ofwat* – the Water Services Regulation Authority (a Non-Ministerial Department) both of which fall outside the accounting boundary.

2.16 The Forestry Commission is a non-Ministerial department which has a Royal Charter. It is the body through which the Forestry Commissioners discharge their forestry functions. The Commissioners and their functions are derived from statute, principally the Forestry Act 1967. Defra's Secretary of State is responsible for recommending who should be appointed (by Royal Warrant) as Chair of the Board of Forestry Commissioners. The Forestry Commission Director England is the Accounting Officer for the funding provided through Defra.

2.17 The Covent Garden Market Authority (CGMA) is a public corporation, responsible for the stewardship of CGMA's funds and management of its assets. The CGMA Chief Executive is appointed by the CGMA Chair and Board in conjunction with the Secretary of State, who appoints the CGMA Chair and Board members. Defra's Principal Accounting Officer confirms the Chief Executive as the Authority's Accounting Officer. The CGMA's Accounting Officer is responsible for ensuring that systems are in place to monitor CGMA's activities, its financial management and decision-making procedures, so that they meet high standards of corporate governance at all times.

2.18 As a Non-Ministerial Department outside the Department's accounting boundary, Ofwat is directly accountable to Parliament for its financial expenditure and must report to Parliament on an annual basis through its Annual Report and Accounts which are laid by HM Treasury. Ofwat's Accounting Officer and the Ofwat Board have responsibility for maintaining corporate governance that supports the achievement of Ofwat's policies, aims and objectives, while safeguarding the public funds and departmental assets. The Accounting Officer is accountable to the Chairman and Board for all aspects of Ofwat's work. Ofwat's duties are laid down by legislation, in particular the Water Industry Act 1991 and the Water Act 2003.

Other Bodies

2.19 Defra allocates funds and grants to other bodies, for example to voluntary organisations, private companies and charities. Defra aims to ensure that a contract, grant funding agreement, Memorandum of Understanding or a Service Level Agreement is in place to ensure that such funds are controlled effectively and services are delivered. The following paragraphs set out the arrangements for key delivery partners in the private, public and voluntary sectors.

2.20 From 31 March 2015, *Fera* ceased to be a government agency and the majority of its functions transferred to a joint-venture company with Defra and Capita as partners. A 10 year Framework Agreement for provision of scientific services to Defra and other parts of government has been established. Defra is a minority shareholder in the company with two nominated Directors on the board.

2.21 WRAP (*Waste and Resources Action Programme*) is a not-for-profit company limited by guarantee, subject to the provisions of the Companies Act and audited within the provisions of that Act. It has an annual Grant Agreement with Defra, setting out the conditions on how the funding can be used. A detailed programme of delivery is agreed annually between Defra and WRAP, with performance against these deliverables monitored on a quarterly basis. WRAP operates according to the principles of Corporate Governance as set out in the Combined Code on Corporate Governance. WRAP has an Audit Committee that considers the integrity of financial statements, the internal financial

controls and risk management systems. The Committee reports to the WRAP Board, which has a Defra representative as a Non-Executive Director. WRAP delivers some of its work through third parties. For larger areas of work, contracts are awarded according to EU procurement rules.

2.22 National Park Authorities (NPAs) are established by orders under the 1995 Environment Act. Their purposes, powers and constitution are set out in legislation. They are not local authorities, although they are treated as such for certain purposes, particularly their role as planning authority for their area. They are independent bodies to which many of the statutory requirements that apply to local government are applied, including for the conduct of meetings and decision making, and for the external audit and publishing of accounts. Each authority has a five year National Park Management Plan which sets out strategic objectives for the Park. They publish an Annual Report on their performance. NPAs receive the majority of their income in the form of Grant-in-aid from Defra. All parks authorities are subject to the audit requirements set out under the Audit Commission Act 1998 and under The Accounts and Audit Regulations 2015, as Category 1 authorities, they are required to commission and publish audited annual accounts.

2.23 The Broads Authority was established by specific legislation, the Norfolk and Suffolk Broads Act 1988. Its purposes, powers and constitution are set out in this and the Broads Authority Act 2009. It is not a National Park Authority, but is treated in the same way. It is not a local authority but is the planning authority for the Broads and is an independent body to which the statutory requirements that apply to local government are applied. The Authority has a five year Management Plan which sets out strategic objectives for the Broads. They publish an Annual Report on their performance. The Authority receives most of its income via Grant-in-aid from Defra and tolls paid by users of the Broads. As a relevant authority under The Accounts and Audit Regulations 2015 they are required to commission and publish audited annual accounts.

2.24 Area of Outstanding Natural Beauty (AONB) Conservation Boards. Section 86 of the Countryside and Rights of Way Act 2000 allows the Secretary of State to create a Conservation Board for an AONB by means of an Establishment Order. A Conservation Board is considered to be of most potential benefit to the larger AONBs whose area crosses a number of administrative boundaries. Conservation Boards assume responsibility for the preparation and publication of the AONB Management Plan setting out their policies for the management of the area. They are independent bodies to which many of the statutory requirements that apply to local government are applied, including for the conduct of meetings and decision making. They differ from National Park Authorities in having no statutory local planning function. The Boards receive most of their income via Grant-in-aid from Defra, match-funded by constituent local authorities. They publish an annual Statement of Accounts, audited as appropriate to their size and turnover.

2.25 Internal Drainage Boards (IDBs) are locally funded and independent statutory public bodies, responsible for water level management in areas of special drainage need. They operate predominantly under the Land Drainage Act 1991 and have permissive powers to undertake work within their districts. They are funded largely by a mixture of drainage rates paid by farmers and by special levies on unitary and district local authorities. IDBs do not receive funding from Defra although they may apply for Grant-in-Aid funding for specific flood risk management schemes through the partnership funding process. The Land Drainage Act 1991 requires IDBs to report annually on financial expenditure and other issues such as asset management and biodiversity action plans. The reports are

submitted to Defra and information is shared with the Department for Communities and Local Government (DCLG). The Environment Agency has a supervisory duty in relation to flood/water operations for IDBs. The Association of Drainage Authorities (ADA), supported by Defra, has been taking action to share best practice and improve governance and accountability improvements across all IDBs in England. Information on ADA can be found online at <http://www.ada.org.uk/>.

3. The Distribution of Funding

3.1 Defra's annual funding is agreed by Parliament. The Permanent Secretary is accountable for ensuring the established control totals are not breached. In addition the department administers the payment of EU CAP funding and charges for some services in accordance with Treasury fees and charges legislation.

3.2 There are separate control totals for Resource and Capital Departmental Expenditure limits (RDEL and CDEL). Additional controls exist on some budgets that are ring-fenced for specific purposes, on income and on Annually Managed Expenditure. On an annual basis, HMT issues the Main Estimate, providing the annual breakdown of the Department's overall funding settlement. There is an opportunity to redistribute funds between control totals once a year through the Supplementary Estimate process, if agreed by HMT. Beyond this, it is the Permanent Secretary's responsibility as Principal Accounting Officer for the Department to delegate the authority to commit these resources, together with the responsibility for proper stewardship of these resources and compliance with the requirements of *Managing Public Money*.

3.3 There are different processes in place for Resource and Capital allocations. Ministers determine the allocation in accordance with the Department's funding settlement from HMT and to reflect Government priorities.

Resource and Capital budgets - Core Department

3.4 Prioritisation for allocation of resource is decided by Ministers and supported by the Board and the Executive Committee (ExCo).

3.5 Within the core department authority is delegated to Directors to commit the Resource allocation of the Main Estimate (which includes Administration budgets), together with the responsibility for proper stewardship of these resources and compliance with the requirements of *Managing Public Money*. Accountability is formalised through Delegated Authority Documents (DADs). Separate budget delegations are made to the delivery bodies.

3.6 Directors' action plans align allocations of resources to reflect the prioritised outcomes of the Department, as agreed with the Secretary of State.

Resource and capital Budgets – Delivery

3.7 The Permanent Secretary confirms the appointments of the Accounting Officers of Defra's Executive Agencies and NDPBs. Each Delivery Body Accounting Officer receives

a DAD delegating budgets and authority to commit resources and outlining expectations and areas of responsibility and accountability.

3.8 From 2016/17, Executive Agencies and NDPBs have their budgets delegated directly to them rather than intermediated via Defra Directors.

Local Authority Funding and Accountability

3.9 For local authority services in which Defra has a policy interest, central Government funding is generally provided either through the Revenue Support Grant (from the local government budget) or through specific Defra revenue grants (from the Defra budget). Funds provided through RSG are several orders of magnitude greater than through specific Defra grants (billions versus millions). Defra and the Environment Agency also provide some minor capital grants to local authorities and local authorities fund some services and capital investments of policy interest to Defra from council tax or other receipts. The Department of Communities & Local Government's Accounting Officer, as lead Accounting Officer across central government with respect to local government, provides the assurance that a core framework is in place that requires local authorities to act with regularity, propriety and value for money in the use of all of these resources.

3.10 Within this framework, local authorities are responsible and accountable for the legal use of funds, and every local authority has a responsibility to make arrangements for the proper administration of their financial affairs and to ensure that one of their officers is accountable for the administration of those affairs. A system of legal duties requires councillors to spend money with regularity and propriety. Local authorities are required to have an annual external audit, and the certification of authorities' annual accounts by the auditor provides general assurance that the totality of their expenditure is within their legal powers. Local authority auditors also assess whether authorities have used their resources effectively as part of their annual audit of accounts.

3.11 As well as the accountability provided through this framework, specific Defra grants, for example for flood prevention are often provided in recognition of a statutory obligation on local authorities to perform a function or provide a service. Other Defra grants may be made to address a specific need e.g. reimbursing expenditure in areas where it is difficult to forecast or piloting new approaches or policies. In such cases, value for money is scrutinised in the relevant approvals process and outcomes are specified explicitly in the agreement and claim processes. These arrangements are established in a way that allows local authorities the flexibility to respond to local priorities, pursue balanced outcomes and choose their own methods of achieving desired outcomes, whilst taking into account Defra's policy intentions.

Underperformance and Failure

3.12 Defra has a clear line of accountability, giving Directors and CEOs responsibility and holding them to account for performance. Action plans provide the baseline against which performance is assessed.

3.13 The outturn forecasting process has been improved to ensure timely and robust reporting of under-spends and cost pressures. Forecasts are analysed and reported monthly to ExCo. Quarterly Reviews led by the Chief Finance Officer are a key control recognised by the NAO. They provide the opportunity for scrutiny and challenge of

financial forecasts, informing an agreed Defra group forecast position and recommendations to ExCo for intervention as necessary to protect the Department's budgetary control totals. These reviews are an important part of the system that enables Defra to make effective strategic funding decisions.