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Agency

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Doug Chalmers CB DSO OBE

Chair, Committee on Standards in Public Life

sent by email to: [REDACTED]

Dear Doug,

Review of accountability within public bodies – acting on early warning signs

Thank you for the opportunity to provide evidence to your review of accountability within public bodies. At the session on 24 May I undertook to write to the Committee with some positive examples the Government Internal Audit Agency has seen of organisations identifying early warning signs of failure, particularly through the effective use of data. When we met, the focus of our discussion was around three areas: (i) the value of robust and accurate data in identifying early warning signs within organisations; (ii) the future potential of Artificial Intelligence (AI) in providing assurance at greater speed and scale; and (iii) the importance of engendering an organisational culture that enables concerns to be brought to the surface more quickly. I thought it would be helpful to follow up on these points by providing a little more detail based on what we are identifying through our internal audit work across government, which might be of use to the Committee as it considers the evidence from its public consultation.

The value of accurate and robust data

It is difficult to underestimate the importance of organisations having access to and using robust and timely data. In a recent cross-government study of data management, GIAA identified a relatively immature approach within departments and have identified only limited examples of predictive data being used effectively. This perhaps contrasts with the private sector where there is typically a financial incentive to holding and using good data, whether that be information on competitors pricing, customer behaviour or supply chain costs for example. Data in this context holds a much greater intrinsic value to shareholders and is typically central to the profit-making capability of an organisation.

Within the public sector, the value of data is often recognised more within high-risk sectors where poor data or its misinterpretation could have life-or-death implications. A notable example was the

use of predictive data during the Covid pandemic to inform contingency planning and the vaccine roll-out. There are other examples though, particularly in the regulatory sector (for example the regulation of healthcare and aviation), where data is used to target regulatory effort at areas of highest risk and minimise the regulatory burden where the risks are lower. We also see more mature use of data in defensive scenarios, for example in relation to organised crime threats. However, until the basics elements of data management are more mature consistently across government, the opportunities for wider intelligent use of data in public sector organisations, or in relation to initiatives that cross organisational boundaries, will continue to be limited.

The future potential of AI

We also discussed the use of AI in providing third-line assurance for organisations. As I explained to the Committee, this is something GIAA has already started to do. Our Insights Engine allows us to quickly undertake sentiment analysis of a specific area of our work to identify themes of good as well as poor practice that can then be shared more widely across our customer base and prompt areas for further investigation. We are also at the early stages of using AI as part of a concept of continuous auditing that involves real time checking of data against defined criteria. Within this context, it would be possible to train AI to detect a drift towards alert thresholds and the reporting of early warning signs. GIAA is starting to make available its AI tools to other parts of government so that they can also be applied within the first and second lines of assurance.

Our design philosophy for the Insights Engine, and all our AI tools, is that we always have a human in the loop. This means that the AI output becomes an input into the analysis of a trained human. It also means the output does not have to be perfect, because it will be interpreted by real (not artificial) intelligence, leaving scope for the tool and its outputs to be used faster and more freely. In this way accountability for final outputs (and any decisions) remains with the person who has supervised the review.

Given that it is typically not one big thing that leads to organisational failure, but a series of smaller things occurring in concert, investment in human intelligence continues to be needed to interpret the implications of different indicators veering off track (“joining the dots”). This is particularly the case where confidence in the completeness and accuracy of data is lacking. While AI will help organisations to undertake assurance at greater scale and speed than with a human alone, the effective application of human intelligence continues to be a vital part of the landscape of risk, assurance and controls.

Within three years we expect AI engines to be able to reliably analyse numerical (e.g. financial) data and to create reports that present this analysis in a meaningful way. It will continue to be important to train people to ask the questions (prompt engineering) of the AI. Even where the AI can analyse scenarios taking into account risks, the ultimate decision-making, and therefore accountability

frameworks will need to evolve, alongside appropriate training, to ensure decision-makers have sufficient assurance around the inputs and outputs of any AI tool. Whilst larger and more complex in and AI-enabled world, similar principles exist today in the way in which government relies on the integrity of financial models (e.g. actuarial models, operational service demand models, and budgeting tools).

The importance of organisational culture

I also wanted to say something about the important role an organisation's culture can play in its ability to identify emerging warning signs, and then for individuals to ask the necessary follow up questions that may prevent serious failure. Much of this relates to the management of risk and its tendency to focus on mitigations that will prevent risks from materialising. This approach can mean corrective action comes too late when things do go wrong. If there was a clearer acceptance at the outset that a major project or initiative is likely to experience setbacks, those responsible would be better equipped to manage the setbacks and ensure the original intended benefits do not become lost. We often see customers continue with a project or initiative after initial assumptions have changed (e.g. spiralling costs being mitigated by project scope reductions) without properly determining whether the intended benefits remain sufficiently achievable, or whether they could be better achieved in a different way. Again, a good example of where we see organisations responding more effectively to changing circumstances, is in the area of fraud and cyber crime – where the need to keep up with external actors is imperative to the successful mitigation of those threats.

As a final point, one of our ambitions at GIAA is to try and encourage more of our customers to interact with us as strong and informed customers, actively seeking assurance on the ways in which they are managing their strategic risks as well asking us for assurance that they are getting the basics right in relation to internal control. Failure to do so can often be attributed to an organisation's lack of understanding of what their internal audit team is there for and can offer. That inconsistency in understanding can extend right up to Accounting Officers where the role of internal audit in providing them with assurance over their responsibilities is not always fully understood. GIAA is working closely with its customers to try and promote the value of our services and we would welcome the support of the Committee in this endeavour. For example, this could include reminding Accounting Officers of the role internal audit can play in supporting them to discharge their accountabilities. This is increasingly important as we enter a period of increased efficiency requirements across government – the scale of the fiscal challenge is such that significant transformation, rather than piecemeal change, will be required. A balance of bold decision-making supported by robust risk analysis (including 'do nothing' scenarios and the consideration of potential unintended consequences for other teams/departments), and continued refreshing of underpinning

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assumptions, will be required. Internal Audit can help to provide assurance in these areas, but only if we are brought into the conversation.

I hope this letter is of use to the Committee as you start to bring together your findings – this is an important and timely review. Please do not hesitate to let me know if GIAA can be of any further assistance.

Yours sincerely,

A handwritten signature in black ink that reads "Harriet Aldridge". The signature is written in a cursive, slightly slanted style.

Harriet Aldridge

Chief Executive

Head of the Government Internal Audit Function