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Dear Accounting Officer

Corporate governance: reporting

This letter offers guidance on how departments and non-departmental public bodies (NDPBs) could report on their corporate governance. This amplifies DAO(GEN)09/05, which announced the *Code of Good Practice on Corporate Governance in Central Government Departments*. This guidance is explanatory not mandatory.

Contact

2. Please contact Arni Narain on 020 7270 5361 or at arni.narain@hm-treasury.x.gsi.gov.uk if you have any queries about the advice in this letter.

Requirements of the Code

3. Like the *Combined Code* for listed companies, the *Code of Good Practice on Corporate Governance in Central Government Departments* (www.hm-treasury.gov.uk/documents/financial_management/governance_government/pss_audit_corporategovernance.cfm) contains both definite requirements and advice on good practice. For the latter areas of corporate activity, the approach is “comply or explain.” That is, departments should either follow the approach recommended in the Code or explain why a different approach is preferred.

4. As the preamble to the Code explains, there are only four areas where the Code specifically mandates new areas of reporting for central government departments:

- how the departmental board operates, including its delegations and committees (2.14 of the code);
- which board members the board considers to be independent (para 4.2)
- the work of the board’s audit committee (para 5.3);



- how the department manages its relationships with the arm's length bodies with which it operates, including any NDPBs, public corporations and wholly or largely owned companies (govcos) (para 6.6).

Good practice in governance reporting

5. In addition, it is good practice for departments to publish a coherent account of their arrangements for corporate governance, just as many listed companies do in response to the *Combined Code* which applies to them. Some departments already do this. Such an account could include:

- ministerial delegations (paras 1.1 and 2.6);
- in non-ministerial departments, the identity of the minister(s) who answer for the department in Parliament (para 1.3);
- key aspects of how resources are allocated and performance monitored to achieve department strategies within appropriate frameworks of standards, values, internal controls and risk management (paras 2.1 and 2.2);
- board delegations and arrangements for reporting to it on performance (paras 2.5 and 2.14);
- procedures for board appointments (paras 2.8 and 4.4) and induction (para 4.5);
- arrangements for evaluation of board performance(para 2.13);
- board membership, with any changes through the year, and succession planning (3.6);
- the roles of non-executives on the board (paras 4.6-7).

6. The lists in paragraphs 4 and 5 are not exhaustive. Departments may also find it valuable to consider how listed companies report on their internal performance. While departments do not have shareholders, they too are publicly accountable. So they should aim to provide the constituencies to which they relate with relevant and meaningful information about their activities, processes and operations. Departments could also consider explaining any developments they foresee in their corporate governance, for example picking up some of the ideas in annex A of the Code.

Departments

7. The Code does not specify where or how departments should report on corporate governance. It merely says that the account should be in the material accompanying the department's resource accounts.

8. The Code adopts this permissive approach because:

- most departments already explain their corporate governance and there is no need to disturb arrangements which are already working well; and/or
- some departments may have legal requirements to report some of the material in paras 4 and 5 in specific ways; and/or
- some departments may face operational requirements which make a particular reporting framework desirable.

9. As with listed companies, there are many acceptable ways in which departments could give effective and appropriate summaries of their corporate governance. The choice may depend upon the department's chosen approach and the context of the department's business. It is not essential – though it will usually be desirable – for the department's account of its corporate governance to be in a single place. It may also be helpful to refer to, or summarise, the department's corporate governance arrangements in other publications.

10. Possible locations for departments' material on their corporate governance which will usually be worth considering include:

- the department's resource accounts;
- the departmental report (if separate);
- any other material the department regularly publishes about its activities;
- a purpose built stand alone document.

11. The department's Statement on Internal Control is not an appropriate document in which to place a department's primary report on corporate governance. This is because corporate governance is about more than identifying and controlling business risk – important though this subject is. Rather, corporate governance bears on the way in which the department as a whole is managed, controlled and operates. It therefore merits reporting as a subject in its own right.

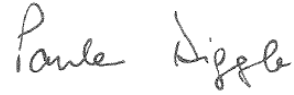
Agencies and NDPBs

12. Formally the Code does not apply to NDPBs. However, the Code does encourage other entities in central government, including agencies and NDPBs, to consider how far its principles might usefully apply to them.

13. Thus it is good practice for agencies and NDPBs to publish accounts of their corporate governance. It is desirable for NDPBs to agree with their sponsor departments how and what they should report about their arrangements for internal management and their relations with the minister(s) to which they

may be responsible. Many NDPBs already do this, especially those constituted as Companies Act companies.

Yours sincerely

A handwritten signature in black ink that reads "Paula Diggle". The signature is written in a cursive style with a large initial 'P'.

Paula Diggle
Treasury Officer of Accounts

