

PROPRIETY AND AUDIT IN THE PUBLIC SECTOR

1 SUMMARY

A paper on Propriety and Audit in the Public Sector, has recently been issued by the Public Audit Forum, a body established in 1998 by the then four national audit agencies: The National Audit Office (NAO), the Northern Ireland Audit Office (NIAO), the Audit Commission for Local Authorities and the National Health Service in England and Wales, and the Accounts Commission for Scotland.

The purpose of this paper is to provide management and auditors with an understanding of *propriety* in the public sector and the implications for its audit. It covers the following issues:

- The concept of propriety, drawing on parliament's expectations;
- Failures of propriety;
- Safeguards against failures of propriety;
- Audit approach to propriety

The definition of propriety is given in the paper as follows --

- *Propriety is concerned with the way in which public business should be conducted. There are a number of different interpretations of this concept. Dictionary definitions refer variously to "appropriateness", "rightness", "correctness in behaviour or morals", "conformity with convention in conduct". In the context of public administration, the Nolan committee has defined propriety as encompassing:*

"not only financial rectitude, but a sense of the values and behaviour appropriate to the public sector"

Similarly, the Public Accounts Committee has used phrases such as "the standards of public conduct" and "care for the honest handling of public money" and "traditional public sector values". Public sector auditors are especially concerned with the financial aspects of propriety, i.e. the proper conduct of affairs that have financial implications. This is embodied in the definition of propriety set out in Government Accounting: "Propriety is the requirement that expenditure and receipts should be dealt with in accordance with Parliament's intentions and the principles of Parliamentary control, including the conventions agreed with Parliament."

Propriety is concerned with standards of conduct, behaviour and, in particular, fairness, integrity and the maintenance of a responsible attitude to public office. The concept of propriety is different, although not unrelated to other concepts of behaviour, both positive and negative. Other relevant concepts, are put forward in the paper, as being related to propriety, as follows:

- i) Accountability
- ii) Regularity, or legality
- iii) Property
- iv) Value for Money
- v) Fraud
- vi) Corruption
- vii) Governance
- viii) Internal Control

Internal Audit has its own part to play in the scrutiny function. Apart from its role as a component in the internal control environment, it can act as a body's own conscience on matters of propriety. The Auditing Practices Board internal audit guideline sets out the importance of internal audit's freedom of access and reporting to all senior management and the board. This provides a crucial mechanism for challenging the actions of senior officers and members. Internal audit's focus on risk and internal controls and detailed knowledge of its client body places it in a powerful position to detect issues of propriety. Close liaison with a body's internal audit is therefore likely to greatly help external auditors undertaking a review of propriety to achieve a thorough understanding of the business.

The Chief Executive has forwarded the paper on propriety to the Director of Corporate and Legal Services for his attention and action as appropriate.

2. RECOMMENDATIONS

- 2.1 The Audit Committee note the publication of the paper and the remit given to the Director of Corporate and Legal Services to recognise and act on as appropriate.
- 2.2 The Audit Committee note that the paper is intended as guidance to public sector managers and to provide clarification on the type of work that auditors of public sector bodies may undertake in the area of propriety.
- 2.3 Internal audit recognise the contribution that they can make in the area of propriety by being aware of the paper and liaising with external audit in any review of propriety carried out by them.

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