Economics & Economy, Vol. 6, No. 11-12 (December, 2017), 161-170

FINANCIAL ACCOUNTABILITY – EXAMPLE AND EXPERIENCE OF UNITED KINGDOM

FINANCIAL ACCOUNTABILITY - EXAMPLE AND EXPERIENCE OF THE UNITED KINGDOM

Ivana Vukčević [1]

JEL Classification: E40; E50
Review
Primljeno / Received: *June* 07, 2018
Prihvaćeno / Accepted: *September 29*, 2018

Abstract
In the last century, the United Kingdom has developed a regular and coherent system of financial accountability, which was primarily based on strengthening financial supervision of consumer departments. Movements in the accountability system have had a significant impact on basic system premises, such as one of the concepts of public money management. The UK Government has undertaken several financial initiatives to undertake public sector reforms. The existence of clear boundaries between issues of legality and regularity of public spending on one side, and value for money on the other side were noticeable.
Ključne riječi: *korporacija, korporacijsko upravljanje, društvena odgovornost, poslovna etika, moral.*

Apstrakt
U prošlom veku, Ujedinjeno Kraljevstvo je razvilo redovan i koherentan sistem finansijske odgovornosti, koji se prvenstveno zasnivao na jačanju finansijskog nadzora nad odeljenjima potrošača. Kretanja u sistemu odgovornosti imala su značajan uticaj na osnovne sistemske prostorije, kao što je jedan od koncepta upravljanja javnim novcem. Vlada Velike Britanije je pokrenula nekoliko finansijskih inicijativa za sprovođenje reformi u javnom sektoru. Primetno je postojanje jasnih granica između pitanja zakonitosti i pravilnosti javne potrošnje s jedne strane i vrijednosti za novac s druge strane.
Key words: corporation, corporate governance, social responsibility, business ethics, morale.

1. INTRODUCTION

Financial accountability is understood as a relationship between citizens and the government where citizens control the government that manages public money. An effective and accountable government is a universal requirement and a clear criterion in contemporary European and political systems. Also, social accountability, which in most cases is being investigated in developed countries, should not be

[1] Pavni fakultet, Univerzitet Mediteran

ignored, while in less developed and transitional economies it is not sufficiently explored. As an example of well-founded socially responsible management, countries in Western Europe, the United States of America and Australia can be distinguished.

In many countries, the system and the framework of financial accountability are different, and in the following sections, a system of financial accountability in the UK will be analyzed, which is a good example of providing recommendations for the establishment of a better system and a framework of financial accountability in other European countries.

In order to understand the system of financial accountability in the United Kingdom, Britain's history will be briefly explained in order to clarify certain elements that are significant in the English context.

United Kingdom is parliamentary monarchy with a monarch with ceremonial powers, but there is no written Constitution. Their Parliament consists of two Houses, the House of Commons, and the House of Lords. At the beginning of the XX century, the predominance was taken over by the Hose of Commons, because the House of Lords lost the absolute veto power over the laws passed by the House of Commons. In England, there is a principle of *check and balances* in which each of the three authorities controls the other. The head of the government is the party leader who wins the elections. Creation of the policy and executive power in the UK are in the hands of the government that is in charge of implementing the policy of the government and ministerial councils. Ministers are obliged to submit reports on their work, the manner of conducting the policy and other decisions to the Government.

In the United Kingdom over the last decade, the Government has undertaken several financial initiatives to implement public sector reform. Further reduction of *ex ante* control and increase in accountability of the department, which has doubled due to more strict monitoring of costs and management system by the ministry, is noticeable. Previous management models, bureaucratic models, were based on ethical principles of public administration, as well as market principles. It is necessary to establish a democratic form of management in order to possibly eliminate the rational consequences that are characteristic for the markets. The difference between the private and the state (public) sector is made based on control, and not based on ownership and financing method.

2. PUBLIC SECTOR AND USE OF PUBLIC FUNDS

The public sector of Great Britain experienced some changes while under the governance of Conservatives (1979-1997), when this sector experienced the process of change, from welfare to the model of contract. In order to reduce total public spending, Conservatives embarked on a huge privatization process and increased the provision of public services both privately and voluntarily. It had to create a strong central government in order for Conservatives to achieve their economic goals, so then was created a large number of undemocratic public authorities, which are more commonly known as "quangos" *(Flinders & Smith, 1999).*

European integration, as well as the process of devolution, have made a more complex organization of the UK Government. All of the above mentioned contributed to the complexity of the way in which the public provides services, as well as how it finances them and thus complicates the process of audit and financial accountability. When it comes to the state sector of the United Kingdom, it consists of several sub-sectors such as: the Central Government (consisting of the government sector and its agencies), non-sectoral public authorities and other non-market institutions, local government, and public corporations (market bodies controlled by a central government or local government, include financial and non-financial, state-owned enterprises and trading funds) *(Masterman, 2002).*

Over time, the emergence of multiple accounting frameworks emerged for measuring the consumption of the UK government, which had to be adapted to meet the requirements for rational management of financial assets *(www.gov.uk).*

- *HM Treasury* manages the budget and thus controls public spending
- Due to sector spending, government estimates and approvals are needed
- The overall fiscal position monitoring and following
- Annual financial and state body sector reports

The term "*managing*" refers to certain criteria regarding the spending of public funds, and this primarily refers to their "*regularity*" (in accordance with relevant laws, including EU legislation), "*propriety*" (respect for high standards of public conduct, including strong governance and relevant parliamentary expectations that primarily relate to transparency) and "*probity*" of public funds.

In the United Kingdom, when taking care of revenue and expenditure, the Government must first obtain the approval of the Treasury. Regularity requires the issuance of a license by the Treasury, where there is a principle that any consumption or operation must have the consent of the Treasury, although it has been previously selected by the Government.

Below are some conditions for the use of public funds: *(UK Government Report, 2013)*

- budget cover in the collectively agreed multi-year budgets
- the Government's authorization to pay funds each year through an Assessment, which is later approved as the Supply and Appropriation Act
- appropriate consent of the Treasury
- assurance that the proposed costs are regular and correct
- specific legal authorizations

3. FINANCIAL ACCOUNTABILITY MECHANISMS IN THE UK

The public sector of each state must have well-founded management approaches that correspond to the culture, scope and method of doing business in that country, where decisions must be made in an efficient manner, in accordance with the principles of accountability and transparency.

Mostly, accountability refers to taking over duties and responsibilities for carrying out tasks at a higher ranking, with an emphasis on external control and the possibility of potential sanctions. The principle of accountability is in the hands of the Government or some other body, and then only citizens, when certain experts are involved in the analysis of relevant data and decision-making. In the United Kingdom, there is a certain Corporate Governance Code, which guides the central government *(www.gov.uk).*

The British Parliament, considered to be the executive power, is responsible for managing public money, as well as the creation of other bodies and agencies, whose important role is the implementation of government policy and ministerial advice. Together with its Committees and the state institution, the National Audit Office (NAO) that stands behind the Parliament has the executive power in their hands. In order to properly manage public funds, there must be accountability, which is one of the preconditions. Although high costs can be achieved, due to system functioning and accountability procedures, they are not so important when compared to the benefits that this accountability can achieve.

When preparing the legislation, all sectors must comply with the Treasury; the Treasury must be consulted in the following cases:

- Before submitting proposals for finance legislation, ministers must give their approval
- In the case of provisions relating to financial legislation and the provision of public services
- Afterwards, in the case of any changes relating to the already established financial provisions

In the United Kingdom, the function of an independent auditor of almost all levels of central government is performed by the Comptroller and Auditor General (C & AG) approved by the National Audit Office (NAO).

Despite a strong focus on parliamentary accountability, the UK Financial Accountability Framework relies on strong links between the internal and external Financial Accountability mechanism.

3.1 Internal Financial Accountability

Internal financial accountability implies internal procedures that control the use of financial resources. It includes the following mechanisms: official financial reporting, benefit from budget performance to ensure that all costs are in line with operational and strategic objectives, and regular internal audits in order to control and monitor financial management and their implementation.

The role of *Accounting Officer (AO)* is crucial when it comes to accountability for public money management. Each organization or sector in central government must have an accounting officer, who is usually a senior officer. The Ministry of Finance hires the official who is the longest in a department as an accounting officer who will bear accountability for that department's spending. The obligation of accounting officers is to manage and control the assets used in their organizations *(www.gov.uk).* Accounting officers have a direct, personal and trusted duty towards Parliament in relation to the use of public funds originating from their office. The rights and obligations of an accounting officer are defined and published in an official document and the following are some of the important functions of these officers:

- They have to manage and spend taxpayers' money wisely
- There should be good cooperation with the Comptroller and the Auditor General as well as the National Audit Office during the conduct of the investigation and the *value for money* investigation
- To directly and completely respond to Parliament, and not to ministers, about their rights and current and last year's consumption within the range of their accountability.

It is important that every accounting officer (AO) assumes personal responsibility that the organization with which he manages complies with the legal rules and standards. This officer is in charge of signing the accounts, annual reports and official government reports.

Each accounting officer is obliged to notify his minister that he works for whether there is any discrepancy or problem between obligations and duties of the ministers. The AO must first analyze the goals and the manners of ministers' policies well before he approves them. If there is any problem, the AO is obliged to inform the relevant minister about this, in order to solve the problem.

The main task of the internal audit within the central government is that the AO provides an objective assessment and judgment in the overall adequacy and effectiveness of the risk management and control process. In order to determine which types of risk can occur in organizations and to review all risk-related actions, internal audit is increasingly focusing attention on financial problems and risk management approaches.

The internal audit will deal with how the organization deals with informational risk, which is a key component in the risk management process.

All central government bodies should have access to independent internal audit, to report to the audit committee with their program and performance, to have the right to report to the AO, and to hold private sessions with the chairman of the Audit Committee.[2]

---

2 *Audit and accountability in central government-The Government's response to Lord Sharman's report "Holding to account"*,2002, http://webarchive.nationalarchives.gov.uk

3.2 External financial accountability

Parliament's accountability. Freedom of the country will greatly affect its funding, and this is when the role of the House of Commons in charge of public spending control is highlighted, where there is a "*leverage*", which is more commonly known as "*power of the purse*" *(Combes, 1976).*

In the 17th century, there was competition between kings and parliament, when certain procedural innovations were introduced that improved the parliamentary control of state finances. At the time, the role of the Committee in Parliament, which brought several advantages, increased. The Commune was enabled to appoint a representative, thereby reducing the influence of the *Speaker of the House of Commons*, which was then considered a very important figure. Parliament approves funds funded by the United Kingdom Government, more commonly known as The Crown, its departments and other public sectors.

All departments and public sectors are obliged to explain their spending of public funds to Parliament, and also once a year submit their financial accounts. It is also necessary to obtain the opinion of other institutions, such as the National Audit Office, the Controller and the Auditor General who revise these final accounts. Sometimes, regardless the audit opinion, committees within the Parliament, including the Committee of Public Accounts, may examine departments' and other public organizations' accounts.

Parliament gives authority to the Comptroller and the Auditor General to examine and analyze all expenses of the Department of the Government. The Public Finance Committee is also in charge of checking public money management, whether money is spent efficiently, where it relies on reports made by the Comptroller and the Auditor General.

There are several rights that relate to the accountability of the Government in the UK, and this primarily relates to the following: the priority right to finance through taxation, the right to the approval of total costs and the allocation of public funds costs and the right to control expenditure execution. On a daily level, the government is responsible for considering all policy objectives and ways in which money is spent.

Parliament has played a central role in this system of governance for a long time, as a forum to which the government must account. The two chambers of parliament fulfill their supervisory role through key mechanisms: debates, trials and committees. As this form of supervision is led by politicians, who are mainly members of the Parliament, this means that political control is sensitive to political ideologies and practicalities shaped by the actions of the government, unlike other forms of supervising, which are sometimes criticized for finding worthwhile but politically unfeasible solutions. In order to solve long-term problems, several significant changes have been introduced recently. This refers to the House of Commons that should have more information on the assumptions on which budget decisions are based, as well as turning to accounting and supporting its power to supervise the work of parliamentary committees. Members who are subject to supervision come as democratically elected representatives of taxpayers. This awareness can contribute to the credibility and importance of the process.

Most parliamentary inquiry procedures take place in public. Many committees discuss all the conclusions privately and only occasionally conduct searches behind closed doors, although the steps taken by Parliament are a matter of public opinion.

The mechanisms that are at Parliament monitor's disposal follow trends and strive to keep up with the increasing number and complexity of the tax system and public spending. While there are some notable improvements in the financial control procedure reflected by improving transparency, it remains unclear to what extent Parliament can increase its role in financial supervision.

The most important key player in securing financial accountability is the work of the most prominent board, known as the Committee of Public Accounts, which plays a very important role in monitoring. The primary task is to check whether public money, approved by Parliament, has been spent in accordance with the instructions and purposes of Parliament, including the regularity, correctness and value of money. It is noticeable that Parliament cannot initiate its own spending, cannot spend more than it is allowed within the budget, but it can only reduce costs, however, that is rarely a case.

The key relation of financial accountability was not only established between Parliament and the executive power, but Parliament also transferred responsibility to the Public Finance Committee, which influences the Executive Committee, on behalf of the Parliament, to be responsible for managing public money.

The Committee of Public Accounts._The role of this body that works on behalf of the Parliament, is to be in charge of taking account of finances, overseeing the costs of the Government, and assessing the cost-effectiveness of government departments and organizations in the United Kingdom. This body was selected by the House of Commons. This body plays a key role in ensuring transparency and accountability in the financial operations of the Government.

The original role of this body was to examine the way in which funds allocated to the army and the navy were used. Over time, its responsibilities have been expanded to determine and look at central government consumption with a focus on the regularity of consumption and its scope (*Parliament UK, HM Treasury, 2015*). In recent years, emphasis has been put on assessing the value of public spending by government agencies and other UK departments. After the approval of public funds by the Parliament, the role of this Committee is to determine whether public money is spent in accordance with parliamentary intentions, whether everything is regular and correct.

The composition of the Committee, which does not belong to any party, counts 15 members of the Parliament. The Chairperson at the head of this Committee is elected by the House of Commons, and comes from the largest opposition party. His membership reflects the political balance of the House and the House appoints him. It is considered that this Committee has an impartial attitude in its work, which seeks to provide as objective information as possible. The Committee does not question the rationality or merit of public spending or allocation policy because this task is left to other committees of the selected departments, if they desire so.

With regard to the Committee's hearings, they are held publicly with the presence of the media, although some of these meetings can be held privately when the topics discussed are highly confidential, primarily related to business and security information. The Comptroller and the auditor are present at all hearings, and the Committee may ask questions or contribute to the hearings. The Official of Ministry of Finance also participates as a permanent representative of the government and can also contribute to the hearings.

Although the Public Finance Committee has a reputation as one of the most impressive and most successful parliamentary committees, its role in controlling public expenditure is undoubtedly limited and achievements are not always at an enviable level. When money is spent, it is difficult to track spending or recover money, and therefore there is a problem because the reports are published long after the event has ended.

National Audit Office. National Audit Office (NAO) is an independent and the highest authority for budget and government management control, which is responsible for the audit of all departments of the central government, government agencies and non-competent public authorities.

The role of the National Audit Agency is to examine Parliament's public spending in order to facilitate the improvement of public services. The main tasks of the National Audit Office are to revise the annual financial statements of the Government and its bodies, as well as to provide support to the Comptroller and the Auditor General in value for money. Determining the value of money involves non-financial audits that measure the efficiency and economy of government spending.

It is directly financed by Parliament (and not government) within the annual budget approved by the *Public Accounts Commission* of the House of Commons.

In the United Kingdom, two key competencies are performed by the NAO, which relate to: financial audit and the efficiency and effectiveness of the monetary policy framework. The National Audit Office defines the value for money as *"optimal use of resources for achieving predicted results"*.

It is important to mention that during the year, approximately 60 reports, based on money studies, are used by Parliament to see how the government spends public money. The provisions of the National Audit Office and the Committee of Public Finances do not allow the policy to be questioned and therefore Value for Money examining policy implementation reports are important.

All the research that is being carried out allows Parliament to provide a faster assessment of the quality of services and financial management without issuing a verdict. In addition to possible time limit, organizations are nevertheless expected to support these investigations as much as possible. It is very important that all the final facts in the report comply with the opinion of the NAO prior to publishing the report of the Comptroller and auditor.

The NAO's task is not to examine the objectives of the Government's policy but to provide an independent and rigorous analysis of how public money is spent in order to achieve predefined goals.

As already mentioned, the role of the independent auditor is performed by the Comptroller and the Auditor General with the consent of the National Audit Office.

The Comptroller and the Auditor General (C & AG) are at the head of the National Audit Office, and represent the official of the House of Commons. It is important to note that C & AG is independent of the Government and the Parliament and the Executive Director of National Audit Office *(www.nao.org.uk)* according to the Statute of the House of Commons. Based on the authority of the Parliament, the Comptroller and the Auditor General are engaged in the verification and examination of the spending of the United Kingdom Government Departments and, in certain circumstances, they can examine the consumption of other public bodies. The role of C & AG and NAO is to provide independent insurance and advice to parliament on the proper accountability, regularity and appropriateness of central government consumption, profits and assets. It also provides independent reports to parliament on the economy, efficiency and effectiveness with which the state departments and other public bodies use their resources

The legislation states that Comptroller and Auditor General must have full discretion in the exercise of their functions, including determining the area of public spending in order for it to be monitored in terms of economy, efficiency and effectiveness. They must also adopt proposals made by the Committee of Public Finances, when conducting various studies.

According to law, the Comptroller and the Auditor General, as well as the National Audit Office, have all the rights to access relevant information and records of the departments and organizations in order to conduct financial audits, money value studies and other investigations. All public sector departments and organizations should fully cooperate with the National Audit Office in order to provide the Comptroller and the Auditor General with all relevant information.

4. CONCLUSION

The historical development of financial accountability framework and arrangements in the UK is in many ways remarkable. It is significant that the controversial struggle over the finances between Parliament and Monarch gave a strong and crucial impetus to the overall constitutional development.

In spite of some weaknesses, the UK's financial accountability system can be presented as well-tested and efficient. It is based on external, parliamentary accountability where Parliament through its Public Finance Committee, which is based on the expertise of the National Audit Office, requires the executive to be responsible for the legal and productive use of public money. The second key chain of accountability is the management, established between the Treasury and Public Accountants, where *ex ante* financial control tasks are delegated from one to the other.

The UK accountability system has been further improved by extending the responsibilities of the Comptroller and the Auditor General to other public authorities, in particular non-departmental bodies, and gradually introducing of resource accounting and budgeting. A new method of financial reporting contained in the application of resource accounting and budgeting introduced through the Law of State Resources and Accounts significantly improves internal and external financial accountability. New accounting practices are being monitored in order to improve department management and deliver better value for money when using resources.

Literature:

Coombes, D. (1976), *The Power of the purse,* London George Allen & Unwin Ltd.

Flinders, M. and Smith, M. (1999), "*Quangos, Accountability and Reform*", *P*algrave, MacMillan, London

Hazel, R. J.D., (2018), "Improving parliamentary scrutiny of public appointments", *Parliament Affairs*, Oxford academic

Izveštaj Vlade Velike Britanije (2013)- "*Managing public money*", HM Treausury, London.

Lovell, A. (1996*), Notions of accountability and state audit: A UK perspective*, Financial accountability and management, p.263-265

Masterman, R. (2002) "*Review of* '*Devolution*" by N.Burrows, London : Sweet & Maxwell, 2000.', *Public law.* . pp. 588-590.

National audit office, www.nao.org.uk

Parliament report, UK (2015) , "*Report on parliamentary scrutiny of public spending*", HM Treasury https://www.gov.uk/government/publications

https://www.parliament.uk/business/committees/committees-a-z/commons-select/public-accounts-committee/