

The audit certificate and report of the Comptroller and Auditor General to the Trustees of the British Council

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I have audited the financial statements of the British Council for the year ended 31 March 2015. The financial statements comprise: the Consolidated Statement of Financial Activities, the Consolidated and British Council Balance Sheets, the Consolidated Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Board of Trustees, Chief Executive and auditor

As explained more fully in the Statement of Trustees' Responsibilities and the Statement of Accounting Officer's Responsibilities, the Trustees and the Chief Executive as Accounting Officer are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

I audit under the Charities Act 2011 and the Charities and Trustee Investment (Scotland) Act 2005 and report in accordance with those Acts.

My responsibility is to audit and express an opinion on the financial statements in accordance with the relevant legal and regulatory requirements. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the British Council's and the group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the British Council; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the financial statements has been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Basis for qualified audit opinion on regularity

During 2014–15, the British Council appointed a new Chief Financial Officer and a new Chief Executive. In both instances, the British Council awarded remuneration packages that exceeded the threshold that requires approval by the Chief Secretary to the Treasury. These specific approvals were not sought by the Council at the appropriate times and the Chief Secretary to the Treasury has not provided these approvals retrospectively.

In the absence of the necessary approvals from the Chief Secretary to the Treasury, I have concluded that the remuneration packages agreed in excess of the levels requiring approval are not in conformity with the authorities which govern them and are materially irregular. I have therefore qualified my audit opinion on regularity in this regard.

I provide further information in my report, on pages 70 to 71.

Qualified audit opinion on regularity

In my opinion, except for the matters described in the basis for qualified audit opinion paragraph above, in all material respects the expenditure and income has been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the group's and of British Council's affairs as at 31 March 2015 and of its net incoming resources and application of resources for the year then ended; and
- the financial statements have been properly prepared in accordance with the Charities Act 2011, section 44 (1) (C) of the Charities and Trustee Investment (Scotland) Act 2005 and Regulation 8 of the Charities Account (Scotland) Regulations 2006 (as amended) and directions issued by the Secretary of State for Foreign and Commonwealth Affairs.

Opinion on other matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with Secretary of State directions made under the Charities Act 2011; and
- the information given in the sections titled Performance Overview, Governance and Management and Financial Review included within the Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Sir Amyas C E Morse
Comptroller and Auditor General

National Audit Office
 157–197 Buckingham Palace Road
 Victoria
 London
 SW1W 9SP

4 December 2015

The report of the Comptroller and Auditor General to the Trustees of the British Council

Background

The British Council (the Council) is an executive non-departmental public body, a public corporation and a charity, sponsored by the Foreign and Commonwealth Office. As an executive non-departmental public body, the Council is required to conform with the framework of authorities that governs it. I provide an opinion on whether, in all material respects, the financial transactions recorded in the financial statements conform to this framework of authorities.

One of the authorities that the Council must comply with is the Cabinet Office's *Guidance for Approval of Senior Pay*. This requires that, if remuneration of newly appointed Senior Civil Servants exceeds the Prime Minister's salary of £142,500, then approval must be obtained from the Chief Secretary to the Treasury.

Appointment of the Council's Chief Financial and Chief Executive Officers

The British Council appointed a new Chief Financial Officer who commenced employment in June 2014 and a new Chief Executive who commenced employment in January 2015. The Council agreed to award a salary of £142,000 to the Chief Financial Officer, along with an additional one-off payment of £11,837, and a salary of £185,000 to the Chief Executive. In both instances, therefore, the Council awarded remuneration packages that exceeded the threshold requiring approval by the Chief Secretary to the Treasury. However, certain specific approvals were not sought by the Council at the appropriate times and the Chief Secretary to the Treasury has not provided retrospective approval.

Sanctions imposed by the Chief Secretary to the Treasury

The Cabinet Office's *Guidance for Approval of Senior Pay* sets out that, in the case of breaches of pay controls, budgets may be reduced to recover costs. In refusing to provide retrospective approval for the Chief Executive's remuneration, the Chief Secretary to the Treasury also imposed a reduction of £200,000 in the budget of the Foreign and Commonwealth Office (FCO), as sponsor department of the Council. The Chief Secretary is also likely to reduce the funding of the FCO in respect of the Chief Financial Officer's remuneration, and the amount of the reduction is currently under discussion. The FCO, in turn, reduced the funding provided to the Council in 2014–15 by £200,000 and may make further reductions in 2015–16 funding in respect of the Chief Financial Officer.

Basis of my qualification

I have concluded that the remuneration packages agreed in excess of the levels requiring approval are not in conformity with the authorities which govern them and are, therefore, materially irregular. I have qualified my audit opinion on regularity in this regard.

I noted the British Council's omission relating to the Chief Executive in my 2013–14 audit report. However, the appointment and related salary expenditure occurred in the 2014–15 financial year.

My qualification does not extend to the sanctions imposed by the Chief Secretary to the Treasury, since these are a budgetary disincentive and not an irregular transaction.

Actions taken by the Council

In response to the issues set out above, the Council has reviewed its process to ensure it complies fully with all the requirements for key appointments. It will engage fully with the Foreign and Commonwealth Office to ensure all have a shared understanding of the impact of the actions it is proposing in order to reduce the risk of such an event re-occurring. Further detail has been disclosed by the British Council in the Governance Statement and Note 19 to the financial statements.

Sir Amyas C E Morse
Comptroller and Auditor General

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