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International Framework: Good Governance in the Public Sector

Supplement

CIPFA The Chartered Institute of Public Finance & Accountancy

IFAC International Federation of Accountants®

The *International Framework: Good Governance in the Public Sector* was developed jointly by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the International Federation of Accountants® (IFAC®).

CIPFA is the professional body for people in public finance. Its 14,000 members work throughout the public services, in national audit agencies, in major accountancy firms, and in other bodies where public money needs to be effectively and efficiently managed.

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INTERNATIONAL FRAMEWORK
GOOD GOVERNANCE IN THE PUBLIC SECTOR
SUPPLEMENT

CONTENTS

Introduction

This supplement is a companion piece to *International Framework: Good Governance in the Public Sector* (the Framework), which aims to promote the development of robust governance in public sector entities by establishing a benchmark for good governance.

This supplement provides more detailed explanatory material for each of the principles included in the Framework. It includes a series of examples, questions to consider, and references to other resources to assist public sector entities in interpreting the principles in a way that is appropriate for their structures, taking into account the underlying legislative and constitutional arrangements.

Principles for Good Governance in the Public Sector

(a) **Governance comprises the arrangements put in place to ensure that the intended outcomes for stakeholders are defined and achieved.**

(b) **The fundamental function of good governance in the public sector is to ensure that entities achieve their intended outcomes while acting in the public interest at all times.**

1. Acting in the public interest requires:

    A. **Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law.**

    B. **Ensuring openness and comprehensive stakeholder engagement.**

2. In addition to the overarching requirements for acting in the public interest in principles A and B, achieving good governance in the public sector also requires effective arrangements for:

    C. **Defining outcomes[1] in terms of sustainable economic, social, and environmental benefits.**

    D. **Determining the interventions necessary to optimize the achievement of the intended outcomes.**

    E. **Developing the entity's capacity, including the capability of its leadership and the individuals within it.**

    F. **Managing risks and performance through robust internal control and strong public financial management.**

    G. **Implementing good practices in transparency, reporting, and audit, to deliver effective accountability.**

3. Figure 1 illustrates how the various principles for good governance in the public sector relate to each other. Principles A and B permeate implementation of principles C to G. Figure 1 also illustrates that good governance is dynamic, and that an entity as a whole should be committed to improving governance on a continuing basis through a process of evaluation and review.

[1] Some jurisdictions use the term "impacts" instead of "outcomes."

Figure 1: Relationships between the Principles for Good Governance in the Public Sector

4. The core, high-level principles characterizing good governance in the public sector set out above bring together a number of interrelated concepts. Principles C to G are linked to each other via the so called "plan-do-check-act" cycle.[2]

5. The following section provides an explanation of the underlying rationale, together with supporting commentary, for the key elements of each principle and the supporting sub-principles. The separate supplement provides examples and questions to consider for each principle, as well as related further reading.

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[2] The "Plan-Do-Check-Act Cycle," also called the Deming Cycle, is an iterative management process organizations typically use for the control and continuous improvement of processes and products. For more information, see the International Organization for Standardization's website www.iso.org/iso/home.html.

Principle A:

Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law

The public sector is normally responsible for using a significant proportion of resources raised through taxation to provide services to citizens. Public sector entities are accountable not only for how much they spend, but also for how they use the resources under their stewardship. This includes accountability for outputs, both positive and negative, and for the outcomes they have achieved. In addition, they have an overarching responsibility to serve the public interest in adhering to the requirements of legislation and government policies. Public sector entities are accountable to legislative bodies for the exercise of legitimate authority in society. This makes it essential that each entity as a whole can demonstrate the appropriateness of all of its actions and has mechanisms in place to encourage and enforce adherence to ethical values and to respect the rule of law.

Principle A: Examples

Maintaining standards

Entities can establish and maintain standards through codes of conduct, which should be supported by training and communication. Standards can be reinforced through individual performance reviews and promoted through a system of rewards and sanctions. Individuals should have a clear understanding of the consequences of non-compliance with the code.

It is good practice for the chief executive and/or chair of the governing body, or equivalents, to certify in an annual report or equivalent document that they are satisfied with the adequacy of their entity's arrangements for safeguarding high ethical standards.

When commissioning services, it is good practice for public sector entities to address ethical issues throughout the procurement process. Contractors and others should acknowledge their ethical responsibilities in delivering public services.

Another, less formal, mechanism for promoting ethical standards is a service delivery charter, which outlines how an entity intends to act toward its clients, and invites feedback from clients on the entity's performance.

Identifying conflicts of interest

The key question that must always be addressed is whether the duties or responsibilities of governing body members or senior managers in a public sector entity could be affected by some of their other interests or duties.

It is important to focus on the overlap of such interests—that is, whether an individual's other interest(s) could influence, or be influenced by, something that an entity may be considering or dealing with.

It is better to err on the side of transparency when deciding whether to disclose such instances. Many situations are not clear-cut. If a governing body member or senior manager is uncertain about whether something constitutes a conflict of interest, it is safer and more transparent to disclose it. The matter is then out in the open, and the expertise of others can be used to judge whether the situation constitutes a conflict of interest and is serious enough to warrant further action.

Disclosure promotes transparency, and is always better than having individuals silently try to manage a situation on their own. There might also be a perceived conflict of interest that should be avoided, wherever possible.

—Extract adapted from *Managing Conflicts of Interest: Guidance for Public Entities* (Office of the Auditor-General, New Zealand).

Dealing with conflicts of interest

During a country's power sector reforms, the minister for mines and power disclosed his interest in two companies that were bidding to acquire two energy companies. Both these energy companies—a power company and a distribution company—had emerged when the country's national power holding company was unbundled. The minister disclosed that a company he had founded had a minority stake in one of the companies bidding to acquire the distribution company. He also disclosed that one of his companies had, in the past, done business with a company that was a member of a consortium bidding for the power company. Following a discussion with the president, the minister resigned, lending greater credibility to the country's reforms in the power sector.

Principles for whistleblowing

Whistleblowers can play an essential role in detecting fraud, mismanagement, and corruption. They may, however, experience bullying or dismissal from their job. To promote responsible whistleblowing and adequate protection for whistleblowers, Transparency International has developed international principles for whistleblower legislation, which many countries and international organizations have used to develop their own legislation and standards.

Principle A: Questions to consider

- Have risks associated with poor ethical standards been assessed?
- Has the governing body adopted a formal code of conduct defining the standards of behavior that individual governing body members and all entity employees must subscribe and adhere to?
- Is the code widely and regularly communicated to employees?
- Is there a process for ensuring that all staff acknowledge and agree to the code of conduct?
- Are new employees made aware of the entity's ethical standards?
- Is the governing body living up to its code of conduct and, thus, setting the right tone for the entity?
- Is it possible that the behavior of those in governance roles could undermine the entity's objectives and values? If so, how is this being addressed?
- What mechanisms does the entity have in place to assess adherence to the code of conduct?
- Is the governing body satisfied that the entity has clearly articulated and communicated to third-party suppliers its strong commitment to ethical values, for example, through a service delivery charter?
- Has the governing body established appropriate mechanisms to ensure that members of the governing body and employees are not influenced by prejudice, bias, or conflicts of interest?
- Do ethical issues appear regularly on the agenda for governing body or staff meetings?

- Does the chief executive (or equivalent) take personal responsibility for upholding the ethical standards in his or her entity?
- Does the chief executive receive sufficient support to help take personal responsibility for ethical standards (education and training initiatives, for example), and by decisive action being taken when breaches of the code of conduct are discovered)?
- Would it be useful to communicate examples of acceptable and unacceptable behavior to all staff?
- How does the governing body ensure that all staff members are treated equally?
- Does the entity have an anti-fraud and corruption policy? Is it working effectively? How is it being monitored?
- Have fraud risks been considered? How have they been addressed?
- Have any cases of fraud been identified in the past and in which areas? What has been done to resolve these cases and to prevent recurrence?
- Do all employees know what to do if they suspect misconduct, fraud, or corruption?

Further reading

Strengthening Governance: Tackling Corruption (The World Bank Group's Updated Strategy and Implementation Plan, 2012)

Principle B

Ensuring openness and comprehensive stakeholder engagement

As public sector entities are established and run for the public good, their governing bodies should ensure openness in their activities. Clear, trusted channels of communication and consultation should be used to engage effectively with all groups of stakeholders, such as individual citizens and service users, as well as institutional stakeholders.

Principle B: Examples

Budget transparency

As part of its commitment to government transparency, the government of Indonesia, in association with the International Budget Partnership, launched the Open Budget Index (OBI) 2012 survey results for the Association of Southeast Asian Nations (ASEAN) region in February 2013. The event introduced the OBI and its methodology and explored why problems may be encountered in its implementation. These included technical issues, problems associated with citizens not being aware of their right to information, and political sensitivity. Additional details are available in an Open Government Partnership blog.

Transparency—Netherlands

The Dutch Government has a freedom of information act that allows any member of the public to request information from the government, provided the information is not subject to restrictions around release, such as national security information.

For more information, see the Dutch government's website.

Stakeholder engagement at Hong Kong Hospital Authority

The Hong Kong Hospital Authority (HA) offers highly subsidized public healthcare services to the Hong Kong Special Administrative Region's seven million inhabitants. Like other healthcare providers around the world, the HA has limited funding but virtually unlimited demand for medical services. In setting forth future strategies and priorities to address this key challenge, HA formulates medium-term strategic service plans, which incorporate not only internal stakeholders' input from different levels across the entity, but also the views and concerns of external parties, such as representatives from patient groups and other non-government healthcare organizations. Being able to articulate accurately the financial requirements arising from these emerging challenges is strategically important to the HA for securing funding from the government to sustain its delivery of quality patient care over the long run.

—Adapted from *Integrating Governance for Sustainable Success* (IFAC, 2012). For additional information, see the Hong Kong Hospital Authority website.

Stakeholder engagement—Developing a stakeholder relationship and communication plan

One public sector entity introduced a plan to identify and categorize its stakeholders. Stakeholder power was determined along with attention and influence. By initiating communication and stakeholder management, the entity can now identify and manage mutual interests more effectively while accomplishing organizational objectives. The benefits of a stakeholder management system include the following:

1. The most influential stakeholders are identified and their input can then be used to support the entity.
2. Support from the most influential stakeholders will assist the entity in achieving its objectives.
3. By frequently communicating with stakeholders, the entity can ensure that they fully understand the benefits offered as well as the associated costs.
4. The entity can anticipate likely reactions of stakeholders to organizational communications and progress more effectively, and can build into its strategy the actions that will be needed to capitalize on positive reaction while avoiding or addressing any negative reactions.
5. The entity can identify conflicting objectives among stakeholders and develop a strategy to resolve any issues that arise.

Adapted from an example provided by the Institute of Internal Auditors–Australia.

Boards and commissions

Creating boards, commissions, or advisory groups in the public sector is an effective way to encourage citizen, user, and/or volunteer involvement in governing a public sector entity. At the local level, boards and commissions increase citizen awareness of a government's activities; cultivate and educate a pool of potential elected officials; provide needed feedback and reality checks for the governing body; and deal with some of the more detailed and common aspects of governance that allows the elected governing board to focus on the more strategic issues. It is important, therefore, for these bodies to contain representation from a broad range of stakeholders.

Cooperation

Receiving refugees and integrating them into society may involve a range of entities—the coast guard, police, customs, social welfare entities, municipal entities for housing, labor market authorities, and employment offices, hospitals, and schools. If efforts to improve integration are inadequate or fail, it might be because each entity tries to optimize its own actions, with little or no ambition to cooperate with others in this complex chain. Therefore, public entities should also be aware of the other participants in a particular "supply chain" and fully cooperate with them to optimize the overarching objectives.

Principle B: Questions to consider

- Has the entity made an explicit commitment to openness and transparency in all its activities? What form does this commitment take?
- Does the entity understand who its stakeholders are and how it communicates with them?
- With which institutional stakeholders should the entity foster good relationships?

- How does the entity ensure that it is able to develop effective relationships with key institutional stakeholders at the most senior level?
- Does the entity engage in genuine dialogue with its stakeholders, including the media?
- What policy/criteria are applied when deciding to keep information confidential?
- What is the entity's policy on how it should consult citizens and service users?
- Does the policy explain clearly the types of issues it will consult on and how it will use the information received?
- How does the entity ensure that adequate consultation takes place?
- When the entity consults, does it provide feedback to respondents on the results of the consultation?
- How well does the entity explain the reasons for its decisions to those who might be affected by them?
- How does the entity demonstrate that its current and future service users are treated fairly?
- How does the entity make judgments about the balance between the interests of the community and the interests of individual citizens?
- What is the level of trust that individual service users, and institutional stakeholders, have in the entity? How could it be improved?
- How are the entity's outcomes measured against the fulfillment of stakeholders expectations?

Principle C

Defining outcomes in terms of sustainable economic, social, and environmental benefits

The long-term nature and impact of many of the public sector's responsibilities mean that it should define and plan outcomes and that these should be sustainable. The governing body should ensure that its decisions further the entity's purpose, contribute to intended benefits and outcomes, and remain within the limits of authority and resources. Input from all groups of stakeholders, including citizens, service users, and institutional stakeholders, is vital to the success of this process and in balancing competing demands when determining priorities for the finite resources available.

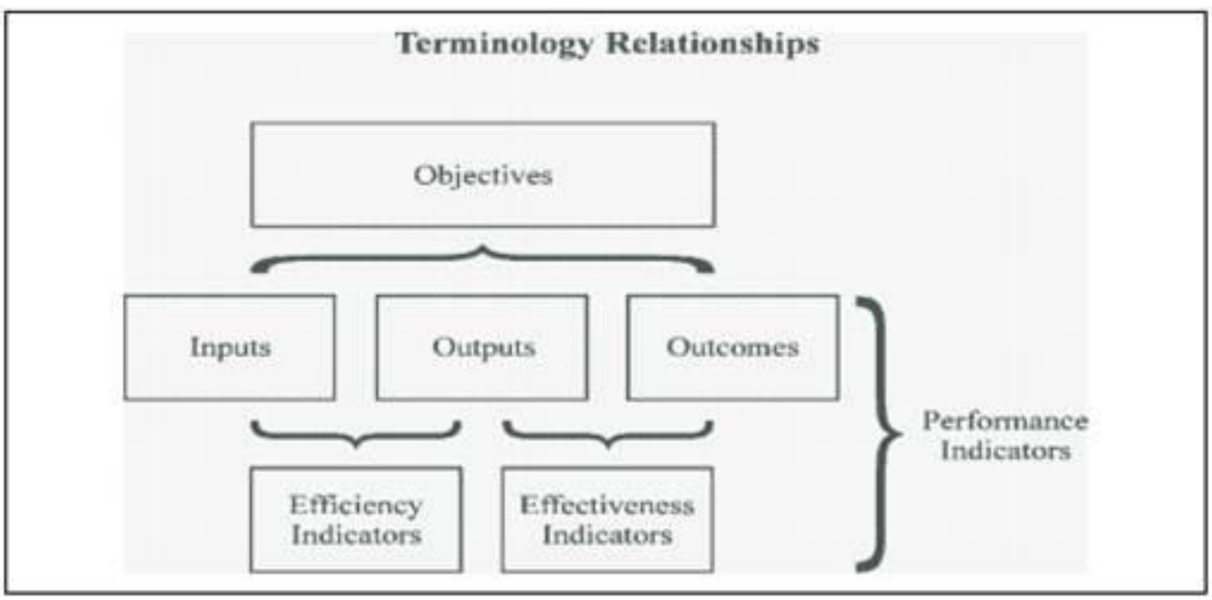
Principle C: Examples

Measuring outcomes through programs-based budgeting

Various jurisdictions are increasingly using programs-based budgeting for measuring and reporting on the achievement of outcomes. Key performance indicators can be established at the program and/or outcome level to assist in assessing achievement of objectives.

Terminology relationships

The following diagram illustrates the relationships among an entity's objectives, associated inputs, outputs, and outcomes, and how performance indicators can fit in.



Change programs—a UK local council

A local council in the UK is adapting to changes in government legislation while facing an aging population and increased unemployment. In tackling its challenges, the council is making significant efforts through its change program to create financial efficiencies, work closely with partners, and improve the quality of services by investing in its staff and technology.

The council has published a report demonstrating how it is achieving its goals. The extract below provides an illustration of how the council is working with its community and changing the way services are delivered.

Case study

The council has supported the establishment of a new social enterprise run by energy experts and community activists. The new company is supplying free solar energy panels to local schools and community buildings. It is also running a public share offer to raise £400,000 to be reinvested in local renewable energy. A portion of any financial surpluses will be reinvested in a community fund for further low-carbon projects.

Principle C: Questions to consider

- To what extent are the entity's objectives and vision at the forefront of decision making and planning?
- Does the entity clearly understand what it is trying to achieve and does it have measurable or assessable outcome definitions?
- How are stakeholders made aware of what the entity is planning to achieve? How is their support encouraged so that the entity can maximize its performance?
- How does the entity ensure that capital investment is structured to achieve appropriate life spans and adaptability for future use, or that finite resources (e.g., land or water) are spent on optimizing social, economic, and environmental well-being?
- Are the goods and services the entity provides reflected in its mission? Does the entity have a learning culture where it uses its past experiences to improve performance?
- To what extent does the entity consider the community's broader sustainability goals in formulating its strategies and action plans?
- Does the entity liaise with similar entities to learn from their experiences and/or identify better practices?

Principle D

Determining the interventions necessary to optimize the achievement of the intended outcomes

The public sector achieves its intended outcomes by providing a mixture of legal, regulatory, and practical interventions. Determining the right mix of interventions is a critically important strategic choice that governing bodies of public sector entities have to make to ensure they achieve their intended outcomes. Public sector entities need robust decision-making mechanisms to ensure that their defined outcomes can be achieved in a way that provides the best trade-off between the various types of resource inputs while still enabling effective and efficient operations. Decisions made need to be reviewed continually to ensure that achievement of outcomes is optimized.

Principle D: Examples

Regulatory impact analysis

Regulatory Impact Analysis (RIA) is a fundamental tool to assist governments in assessing the impact of regulation. To maximize the benefits to society, public sector activities frequently involve trade-offs among different possible uses of resources. RIA is used to measure the likely benefits, costs, and effects of new or existing regulation. RIA is best used as a tool to help improve the quality of administrative decision making while also facilitating openness, public involvement, and accountability.

The Organization for Economic Co-operation and Development (OECD) has developed guidance and undertaken extensive research on the issues and experiences associated with RIAs.

High-quality information for robust decision making

Decision makers should receive timely information that is reliable and, above all, relevant to their needs. High-quality information and clear, objective advice can significantly reduce the risk of making decisions that fail to achieve their objectives or have serious unintended consequences.

The information made available to those making decisions must be supported by clear and accurate data and thorough analysis. This requires the implementation of robust processes, including systems for:

- capturing, processing, analyzing, and reporting the required information for decision making;
- integrating financial management and risk management in the decision-making processes; and
- establishing effective project management, budget classifications, and use of performance indicators.

Professional advice

While public sector entities are determining interventions, it is helpful to draw on the support of a senior staff member or independent advisor who can advise on legal, ethical, financial, and other issues and procedures, and who has the authority and status to challenge governance practice, if necessary. This works best where there are safeguards and reporting relationships in place to make sure that advice is not easily ignored.

Principle D: Questions to consider

- To what extent does the entity review the mix of its interventions as part of its strategic planning?
- To what extent does the information given to decision makers facilitate rigorous decision making about the improvement of value for money?
- Do those making decisions receive regular and comprehensive information from service users?
- Is specialist professional advice available and taken into account when it is sensible and appropriate to do so?
- Does the entity use techniques to avoid “groupthink” for decision-making purposes?
- Does the entity use incentives to align decision-making processes?
- How effectively is the above information used when planning and making decisions?
- Will a planned intervention succeed in solving a perceived problem to the extent that, at some future date, the intervention will no longer be necessary?
- How does the entity ensure that the “right” inputs are planned?
- Does the entity publish its budget and explain the basis for policy decisions?
- How well is the entity doing in achieving intended outcomes?
- How does the entity know how effective it is?
- Does the entity seek stakeholder feedback on its performance?

Principle E

Developing the entity's capacity, including the capability of its leadership and the individuals within it

Public sector entities need appropriate structures and leadership, as well as people with the right skills, appropriate qualifications and mindset, to operate efficiently and effectively and achieve their intended outcomes within the specified periods. The governing body must ensure that it has both the capacity to fulfill its own mandate and to make certain that there are policies in place to guarantee that an entity's management has the operational capacity for the entity as a whole. Because both individuals and the environment in which an entity operates will change over time, there will be a continuous need to develop the entity's capacity as well as the skills and experience of the leadership of individual staff members. Leadership in public sector entities is strengthened by the participation of people with many different types of backgrounds, reflecting the structure and diversity of their communities.

Principle E: Examples

Horizon scanning

The UK Department for Environment, Food, and Rural Affairs (DEFRA)'s policy portfolio includes risks, such as climate change, that might mature only over the very long term. Predicting the future with any accuracy has always been incredibly difficult, but any failure to identify and respond to these potential risks today could have potentially enormous consequences tomorrow.

To help DEFRA spot emerging risks, and put suitable responses in place early enough for them to be effective, it has introduced a Horizon Scanning and Futures program. The program seeks to identify the key trends and drivers that could shape DEFRA's external environment over the next 50 years and give DEFRA a head start in predicting—and preventing—the biggest problems.

As the program evolved, DEFRA decided to conduct a baseline scan. This produced a common base of information on key political, economic, social, scientific, and technological trends and drivers, which was combined in a web database that researchers and policy makers can search and analyze using a number of different criteria.

Once the information was collated and analyzed, DEFRA organized a series of seminars to inform staff, both internal and across the government, about how that information was being used to create new policies.

—Extract taken from *Risk: Good Practice in Government* (HM Treasury, UK, 2006).

Measuring the effectiveness of governance systems: human resources management

The World Bank is encouraging the use of Actionable Governance Indicators in the design, implementation, and assessment of particular governance systems and sub-systems. They focus on specific and narrowly defined aspects of governance. The World Bank's Human Resource Management Actionable Indicators diagnostic tool is designed to permit the assessment of institutional arrangements and organizational capacities in relation to six typical human resource management objectives. The World Bank's Indicators are:

- attracting and retaining required human capital within a given cadre;

- ensuring a fiscally sustainable wage bill;
- ensuring depoliticized, meritocratic management of staff within a given cadre;
- ensuring performance-focusing management of staff within a given cadre;
- ensuring ethical behavior by members within a given cadre; and
- ensuring effective collaboration across cadres.

Principle E: Questions to consider

- What arrangements has the entity implemented for assessing the adequacy of its various capitals (such as financial, manufactured, intellectual, human, social and relationship, and natural capital)?
- How often are the entity's activities, outputs, and planned outcomes reviewed?
- What skills do the governing body members need to perform their roles?
- Do the governing body members use their skills effectively?
- What processes does the entity have to ensure that governing body members are appointed on a fully transparent basis?
- Does the entity have a nominations committee and is it working effectively?
- Has the governing body established procedures to ensure that no member of the governing body is involved in determining his or her own remuneration?
- How well does the entity's recruitment process identify people with the necessary skills? Are its recruitment efforts effective in reaching people from a wide cross section of society?
- How effective is the entity at ensuring governing body members and staff are able to develop their skills and update their knowledge as appropriate?
- How effective are the entity's arrangements for reviewing the individual performance of governing body members?
- Does the entity assess the effectiveness of the governing body?
- Does the governing body as a whole review its own effectiveness in discharging its duties on a regular basis?
- Do appointed members of the governing body have maximum terms of office?
- Where the governing body is responsible for appointing non-executives to it, are the appointments for a fixed term? Are reappointments subject to a formal appointment process?
- Does the entity have arrangements for reviewing the individual performance of staff and how effective are these arrangements?

Further Reading

Information Technology for Good Governance (Francisco Magno and Ramonette Serafica, 2001)

International Integrated Reporting Framework (IIRC, 2013)

Principle F

Managing risks and performance through robust internal control and strong public financial management

The governing bodies of public sector entities need to ensure that the entities they oversee have implemented—and can sustain—an effective performance management system that facilitates effective and efficient delivery of planned services. Risk management and internal control are important and integral parts of a performance management system and crucial to the achievement of outcomes. They consist of an ongoing process designed to identify and address significant risks involved in achieving an entity's outcomes.

A strong system of financial management is essential for the implementation of public sector policies and the achievement of intended outcomes, as it will enforce financial discipline, strategic allocation of resources, efficient service delivery, and accountability.

Principle F: Examples

Embedded risk management

Transnet is wholly owned by the South African government and is the custodian of freight rail, ports, and pipelines. Transnet is responsible for enabling the competitiveness, growth, and development of the South African economy through the delivery of reliable freight transport and the handling of services that satisfy customer demand.

The entity's risk management and control culture stands out because, rather than being an add-on, it is, in their words, "embedded within the business." Transnet's 2012 annual report, for example, not only explains its risk management system, it also discusses throughout the report the actual risks encountered and how they were dealt with. In addition, Transnet's enterprise risk management not only covers financial reporting risk, but all types of risk, including health, safety, environmental, and quality risks.

Keeping risk management on track

The UK Office of Government Commerce kept its Efficiency Program on track by:

- encouraging management personnel to get involved and helping them understand why it's worth investing time, money, and effort in good risk management;
- using risk management on a day-to-day basis to help deliver practical outcomes, instead of as an occasional box-ticking exercise that isn't linked to the reality on the ground;
- investing to establish a centralized, dedicated risk management function;
- adapting and enhancing risk processes and methodologies as you go along, making sure it meets the specific needs of a particular stakeholder; and
- recognizing and responding to the changing nature of risks. Previously, the main risks were focused on plans and planning capability; now, the focus is increasingly on delivery.

—Excerpt taken from *Risk: Good Practice in Government* (HM Treasury, UK, 2006).

Securing oil transportation

A state-owned oil transportation enterprise moves furnace oil through a pipeline, primarily through uninhabited rural terrain. Unauthorized excavations, deliberate pilferage, and terrorist activities pose a significant operational risk to the entity. The security function, outsourced to an external company, frequently malfunctioned due to vehicle breakdown and the lethargic attitude of the guards.

To mitigate the risk, the enterprise purchased its own vehicles to ensure continuous patrolling, and prepared a rotating schedule for each senior management team member to accompany a security patrol at least once a year, taking along a checklist of what to observe during the tour. The transformation created a positive “tone at the top,” increasing security awareness among all of the entity’s employees, who now feel motivated and provide valuable suggestions on how to bolster the security of the company.

The management of non-financial risks

The European Commission believes that supervisory boards should give broader consideration to the entire range of risks their companies face. Extending reporting requirements to cover non-financial parameters would help establish a more comprehensive risk profile of each company, facilitating more effective design of strategies to address risks. This additional focus would encourage companies to adopt a sustainable and long-term strategic approach to their business.

—Excerpt from *Action Plan: European Company Law and Corporate Governance—A Modern Legal Framework for More Engaged Shareholders and Sustainable Companies* (European Commission, 2012). Although this report focused on the private sector, it is also relevant to public sector governance.

A whole system approach

Public financial management (PFM) drives the performance of the public sector through effective and efficient use of public money. It is the system for planning, directing, and controlling financial resources to facilitate the efficient and effective delivery of public service goals in a specific jurisdiction. It spans a range of activities—including planning and budgeting, management accounting, financial reporting, financial controls, and internal and external auditing—that contribute to effective, transparent governance and strong public accountability.

The effectiveness of a PFM system as a whole depends on a network of interlocking processes, which operate within a framework of public sector entities at global, regional, national, and sub-national levels. The quality of PFM depends on a number of important variables, including (a) how well PFM systems in individual organizations work; (b) the quality of system inputs; and (c) the feedback and control mechanisms that ensure a rigorous focus on delivery of outputs and achievement of outcomes. Strong PFM also requires the reporting of fiscal forecasts and other relevant information in an accurate, transparent, and timely manner for public accountability and decision making. Fiscal transparency—defined as the clarity, reliability, frequency, timeliness, and relevance of public fiscal reporting and public access to a government’s fiscal policy-making process—is a key element of effective PFM.

CIPFA’s 2010 report, *Public Financial Management: A Whole System Approach*, proposes an integrated approach to the design and improvement of public financial management. The whole system approach looks at mechanisms to optimize overall outcomes rather than the performance of individual elements and, in doing so, provides an important foundation for the wider picture of public sector governance.

Measuring the effectiveness of governance systems: PFM

The World Bank is encouraging the use of Actionable Governance Indicators (AGIs) in the design, implementation, and assessment of particular governance systems and sub-systems. They focus on specific and narrowly defined aspects of governance. The Public Expenditure and Finance Accountability (PEFA) Indicators, developed by the PEFA Program, are an officially endorsed set of AGIs that measure and monitor the performance of the public financial management systems, processes, and institutions of a country's central government, legislature, and external audit. The dimensions covered by the PEFA Indicators include:

- credibility of the budget;
- comprehensiveness and transparency;
- policy-based budgeting;
- predictability and control in budget execution; and
- accounting, recording, and reporting.

Further information on the indicators is available on the Public Expenditure and Financial Accountability website.

Principle F: Questions to consider

- How does the entity ensure that risk management has been appropriately embedded throughout all of its levels?
- Does the governing body, as well as all other entity decision makers, consider risk consistently while setting objectives and assessing progress toward achieving the entity's objectives and evaluating performance?
- Do all decision makers receive sufficient and timely information that is reliable and relevant to their needs?
- How does the entity assess whether its risk management arrangements are working effectively?
- How effective is the entity's risk management?
- Are action plans developed and implemented to correct any risk management or control deficiencies?
- Are the entity's PFM practices based on international standards?
- Does financial management support the delivery of services and transformational change as well as securing good stewardship?
- Are the major risks to achieving the entity's objectives reported comprehensively to the governing body (and other internal and external stakeholders) and at least annually?

Further reading

Enterprise Risk Management—Integrated Framework (Committee of Sponsoring Organizations of the Treadway Commission, or COSO, 2004)

Evaluating and Improving Internal Control in Organizations (IFAC, 2012)

Fiscal Transparency, Accountability, and Risk (IMF, 2012)

GOV 9120 Internal Control: Providing a Foundation for Accountability in Government (International Organization of Supreme Audit Organizations, or INTOSAI, 2001)

GOV 9130 Guidelines for Internal Control Standards for the Public Sector—Further Information on Entity Risk Management (INTOSAI, 2004)

Public Financial Management: A Whole System Approach (CIPFA, 2010)

Risk Management: Principles and Guidelines ISO 31000: 2009 (ISO, 2009)

Principle G

Implementing good practices in transparency, reporting, and audit to deliver effective accountability

Accountability is about ensuring that those making decisions and delivering services are answerable for them, although the range and strength of different accountability relationships varies for different types of governing bodies. Effective accountability is concerned not only with reporting on actions completed, but also ensuring that stakeholders are able to understand and respond as the entity plans and carries out its activities in a transparent manner. Both external and internal audit contribute to effective accountability.

Principle G: Examples

User views

It is good practice to publish information on research into the public's views on an entity and information on service users' views of the suitability and quality of the services they receive. To give a complete and representative picture, it is important to cover the diversity in today's service users and the public overall.

Aligning accountability documents

In its report, *Fiscal Transparency, Accountability, and Risk* (August 2012), the International Monetary Fund (IMF) looked at the critical role of fiscal transparency in effective policymaking and the management of fiscal risks. The following example from the report illustrates New Zealand's moves to promote greater transparency by aligning the basis for reporting across different accountability documents.

New Zealand produces its audited annual report three months after the end of the financial year. The report provides a detailed comparison of budgeted amounts to actuals, as well as brief analyses of the major variations. There is also a description of the progress the government has made in implementing its fiscal strategy, as laid out in the pre-budget fiscal strategy report. Budgets and forecasts are prepared on the same accounting basis, mainly International Financial Reporting Standards (IFRS), as is used for the accounts. Forecasts also comply with New Zealand accounting standards that, among other things, require that forecasts are prepared using the accounting rules that will apply to retrospective reports and that assumptions are reasonable and supportable, internally consistent, and published.

Whole of government accounts—UK

Whole of Government Accounts (WGA) is a consolidated set of financial statements for the UK public sector. The aim of the WGA is to have the UK Parliament and the public better understand and be able to scrutinize how taxpayers' money is spent, increasing the transparency and accessibility of public finances.

WGA consolidates the audited accounts of more than a thousand organizations to produce a comprehensive view of the financial performance and position of the UK public sector. The WGA is based on IFRS, adapted for the public sector. It complements the National Accounts figures, produced by the UK's Office for National Statistics, by providing a set of financial statements based on standards familiar to the commercial sector and the wider accountancy profession. The WGA offers the opportunity to make international comparisons of fiscal balance sheets, provided that other countries' accounts are produced on a comparable basis.

Principle G: Questions to consider

- Does the entity know to whom it is accountable and for what?
- How well do the entity's accountability relationships work?
- How effectively does the entity communicate with its stakeholders?
- How easy is it for stakeholders and other interested parties to access the entity's annual report and other performance information, as well as communicate with the entity about these matters?
- How well does the entity use the channels available to it to communicate with its various stakeholders?
- What opportunities are there for citizens, service users, and staff to make their views known? Are they effective?
- How does the entity ensure that stakeholders can easily understand the language used in reports?
- Does the annual report of the governing body contain a statement on the remuneration of the members of the governing body?
- Can interested parties easily find relevant information? For example, can specific information on the entity's website be accessed by one click?
- Is it sufficiently clear to stakeholders who is responsible for what within the public sector entity?
- How effective is the audit committee and is there sufficient reporting of its mandate, operations, and outcomes?
- Does the entity's internal audit department report functionally to an audit committee or similar high-level oversight body?

Further reading

Fiscal Transparency, Accountability, and Risk (IMF, 2012)

Important Sources of Information

This list of resources is not intended to be exhaustive. Additional resources are available on the Global Knowledge Gateway, including materials from IFAC, CIPFA, and many of IFAC's member body websites for additional information.

IFAC Resources

- Ian Ball, "Chapter 7—From Conformance to Performance: Linking Governance, Strategy, and Sustainability," *Corporate Governance in the Wake of the Financial Crisis* (IFAC contribution to UNCTAD publication, 2010).
- *Defining and Developing an Effective Code of Conduct for Organizations* (2007) helps organizations encourage an ethics-based culture and define and develop a code of conduct. It also refers to the most significant resources in this area.
- *Defining and Developing an Effective Code of Conduct for Organizations* (2009) includes a framework—consisting of a series of fundamental principles, supporting guidance, and references— on how professional accountants can contribute to evaluating and improving governance in organizations.
- *Evaluating and Improving Internal Control in Organizations* (2012) highlights areas where the practical application of existing internal control standards and frameworks often fails in many organizations. The guidance assists professional accountants in business as they work with their organizations to continuously evaluate and improve internal control, and ensure that it is an integrated part of the organization's systems of governance and risk management.
- *Global Survey on Risk Management and Internal Control—Results, Analysis, and Proposed Next Steps* (2011) contains more than 600 responses from around the globe and provides an analysis of survey results and summarizes respondents' recommendations for the next steps in this area.
- *Governance in the Public Sector: A Governing Body Perspective* (2001) outlines principles of governance and their application to public sector entities.
- *Integrating Governance for Sustainable Success* (2012) analyzes how professional accountants in business can support their organizations and enhance performance by integrating governance into the key drivers of sustainable organizational success.
- *Integrating the Business Reporting Supply Chain* (2011) features 25 prominent business leaders making their recommendations on what should be done to improve governance (including risk management and internal control), the financial reporting process, audit, and the usefulness of business reports in the aftermath of the financial crisis of 2008. The report includes a summary of interviewees' recommendations in each area and highlights some of IFAC's related initiatives.
- *Internal Control from a Risk-Based Perspective* (2007) features 10 senior-level professional accountants in business sharing their experiences and views on establishing effective internal control systems.
- *Internal Controls—A Review of Current Developments* (2006) reviews developments and some of the thinking of that time in the area of internal control.

CIPFA Resources

- *Emerging Stronger* (2012) looks at shaping the finance function to meet new and future challenges, whether the function is centralized, distributed across the organization, or delivered in collaboration with other agencies. It covers the whole range of financial processes, from strategic advice on resource allocation to routine activities like processing invoices.
- *The Good Governance Standard for Public Services* (Independent Commission on Good Governance in Public Services, a joint project of the Joseph Rowntree Foundation, CIPFA, and the Office for Public Management, 2004) presents six principles of good governance that are common to all public service organizations and are intended to help all those with an interest in public governance to assess good governance practice.
- *Public Financial Management: taking responsibility* (2013) explains how and why CIPFA is promoting further collaboration between professional accountancy bodies to ensure governments around the world have the appropriate guidance and financial skills for reform to support their progress to sound budgetary and accounting systems, especially those that are cash-based.
- *The Role of the Head of Internal Audit in Public Service Organisations* (2010) aims to clarify the role of the head of internal audit in public service organizations and to raise its profile. The head of internal audit (HIA) occupies a critical position in any organization, helping it achieve its objectives by giving assurance on its internal control arrangements and playing a key role in promoting good corporate governance
- *The Role of the Chief Financial Officer in Public Service Organisations* (2009) sets out an overarching principles-based framework that is intended to apply to all public service organizations and their CFOs, irrespective of where they work.
- *Whole System Approach to Public Financial Management* (2010) provides leaders, managers, and donors with a model of Public Finance Management, outlining the necessary measures and controls to promote wise spending, tackle corruption, and contribute to economic growth and long-term stability in the recipient country.

Other IFAC Member Body Resources

- *Corporate Governance for Public Bodies: A Basic Framework* (Hong Kong Institute of Certified Public Accountants, 2004) specifically addresses corporate governance in the public sector. The aim of this guide is to provide a basic framework of corporate governance principles and recommended best practices for public sector organizations.
- *It's Time…for Global, High Quality Public Sector Financial Reporting* (Institute of Chartered Accountants Australia, 2013) seeks to influence the growing debate on developing greater consistency of transparency and accountability within public sector financial reporting internationally.
- *Promoting Improved Transparency, Accountability and Economic Policy for Governments: The Australian Experience* (CPA Australia, 2012) examines the important role that the information derived from an independently set accrual accounting standards-based reporting framework can have in informing government policy and addressing the challenges brought about by the banking and sovereign debt crises.
- *The Role of Auditing in Public Sector Governance, 2nd edition* (Institute of Internal Auditors, 2012) clarifies the importance of the public sector audit activity to effective governance and defines the

key elements needed to maximize the value that audit activity provides to all levels of the public sector.

- *Setting High Professional Standards for Public Services around the World* (Association of Chartered Certified Accountants, 2013) sets out the criteria for achieving strong public financial management; highlights the key skills for finance professionals; demonstrates the importance of the quality of information available (both financial and service delivery) to help inform decision making; and sets out criteria for achieving good governance that consider both the "hard" factors of systems, procedures, and audit and the "soft" factors related to developing a strong ethical culture.
- *Is Policy Making Measuring Up? Rethinking How We Measure the Success of a Nation* (Chartered Accountants Australia and New Zealand, 2014) debates how to develop macro reporting metrics that present a more holistic and accurate measure of national progress than gross domestic product (GDP).

Other Resources

- *Actionable Governance Indicators—Concepts and Measurement* (World Bank, 2010) focuses on specific aspects of governance, and was designed to provide guidance on the design of reforms and the monitoring of impacts.
- *Building Better Governance* (Australian government, 2007) provides practical, directly relevant, and common sense examples about what public sector agencies are actually doing with respect to governance.
- *Code of Good Practices on Fiscal Transparency* (International Monetary Fund, 2007) identifies a set of principles and practices to help governments provide a clear picture of the structure and finances of government.
- *Developing Corporate Governance Codes of Best Practice* (Global Corporate Governance Forum, 2005) sets out a step-by-step approach that stakeholders could follow to develop, implement, and review a Corporate Governance Code of Best Practice.
- INTOSAI Guidance for Good Governance series.
- *Governança Pública—Referencial Básico de Governança Aplicável a Órgãos e Entidades da Administração Pública e Ações Indutoras de Melhoria* (Tribunal de Contas da União, Brazil, 2014) provides a reference for good governance in public sector organizations, including recommendations for further improvement.
- *Governance in the New Zealand Public Sector* (New Zealand Treasury, 2012) outlines lessons from the recent literature on governance, before considering how those lessons might relate to the governance of public sector organizations.
- *Governance of Crown Entities* (New Zealand State Services Commission, 2013) contains guidance and support to help boards of crown entities and their members meet the highest level of corporate governance.
- Governance Rules for Public Sector Companies approved by the Securities and Exchange Commission of Pakistan (SECP) Policy Board (SECP, 2013) is aimed at improving the governance framework of public sector companies to bring about greater transparency and plugging the huge losses of public sector enterprises.

- *Guidelines on Corporate Governance for Central Public Sector Enterprises* (Indian government, 2007) was formulated with the objective that Central Public Sector Enterprises follow the guidelines in their operations. Proper implementation of these guidelines should protect the interest of shareholders and relevant stakeholders.
- *International Integrated Reporting Framework* (International Integrated Reporting Committee, 2013) promotes a more cohesive and efficient approach to corporate reporting and aims to improve the quality of information available to providers of financial capital to facilitate a more efficient and productive allocation of capital.
- *King Report on Corporate Governance for South Africa* (King Committee on Corporate Governance, 2009) is a ground-breaking code of corporate governance in South Africa.
- *The Netherlands Code for Good Public Governance* (Dutch government, 2009) sets out the basic principles of good public governance. It is an informal instrument that calls on executive bodies to adopt a conscientious approach to their duties and responsibilities in public administration. It promotes self-examination and practical implementation.
- *OECD Guidelines on Corporate Governance of State-Owned Enterprises* (Organization for Economic Co-operation and Development (OECD), 2005) gives concrete advice to countries on how to manage more effectively their responsibilities as company owners, thus helping state-owned enterprises become more competitive, efficient, and transparent.
- *OECD Principles for Integrity in Public Procurement* (OECD, 2009) promotes good governance in the entire procurement cycle, from needs assessment to contract management. The publication also includes a checklist for implementing an integrity framework throughout the entire public procurement cycle and includes a map of risks that can help auditors prevent, as well as detect, fraud and corruption.
- *Public Financial Management Performance Measurement Framework* (Public Expenditure and Financial Accountability, 2011) provides a common pool of information for measuring and monitoring public financial management performance progress, and a common platform for dialogue.
- *Protocol on Corporate Governance in the Public Sector* (Department of Public Enterprises of South Africa, 2002) aims to have the principles in this Protocol apply to all of the South African Government's public entities and their subsidiaries.
- *Public Governance, Performance and Accountability Act 2013* (Australian Government, 2013) about the governance, performance, and accountability of, and the use and management of public resources by, the Commonwealth, Commonwealth entities and Commonwealth companies, and for related purposes.
- *Risk Management in the Public Sector* (James Ralston and Liane Sauer, The Conference Board of Canada, 2010) expresses the authors' views on what government can learn from the private sector.
- *Standards Matter: A Review of Best Practice in Promoting Good Behavior in Public Life* (UK Committee on Standards in Public Life, 2013) argues that high standards of behavior need to be understood as a matter of personal responsibility, embedded in organizational processes, and actively and consistently demonstrated, especially by those in leadership positions. This report presents some ideas about how this may be achieved.

- *Strengthening Governance: Tackling Corruption—the World Bank Group's Updated Strategy and Implementation Plan* (World Bank, 2012) updates the Governance and Anti-corruption Strategy endorsed by the World Bank Board of Executive Directors on October 7, 2007.

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