

Corporate Governance In the Public Sector



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Corporate Governance

Concept originated in the Private Sector

- Corporate failures:
 - weak management boards
 - overpowerful chief executives
 - weak internal controls
- Characterised by:
 - lack of segregation of chairman and chief executive
 - lack of audit committee/internal audit functions
 - weak control/override of controls

Corporate Governance

- Principles of Corporate Governance apply to Public Sector
 - There are differences:
 - ‘Board of Directors’ may be difficult to define
 - no single framework of governance would apply to all public sector entities
 - need to identify the public sector stakeholders
- (‘shareholders’, ‘customers’)

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Public Sector Definition:

“The system by which organisations are directed and controlled”

Underlying this definition are three principles:

- Openness
- Integrity
- Accountability

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Openness:

- gives stakeholders confidence in decision making processes, actions of entities, and in the individuals concerned

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Integrity:

- honesty and objectivity
- propriety and probity in the stewardship of public funds and resources
- dependent on control framework and on personal standards and professionalism of individuals within entity
- reflected in decision making procedures and quality of financial and performance reporting.

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Accountability:

- process whereby entities and individuals within them are responsible for their decisions and actions, including stewardship of public funds and performance
- achieved though clarity of responsibilities and roles

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These principles are reflected in four “dimensions” of public sector governance:

- standards of behaviour
- organisational structures and processes
- control
- external reporting

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Roles and Responsibilities

Balance of Power and Authority

- Governing body of a Public Sector Entity
- Chairperson of the Governing body
- Non-executive Members of Governing body
- Executive Management

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Control

- Risk Management
- Internal Audit
- Audit Committees
- Internal Control
- Budgeting, Financial Management and Training

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External Reporting

- Annual Reporting
- Use of Appropriate Accounting Standards
- Performance Measures
- External Audit

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Governing body:

- defines the vision, mission and long-term objectives within policy and resource framework set by Parliament/legislation
- oversees delivery of planned results
- appoints senior management
- approves and adopts annual report, including financial statements
- ensures there is an effective system of internal control
- oversees the processes of risk management

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Chairperson:

- separate from Chief Executive
- preferably independent (non-executive)
- provides leadership and cohesion
- ensures there is an effective process for reviewing performance of governing body
- ensures that the governing body has adequate support and information
- ensures that the business of the governing body is undertaken efficiently and on a timely basis

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Audit Committees:

- independent of executive management
- sub-committee of governing body
- membership confined to non-executives
(but not necessarily limited to members of governing body)
- meetings normally attended by chief finance officer, head of internal audit and representatives of external audit

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Audit Committee's Terms of Reference:

- oversight over management's responsibility for effectiveness of internal control system
- review adequacy of policies and practices for ensuring compliance with regulations, policies, etc.
- review adequacy of internal audit resources
- recommend/approve appointment/removal of head of internal audit
- review activities and programme of internal audit, and co-ordination with external audit
- oversee entity's relationship with external auditor

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Statement on Internal Control:

- Acknowledges Chief Executive's responsibility
- Reasonable not absolute assurance
- Describe key procedures
- Review of effectiveness
- Weaknesses (where appropriate)

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External Auditor's Review of SIC:

Review directed at:

- Completeness of disclosures
 - Identifying inconsistencies between disclosures and the results of the audit
 - External audit gives “negative assurance” reporting on a “by exception” basis
- (Hope to move to more positive assurance in the future)