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Corporate Governance in the Public Sector

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AT THE HEART OF
PUBLIC SERVICES

Objectives

- Is corporate governance an issue for the public sector?
- How can it lead to improvements in service delivery and efficiency?
- What are the standards that ought to be covered?
- Effects upon organisational structures and processes
- Impacts on transparency and external reporting
- The impacts on internal control
- How it affects personal behaviour?

Corporate Governance - Definition

Corporate governance is ‘the system by which organisations are directed and controlled’.

For the public sector it embodies 6 principles:

- a clear definition of the body’s purpose and desired outcomes;
- well-defined functions and responsibilities;
- an appropriate corporate culture;
- transparent decision-making;
- a strong governance team; and
- real accountability to stakeholders

An issue for the public sector?

Corporate governance reform origins lie in private sector.

- Initial focus was on financial reporting and accountability with separation of chief executive and chairman roles.

More recent focus on:

- Identifying and managing risk
- Securing independent element on Board
- Defining role of audit committees and relationship with audit, internal and external

An issue for the public sector?

- Is there an issue about concentration of power in public sector bodies?
- Is there clarity about financial and performance reporting to stakeholders in the public sector?
- Is there clarity about accountability?
- Is there an issue of risk for the public sector and if so how well is risk managed?
- Is there a need for an independent element to review executive management and to liase with audit?

An issue for the public sector? European administrative law and corporate governance

Public administration through law, including fairness, timeliness, reliability and predictability:

- Proportionality (reasonableness)
- Legal certainty and legal competence
- Protection of legitimate expectation
- Non discrimination
- Right to a fair hearing

An issue for the public sector? European administrative law and corporate governance

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Summary of legal standards:

- Reliability and predictability
- Openness and transparency
- Accountability
- Efficiency and effectiveness
- Integrity

(Included within these are fairness and timeliness)



An issue for the public sector? European administrative law and corporate governance

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Critical factor in meeting the requirements of
administrative law is:

*‘An independent civil service with clear rights and duties,
promotion based on merit, reasonably remunerated’*

Aim, to reduce risk of coercion, corruption and flattery

Trends in corporate governance in the public sector

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Now considered a serious issue in the public sector because of concerns about:

- Excessive confidentiality in decision making
- Avoiding influence of special interests
- Inefficiency in public expenditure.

Now greater demand for:

- Openness and accountability in government, with
- Greater willingness to challenge decisions

Standards of corporate governance

- Reliability and predictability
- Openness and transparency
- Accountability
- Efficiency and effectiveness
- Integrity

These standards also underpin democratic values.

Standards of corporate governance

These standards should be reflected in 3 areas:

- Organisational structures and processes
- Reporting to stakeholders and in the control system (including, stewardship of resources, efficiency and effectiveness, demonstrating that the control system works at policy and operational levels)
- Standards of behaviour (how leadership is exercised and the culture of the organisation)



Standards of corporate governance

Some practical consequences

- Public reports on activities
- A public process for making appointments with private interests of appointees available
- Must be a balance of power within the organisation (no one person has unfettered power)
- Chairman role to be defined in writing
- Independent non executives appointed
- Separate chief executive.

Standards of corporate governance - practical consequences for external reporting

Timely annual reports & accounts published including:

- Statement of aims and objectives
- Performance against targets
- Statement of how top appointments made
- Remuneration of top officials
- Commentary on the accounts and performance
- Statement of compliance with code of corp.gov. and how it is implemented in practice

Standards of corporate governance - practical consequences for risk management

Risk management: top management should:

- Identify nature and extent of major risks
- Review past risks
- Identify new risks arising from new objectives and activities
- Anticipate future risks and changes to risk
- Assess ability to reduce incidence of risk

Standards of corporate governance

Some practical consequences for internal control and internal audit

- Top management has a clear responsibility (i.e. not the external auditor or the Ministry of Finance)
- Annual report should include a statement about effectiveness of internal control/internal audit
- Non executives should review internal control/internal audit arrangements
- External auditor should comment on the appropriateness of annual report statements



Non executive management and Audit Committees

Key is independence. Should be:

- At highest level of the organisation
- Membership confined to non executives
- Chairman to be other than chairman of board
- Finance officer and int. & ext. auditors attend
- Have authority to investigate any matter
- Should have private discussions with auditors

Non executive management and Audit Committees

Functions should include review of:

- internal control system
- compliance arrangements
- corporate governance arrangements
- financial statements and adequacy of financial reports to senior management
- Internal audit and audit plans
- Conduct of relations with external auditor

Principles for Audit Committees in IPF Government – UK Treasury

- 1 *On the principle of having an Audit Committee*
- 2 *On the role of the Audit Committee*
- 3 *On the Audit Committee relationship with the Board*
- 4 *On using non-executives of the Board*
- 5 *On independent external members*
- 6 *On the use of executives on the Audit Committee*
- 7 *On the size of the Audit Committee*
- 8 *On the Terms of Reference of the Audit Committee*
- 9 *On audit access to the Audit Committee*
- 10 *On meetings of the Audit Committee*

Standards of behaviour

- Role model of organisation leaders
- Organisation leaders determine values and standards
- Organisation should publish formal code of conduct
- Code of conduct should cover: probity and propriety, selflessness, objectivity, honesty
- Relationships – actual or potential conflicts of interest including political interests to be disclosed
- Gifts, hospitality and entertainment controlled to ensure ‘no undue influence’



Summary

Corporate governance is an issue for the public sector

- There is a link with efficiency/effectiveness.
- There is a range of standards that should be covered.
- There will be affects upon the organisation.
- There will be impacts on reporting and control.
- Personal behaviour has to be covered.

Raising the standards of corporate governance strengthens democracy and leads to better public services.



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H.M. Treasury web site – audit committees

www.hm-treasury.gov.uk/documents/public_spending_and_services/audit_and_accounting/pss_aud_achandbook.cfm