

Consultation Draft

June 2013

Comments due: September 17, 2013

Good Governance in the
Public Sector—
Consultation Draft for an
International Framework



This Consultation Draft of the proposed International Public Sector Governance Framework (International Framework) has been 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.

[IFAC](#) is the global organization for the accountancy profession, dedicated to serving the public interest by strengthening the profession and contributing to the development of strong international economies. It is comprised of 172 members and associates in 129 countries and jurisdictions, representing approximately 2.5 million accountants in public practice, education, government service, industry, and commerce.

REQUEST FOR COMMENTS

The draft International Framework sets out principles for each topic and creates a contextual background for implementing good governance in public sector entities. A significant feature of this International Framework is its explicit grounding in principles that can apply to entities of all sizes in the public sector.

The proposals in this Consultation Draft may be modified in light of comments received before being issued in final form. **Comments are requested by September 17, 2013.**

Respondents are asked to submit their comments electronically through the IFAC website, using the "Submit a Comment" link. Please submit comments in both a PDF and Word file. Please note that first-time users must register to use this feature. All comments will be considered a matter of public record and will ultimately be posted on the IFAC website. Although IFAC prefers that comments are submitted via its website, comments can also be sent to Vincent Tophoff, IFAC Senior Technical Manager, at vincenttophoff@ifac.org.

This publication may be downloaded free of charge from the IFAC website, www.ifac.org, and the CIPFA website, www.cipfa.org. The approved text is published in English. CIPFA and IFAC welcome translation of this publication in other languages. Please refer to the [Translations and Permissions](#) section of the IFAC website for policies, procedures, and an FAQ.

Guide for Commentators

The aim of this International Framework is to promote the development of robust governance by establishing a benchmark for good governance in the public sector.

By encapsulating good practice within seven fundamental principles, the emphasis of this International Framework is to support application of good practice principles rather than provide guidance on specific governance measures.

IFAC and CIPFA request comments on all topics addressed in this proposed International Framework. Anyone offering comments should refer to specific paragraphs, include the reasons for the comments, and, where appropriate, make explicit suggestions for proposed changes to wording. Of particular interest are comments on the matters set out below.

The terminology

1. Do you support the proposed definition of governance, including how it is applied to define good governance in the public sector? If not, how do you think it could be improved?
2. Are the definitions used for other terms in Appendix C suitable for this International Framework? If not, how do you think they could be improved? Should additional terms be included?

The implementation principles

3. Do the principles cover all the fundamental areas of good governance for the public sector? If not, how do you think they could be improved?

The guidance

4. Is the commentary for each principle and sub-principle adequate to promote best practice? If not, how could it be improved?
5. Do the examples provided help explain how to apply the principles in practice? If not how could they be improved? Can you suggest further examples that could be included?
6. Do the evaluation questions for each principle help assess its application in practice? If not, how could they be improved?

Other issues

7. Do you have any other suggestions or recommendations for further improvement of this International Framework?
8. Are there any important resources missing from Appendix D?

INTERNATIONAL FRAMEWORK GOOD GOVERNANCE IN THE PUBLIC SECTOR

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Foreword

The public sector¹ plays a major role in society. In most economies, public expenditure forms a significant part of gross domestic product (GDP) and public sector entities are substantial employers and major capital market participants. The public sector determines, usually through a political process, the outcomes it wants to achieve and the different types of intervention. These include enacting legislation or regulations; delivering goods and services; redistributing income through mechanisms such as taxation or social security payments; and the ownership of assets or entities, such as state owned enterprises. Governments also have a role in promoting fairness, peace and order, and sound international relations.

Effective governance in the public sector encourages better decision making and the efficient use of resources and strengthens accountability for the stewardship of those resources. Effective governance is characterized by robust scrutiny, which provides important pressures for improving public sector performance and tackling corruption. Effective governance can improve management, leading to more effective implementation of the chosen interventions, better service delivery, and, ultimately, better outcomes. People's lives are thereby improved.²

Characteristics of the public sector

In order to fulfill its wide range of functions, the public sector must satisfy a complex range of political, economic, social, and environmental objectives. This subjects it to a different set of external and internal constraints and incentives from those in the private sector, all of which affect its governance arrangements.

Generally, the main objective of public sector entities is to achieve outcomes—enhancing or maintaining the well-being of citizens—rather than generating profits. Public sector entities often:

- have a coordinating and leadership role to draw support from or foster consensus among all sectors and society;
- possess the power to regulate entities operating in certain sectors of the economy to safeguard and promote the interests of citizens, residents, consumers, and other stakeholders and to achieve sustainable benefits; and
- undertake activities on a basis other than by fair exchange between willing buyers and sellers because they have the ability to exercise sovereign powers. For example, pursuing social policies may sometimes call for issues of equality and fairness to be given greater weight than financial performance.

Financing public sector activities also has an important impact on governance:

- the principal source of revenue for governments and, indirectly, many other public sector entities is generally taxation;³
- taxation and other income streams are often separate from, and have little causal relationship with, expenditure and service streams;

¹ See appendix C for the definition of public sector and other terms.

² IFAC Public Sector Committee, *Governance in the Public Sector: A Governing Body Perspective* (2001).

³ In some countries, the major source of income is profit from government owned companies.

- public sector services may be provided in a non-competitive environment because alternative providers often do not exist, and the bottom line does not normally determine the types of goods and services to be provided; and
- service recipients, unlike consumers in the private sector, may have little or no option to use a different service provider or to withhold payment.

Stakeholders are therefore interested in issues such as (a) whether the planned outputs have been delivered and outcomes achieved, and (b) whether this has been done in an efficient, economic, effective, and equitable manner. They will also be interested in maintaining the entity's capacity, as reflected, for example, in the entity's financial performance and financial position at year end. Public sector entities should, therefore, be highly transparent, and provide high quality information about all aspects of performance.

Framework purpose and development

The aim of *Good Governance in the Public Sector* (International Framework) is to encourage better service delivery and improved accountability by establishing a benchmark for good governance in the public sector. The International Framework is not intended to replace national and sectoral governance codes. Instead, it is anticipated that those who develop and set national governance codes for the public sector will refer to the International Framework in updating and reviewing their own codes. Where codes and guidance do not exist, the International Framework will provide both a shared understanding of what constitutes good governance in the public sector and a powerful stimulus for positive action.⁴

This Consultation Draft was developed with input from an International Reference Group whose members are listed in Appendix A. Their input was provided in their individual capacities and not as representatives of their organizations. The draft was developed after an initial review of relevant current governance literature. An overview of how the proposed International Framework maps to this literature is available on the [IFAC website](#).

⁴ The experiences this framework draws on were primarily gained in countries with liberal market economies where governments are subject to regular election. It will, therefore, be easiest to apply its principles in a similar context. Nevertheless, CIPFA and IFAC believe its concepts are capable of general application, even in the context of other political and economic systems—wherever government provides services to achieve specifiable outcomes affecting its citizens reliably, effectively, and efficiently. Consultation Question 5 seeks further examples from other jurisdictions.

1. Introduction

Governance in the public sector

- 1.1. There is no universally agreed-upon definition for the term “public sector governance.” What is understood by the term appears to vary considerably between jurisdictions. Existing definitions of governance, including those that are public sector focused, considered during the development of the International Framework are included in Appendix B. For the purpose of this International Framework, the following definition of governance has been adopted:

Governance comprises the arrangements⁵ put in place to ensure that the intended outcomes for stakeholders are defined and achieved.

- 1.2. The definitions of the other terms used throughout this document are set out in Appendix C.

Whole-system based approach

- 1.3. Governments and other public sector entities raise resources from taxpayers, donors, lenders, and other suppliers for the provision of services to citizens and other recipients, as well as less visible activities, such as regulation and policy development. These entities are primarily accountable for their management and use of resources to those that provide the resources and those that depend on the resulting services. The resources raised are generally distributed through a network of public sector entities with specific functions that have a range of accountability mechanisms. However, the fundamentals of good governance should remain the same at all levels and stages.
- 1.4. Most governance codes focus on delivering good governance practices at an organizational level. This International Framework aims to be relevant not only at the individual entity level but also at the whole-system level, which may be sub-national, national, or international. It draws on some of the architecture maps in CIPFA’s [Whole System Approach to Public Financial Management](#), which outlines how the key constituent parts, such as external assurance and scrutiny, financial reporting, and audit standards, contribute to the integrity of the whole system.
- 1.5. The International Framework also adopts a “substance over form” approach, in that the fundamentals of good governance should apply equally to a whole system within government, just as much as to individual entities. As this may involve a number of individual organizations, the term “entity” has been used instead of “organization” throughout this document.
- 1.6. In some jurisdictions, governments or other public sector entities may fund and engage with entities in the private and not-for-profit sectors to carry out certain activities or provide certain services.⁶ While this International Framework does not specifically apply to governance arrangements in these circumstances, the principles may also be relevant in such cases.

Principles-based framework

- 1.7. As noted in the Foreword, the aim of this International Framework is to promote the development of robust governance in public sector entities by establishing a benchmark for good governance.
- 1.8. Public sector entities worldwide do not operate within a common legislative framework, nor do they have standard organizational shapes or sizes. Therefore, in developing this International

⁵ Includes political, economic, social environmental, administrative, legal, and other arrangements.

⁶ In some instances, these are also called public-private partnerships.

Framework it was recognized that it must address this diversity as well as the different models of governance that apply in different jurisdictions and in different sectors, each of which has unique features requiring special attention and imposing different sets of responsibilities and accountabilities. The International Framework does this by setting out principles for good governance in public sector entities, rather than prescriptive requirements.

- 1.9. The real challenge for public sector entities, however, remains in the implementation of such codes and guidance, as it is often their application that fails in practice. Therefore, this International Framework also provides more detailed explanatory material for each of the principles—a series of examples, evaluation questions, and references to other sources of information. The aim is to assist public sector entities in interpreting the principles in way that is appropriate to the entity's structure, taking account of the legislative and constitutional arrangements that underpin them.

Governing body

- 1.10. Every public sector entity needs a group of one or more individuals that is explicitly responsible for providing strategic direction and oversight. This International Framework uses the collective term “governing body” for this group regardless of the various forms in which it may exist, adopting the following definition:

The person(s) or group with primary responsibility for overseeing the strategic direction and accountability of the entity

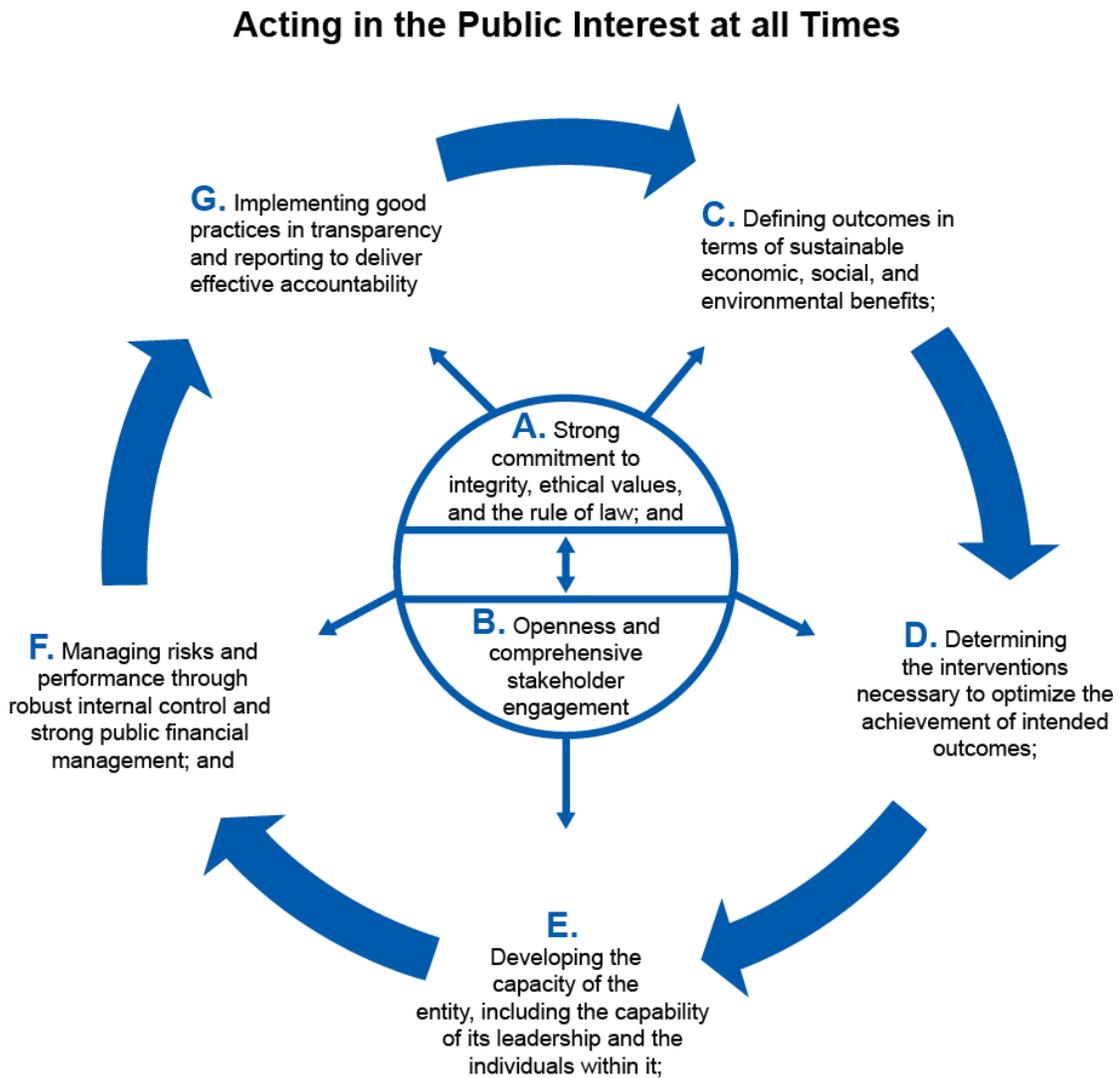
- 1.11. Governing bodies can be made up of independent and non-independent members and can have various subcommittees. In some entities in some jurisdictions, the governing body may include executive members. In others, the governing and management functions may be separated, with a non-executive governing body overseeing an executive management group. This type of structure is sometimes described as two-tier. The non-executive role commonly comprises:
- contributing to strategy by bringing a range of perspectives to strategy development and decision making;
 - making sure that effective management arrangements and an effective team are in place at the top level of the entity; and
 - holding the executive to account for performance in fulfilling the responsibilities delegated to it by the governing body, including thorough purposeful challenge and scrutiny.
- 1.12. The separation of powers between the non-executive legislature and the executive (ministers and public servants) is crucial in most governments, and is reflected in the particular arrangements for governance. These can include scrutiny by legislative committee, specific operational responsibilities of chief executives (heads of department, agencies, or other entities), and ministerial accountability. The constitutional basis of government departments/entities and their executive agencies also varies between jurisdictions.
- 1.13. In some local governments the governance arrangements are also characterized by a two-tier structure. This model often has a top, or supervisory, tier comprised of democratically elected councilors. While their role is broadly analogous to that of a non-executive board, they also have a political representational function.
- 1.14. State owned enterprises often have governing bodies similar in composition to those seen in the private sector, with a mixture of executive members and non-executive members, although these

are commonly appointed by ministers of the state. In such organizations transparency over ministerial involvement is critical to good governance.

2. **Key Principles of Good Governance in the Public Sector**

- 2.1. The function of good governance in the public sector is to ensure that entities act in the public interest at all times.
- 2.2. Acting in the public interest requires:
 - A. Strong commitment to integrity, ethical values, and the rule of law; and
 - B. Openness and comprehensive stakeholder engagement.
- 2.3. In addition to the requirements for acting in the public interest, achieving good governance in the public sector also requires:
 - C. Defining outcomes in terms of sustainable economic, social, and environmental benefits;
 - D. Determining the interventions necessary to optimize the achievement of intended outcomes;
 - E. Developing the capacity of the entity, 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; and
 - G. Implementing good practices in transparency and reporting to deliver effective accountability.
- 2.4. Figure 1 illustrates how the various principles for good governance in the public sector relate to each other.

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



2.5. The core principles for good governance in the public sector set out above are high level and bring together a number of concepts. The following section provides an explanation of the underlying rationale, together with supporting commentary, for the key elements of each principle, and supporting sub-principle. Each principle section is followed by examples and questions for entities to consider in assessing how they live up to the International Framework as well as in developing action plans to make necessary improvements.

3. Guidance on Implementing the Good Governance Principles

- 3.1. In order to deliver good governance in the public sector, both governing bodies and individuals working for entities must act in the public interest at all times, consistent with the requirements of legislation and government policies, avoiding self-interest and, if necessary, act against a perceived organizational interest. Acting in the public interest implies a wider benefit to society, which should result in positive outcomes for service users and other stakeholders. In its Policy Position Paper, [A Definition of the Public Interest](#), IFAC defines the public interest as:

The net benefits derived for, and procedural rigor employed on behalf of, all society in relation to any action, decision or policy.

- 3.2. IFAC recognizes that differences in culture and ethical systems should be considered in assessing whether or not the public interest is being served, especially where institutions are operating internationally. It notes that “interests of the public” in the broadest sense are all things valued by individuals and by society, including rights and entitlements (such as property rights), access to government, economic freedoms, and political power. They also include, for example:
- sound and transparent financial and non-financial information and decision making on the part of governments and public sector entities to their constituents;
 - sound governance and performance management in public sector entities; and
 - efficient use of natural resources in the production of goods and services, thereby enhancing the welfare of society by their greater availability and accessibility.
- 3.3. This section considers the underlying rationale for each principle and provides supporting commentary on the key elements of each principle, expressed through sub-principles. Each principle section is followed by examples and questions for entities to consider when assessing how they live up to the International Framework as well as when developing action plans to make necessary improvements. The section first considers the two principles on acting in the public interest:
- A. Strong commitment to integrity, ethical values, and the rule of law; and**
- B. Openness and comprehensive stakeholder engagement.**

The additional five principles required for achieving good governance in the public sector are covered later in this section.

A. Strong commitment to integrity, ethical values, and the rule of law

The public sector is normally responsible for using a significant proportion of national resources raised through taxation to provide services to citizens. Public sector entities are accountable not only for how much they spend but also for the ways they use the resources with which they have been entrusted. In addition, they have an overarching mission to serve the public interest in adhering to the requirements of legislation and government policies. This makes it essential that the entire entity can demonstrate the integrity of all its actions and has mechanisms in place that encourage and enforce a strong commitment to ethical values and legal compliance at all levels.

A1. Demonstrating integrity

The governing body should promote a culture where acting in the public interest at all times is the norm. It should do this by taking the lead in establishing and living up to specific values for the entity and its staff. These values should be easy to communicate and understand. They should be over and above minimum legal requirements and should build on established principles for behavior in public life, such as objectivity, selflessness, and honesty.⁷ These principles reflect public expectations about the conduct and behavior of entities, groups, and individuals who manage public service provision and spend public money.

The governing body should stand as a role model (often referred to as the “tone-at-the-top”) by keeping these values at the forefront of its own thinking and behavior and use them to guide its decision making and other actions. The values can also be used to promote a culture of integrity and collaboration throughout the entity through a number of mechanisms. These include their definition and communication through codes of conduct, frequent staff consultation and communication, exemplary behavior, and performance assessment and reward processes.

A2. Strong commitment to ethical values

Ethical values and standards should be embedded throughout an entity and should form the basis for all its policies, procedures, and actions, as well as the personal behavior of its governing body members and other staff.

Having a code of conduct for governing body members and staff is a key element of good governance. Developing, reviewing, and communicating a code that illustrates what the values mean in specific circumstances helps to make visible (a) how the entity operates; (b) how it embeds its core values, such as by reflecting values in communications, processes, and behavior; and (c) how it relates to its key stakeholders. Codes also help reassure stakeholders about the entity's integrity and its commitment to ethics.

Conflicts can arise between the personal interests of individuals involved in making decisions and the decisions that the governing body or employees need to make in the public interest. To ensure continued integrity and avoid public concern or loss of confidence, governing body members and staff should take steps to avoid or deal with any conflicts of interest, whether real or perceived.

Some entities have a separate ethics policy and code of conduct. In such cases, an entity's ethics policy typically sets out values and principles while a code of conduct outlines standards of behavior and practices.

It can be difficult to measure objectively factors affecting an entity's performance in leadership, ethics, and culture, or to identify ethical problems before they manifest in organizational performance. However, it is important that entities seek to understand and maintain their performance in these areas. Useful evaluative approaches to gauge performance include staff surveys, performance appraisals, administrative reviews, and leadership self-assessments. Stakeholders can also provide important feedback on how an entity is performing in leadership, ethics, and culture. This can be solicited formally or be received through comments and complaints. Complaints can form a vital part of feedback and should be handled and resolved efficiently, effectively, and in a timely manner so that lessons learned are used to improve the performance, both ethical and general, of the entity and its services.

⁷ The Nolan Principles—The Seven Principles of Public Life, www.learn-to-be-a-leader.com/nolan-principles.html

Whistleblowing processes should also be established whereby individuals or groups are able to draw formal attention to practices that are unethical or violate internal or external policies rules or regulations and to ensure that valid concerns are promptly addressed. These processes also reassure individuals raising concerns that they will be protected from any potential negative repercussions.

A3. Strong commitment to the rule of law

Fair legal frameworks, enforced on an impartial basis, as well as an independent judicial system assist in building societies where individuals and organizations alike can feel safe. They do this by affording legal protection for rights and entitlements, offering redress for those harmed, and guarding against corruption.

Public sector entities at all levels may be involved with creating or interpreting laws; such activities demand a high standard of conduct that prevents these roles from being brought into disrepute. Adhering to the rule of law also requires effective mechanisms to deal with breaches of legal and regulatory provisions.

Public sector entities and the individuals working within them should, therefore, demonstrate a strong commitment to the rule of law as well as compliance with all relevant laws. Within this International Framework, they should also strive to utilize their powers for the full benefit of their communities and other stakeholders. The rule of law is also a means by which public sector entities and individuals within them can be held to account through compliance with any constraints on resources voted by the legislature.

Principle A: Examples**Maintaining standards**

Entities can establish and maintain standards through codes of conduct, which should be supported by training. 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 annually, in an annual report or equivalent document, that they are satisfied regarding the adequacy of their entity's arrangements for safeguarding high 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 relation to delivering public services.

Identifying conflicts of interest

The key question that must always be addressed is: whether a member's or official's duties or responsibilities to a public entity could be affected by some other interest or duty that the member or official may have.

It is important to focus on the overlap between the two interests—that is, whether the member's or official's other interest has something to do with the particular matter that is being considered or carried out by the public entity.

It is better to err on the side of openness when deciding whether something should be disclosed. Many situations are not clear-cut. If a member or official is uncertain about whether or not something constitutes a conflict of interest, it is safer and more transparent to disclose the interest anyway. 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 whether the situation is serious enough to warrant any further action.

Disclosure promotes transparency, and is always better than the member or official silently trying to manage the situation by themselves. There might also be a perceived conflict of interest that should be avoided, wherever possible.

—*Extract taken from Managing Conflicts of Interest: Guidance for Public Entities (Office of the Auditor-General, New Zealand). The full document is available at www.oag.govt.nz/2007/conflicts-public-entities.*

Principles for whistleblowing

Whistleblowers can play an essential role in detecting fraud, mismanagement, and corruption. However, they may 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. Transparency International's principles are available at www.transparency.org/files/content/activity/2009_PrinciplesForWhistleblowingLegislation_EN.pdf.

Principle A: Evaluation Questions

- Have risks associated with poor ethical standards been assessed?
- Has the governing body adopted a formal code of conduct defining the standards of behavior to which individual governing body members and all employees of the entity are required to subscribe and adhere to?
- Is the governing body living up to its code of conduct and, thus, setting the right tone for the entity?
- Are there any ways in which the behavior of those in governance roles might undermine the entity's aims and values?
- 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 meetings?
- Does the chief executive (or equivalent) take personal responsibility for the ethical standards in his or her entity?
- What are the values that staff are expected to demonstrate in their actions and behavior? Are these documented and communicated effectively to all staff?
- Does the entity have an anti-fraud and corruption policy? Is it working effectively?
- 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

B. Openness and comprehensive stakeholder engagement

Public sector entities are run for the public good, so there is a need for openness about their activities and clear, trusted channels of communication and consultation to engage effectively with individual citizens and service users, as well as institutional stakeholders.

B1. Openness

To demonstrate that they are acting in the public interest at all times and to maintain public trust and confidence, public sector entities should be as open as possible about all their decisions, actions, plans, resource use, forecasts, outputs, and outcomes. Ideally, this commitment should be documented through a formal policy on openness of information.

Governing bodies should provide clear reasoning for their decisions. In both their public records of decisions and in explaining them to stakeholders, they should be explicit about the criteria, rationale, and considerations on which decisions are based, and, in due course, about the impact and consequences of those decisions. They should restrict the provision of information only when the wider public interest clearly demands it.

Such restrictions may be appropriate only in a limited number of situations. These might include situations where communicating certain information might endanger national security or adversely affect a country's relationships with other countries or international entities. There may also be situations involving business relationships with the private sector where information cannot be freely communicated as it is held in private ownership. Finally, there may be situations concerning

individual citizens—for example when dealing with clients within the social welfare sector—where personal integrity would prevent information from being openly available.

B2. Engaging individual citizens and service users effectively

The governing body should ensure that the entity has a clear policy on the types of issues it will consult or engage the public and service users on in order to ensure that the services provided (or other interventions) are contributing to the achievement of intended outcomes. It should also ensure that the entity has processes in place to collect and evaluate the views and experiences of people and organizations of all backgrounds. Evaluation processes should enable the interests of the more vocal stakeholder groups to be balanced with other stakeholders' interests to ensure that no one group becomes too dominant. In addition, they should also take into account the interests of future generations of tax payers and service users (intergenerational equity).

Representative views from, for example, current service users about the suitability and quality of existing services are relevant, as are those of both users and non-users about their future needs. Such views can be expressed through a variety of mechanisms, such as surveys, websites, and direct feedback from regular meetings with clients, as well as referenda and elections in a democratic system. The policy should explain clearly how the entity will use this input in its decision making and how it will feed these decisions back to the public and service users.

B3. Engaging comprehensively with institutional stakeholders

Few public sector entities can achieve their intended outcomes solely through their own efforts. Public sector entities also need to work with institutional stakeholders to improve services and outcomes, or for accountability reasons. Developing formal and informal partnerships with other entities, both in the public sector and other parts of the economy, allows entities to use their resources more efficiently and achieve their outcomes more effectively. Relationships with other entities are particularly important if they serve the same users or communities or if they provide complementary or related services.

As a result, public sector entities often have a complex network of different types of relationships with other entities, the range and strength of which vary. Some are lateral relationships between partners while some are hierarchical relationships, such as those between legislatures and different levels of government. For many parts of the public sector, other entities—such as central government—play a major role in determining policy and resources. Good governance requires clarity of purpose, objectives, and defined outcomes for each of these relationships. In particular, effective engagement with other stakeholder institutions is vital to the development of defined outcomes if these are to be achieved successfully and sustainably.

Additional considerations when working with other public sector entities include:

- clearly allocating accountabilities and responsibilities with governance options, including the appointment of a lead entity and/or a governing body composed of representatives from the lead agency and other involved entities;
- working toward a shared objective or outcome, with consideration given to the best way to evaluate the effectiveness of joint activities in achieving goals;
- specifying clear funding arrangements and ensuring appropriate systems are in place so that expenditures against milestones and deliverables can be properly managed; and

- carefully considering and monitoring the risks facing each entity as part of joint work, particularly any shared risks.

Principle B: Examples

Budget openness

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 problems and those associated with a lack of awareness regarding a right to information on behalf of citizens as well as political sensitivity. Additional details are available in an Open Government Partnership blog at

<http://blog.opengovpartnership.org/2013/03/budget-openness-stories-from-asean/>.

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 faces 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 organization but also the views and concerns of external parties, such as representatives from patient groups and other non-government healthcare organizations. Being able to accurately articulate the financial requirements arising from these emerging challenges is, therefore, strategically important to the HA for securing funding from the government to sustain its delivery of quality patient care in the long run.

—Adapted from *Integrating Governance for Sustainable Success (IFAC, 2012)*. For additional information, see the HA website (www.ha.org.hk).

Boards and commissions

Creating boards, commissions, or advisory groups 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 awareness of a government's activity among average citizens; cultivate and educate a pool of potential elected officials; provide needed feedback and reality checks for the governing body; and provide some of the more detailed and common aspects of governance that allows the elected governing board to focus on the more strategic issues.

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 fail or are inadequate, it can be because each entity tries to optimize its own actions with little or no ambition to cooperate with others in this complex chain.

Principle B: Evaluation Questions

- Does the entity have an explicit commitment to openness and transparency in all activities of the entity?
- What policy/criteria are applied when deciding to keep information confidential?
- How well does the entity explain the reasons for its decisions to those who might be affected by them?
- 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 demonstrate 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?
- Who are the institutional stakeholders that the entity needs to have good relationships with?
- 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 is the level of trust that individual service users, and institutional stakeholders, have in the entity?
- How are the outcomes measured against the fulfillment of stakeholders expectations?

Achieving good governance in the public sector

In addition to the requirements in Principles A and B for acting in the public interest at all times, achieving good governance in the public sector also requires:

- C. Defining outcomes in terms of sustainable economic, social, and environmental benefits.**
- D. Determining the interventions necessary to optimize achievement of intended outcomes.**
- E. Developing the capacity of the entity, 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 and reporting to deliver effective accountability.**

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 its planned outcomes, which must 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 citizens, service users, institutional stakeholders, and others is vital to the success of this process and in balancing competing demands in order to determine priorities within the finite resources available.

C1. Defining outcomes

The roles and functions of public sector entities, the nature of their funding, their impact on society, and the resulting need for accountability mean that having a formally agreed-on statement of an entity's purpose and the intended outcomes is essential. It should be used as a basis for its planning and other decisions and should contain appropriate key performance indicators (KPIs) for measurement and evaluation.

Outcomes may be viewed as the impact of the goods and services, including the redistribution of resources, provided by a public sector entity in delivering its objectives. Defining outcomes, therefore, involves the specification of the intended impact or changes outside the entity. This may be immediate or over the course of a year or longer. Achievement of those intended outcomes may be affected by factors beyond the control of the entity concerned.

To achieve outcomes in a sustainable manner, jurisdictions and individual entities must make decisions on (a) levels of taxation and public expenditure; (b) levels of performance sought in terms of, for example, service delivery or the maintenance of infrastructure; and (c) how to manage and account for their assets and liabilities, including public debt. In addition, they must manage expectations regarding the services they can provide within the resources available to them. Resource allocations between different levels of government and individual public sector entities are determined in many ways, depending on both constitutional arrangements and institutional structures. These, in turn, drive delivery management and accountability frameworks, which can be articulated through mechanisms such as fiscal rules, budget frameworks, and input, output, and outcome targets.

C2. Sustainable economic, social, and environmental benefits

There are fundamental environmental limits to organizational activity in the public sector. The levels of taxation that an economy can sustain or the charges that service recipients can afford, as well as the available social resources, are also limited, which constrains both what an entity can plan to achieve and its actual performance in the medium to long term. Although it can also support wealth creation, public sector expenditure often represents a redistribution of wealth. There is, therefore, a balance to be struck between increasing taxes to support greater public sector expenditure and a reduction in the overall wealth creation capacity of the economy.

Public sector entities, therefore, need to consider the combined economic, social, and environmental impact of their policies, plans, and decisions—for example, by taking demographic factors into account when making decisions that have long-term impact (e.g., social policy commitments).

Sustainability is the capacity of an individual entity, community, or global population to continue to survive successfully by meeting its intended outcomes while living within its resource limits. The long-term nature and impact of many of the public sector's responsibilities mean that in defining its outcomes, through a political process or otherwise, the entity must ensure they can be delivered on a sustainable basis. This also emphasizes the importance of managing the capacity of entities in order to ensure the delivery of services is sustainable. In this respect, it is essential that future obligations to citizens are fully reflected in the long-term budget and that all future liabilities are completely transparent.

At the same time, public sector entities have the overarching mission to ensure that they are acting in the public interest at all times. This means taking a longer-term view and being transparent about where there are potential conflicts between the entity's intended outcomes and shorter-term factors such as political cycles and other external pressures.

In determining sustainable outcomes, there will often be conflicting interests between achieving the various economic, social, and environmental benefits. In these cases, the governing body needs to balance, preferably through consultation, the various public interests concerned and ensure that appropriate trade-offs, based on the outcome of the political consultation, are made.

A significant factor in determining the appropriate buffer capacity that the entity needs is the level of resilience that is required in the event of significant adverse events. Public sector entities that are concerned with the protection and safety of citizens are likely to place even greater emphasis on resilience.

Principle C: Examples

Change programs—Bath and North East Somerset Council

Bath and North East Somerset 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 in order to create financial efficiencies, work closely with partners, and improve the quality of services through 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.

Bath & West Community Energy—case study

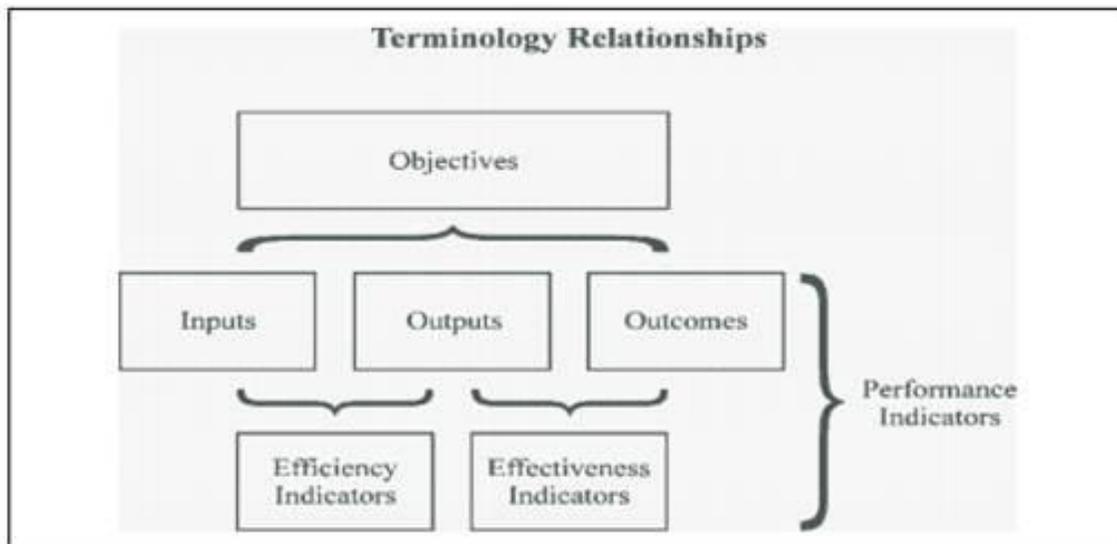
The Council has supported the establishment of Bath & West Community Energy, a new social enterprise run by energy experts and community activists. The new company is supplying free solar energy panels to local schools and community buildings. It is also running a public share offer to raise £400,000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

The full report from the council is available at

www.bathnes.gov.uk/sites/default/files/sitedocuments/Your-Council/ChangeBrochure2014.pdf.

Terminology relationships

The following graph taken from the International Public Sector Accounting Standard Board (IPSASB) consultation document Reporting Service Performance Information illustrates the relationships which exist between the terms identified in Principle C above.



The full document can be found at

www.ifac.org/news-events/2011-10/ipsasb-issues-consultation-paper-reporting-service-performance-information-consu

Principle C: Evaluation Questions

- To what extent are the entity's aims and vision at the forefront of decision making and planning?
- Is the entity clear on what it is trying to achieve and does it have measurable or assessable outcome definitions?
- How does the entity ensure that capital investment is designed to achieve appropriate lifespans and adaptability for future use or that use of finite resources (e.g., land or water) facilitates social, economic, and environmental well-being?
- Is the activity under review part of the specific mission of the entity?
- Does the entity have a learning culture where it uses its past experiences to improve performance?

D. Determining the interventions necessary to optimize the achievement of 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 in order to ensure they achieve their intended outcomes. Public sector entities need robust decision-making mechanisms in order to ensure that their defined outcomes can be achieved in a way that ensures the best trade-off between the various types of resource inputs. Decisions made need to be kept under review so that achievement of outcomes is optimized.

D1. Determining interventions

To determine the appropriate interventions, governing body members should receive objective and rigorous analysis of a variety of options including their projected risks and results (also known as scenario planning). A key aspect of this analysis should be an indication of how the proposed intervention would contribute to the achievement of outcomes, including projected risks and results. This analysis should also consider legal and financial matters and governance procedures. Such analysis, information, and professional guidance is needed at all levels of the entity where significant policy decisions are made.

Citizens and tax payers have an important and legitimate interest in the value for money provided by entities using public money. All entities that raise or spend public money to either commission services or provide them directly, therefore, have a duty to strive for economy, efficiency and effectiveness. The governing body will need to decide how value for money is to be achieved and how it can be measured. Subsequently, it needs to make sure the entity has the processes and information it needs to monitor value for money effectively, including using benchmarking information from other entities for financial and service quality comparisons.

D2. Planning interventions

To achieve sustainable outcomes, as discussed in Principle C, public sector entities need to plan interventions, such as services or regulation, appropriately. This means establishing robust planning and control cycles covering their strategic and operational plans, priorities, and targets, including risk management processes. Simultaneously, they must engage with both internal and external stakeholders on how such services and other interventions can best be delivered.

Performance can mean different things to different stakeholder groups. Therefore, the governing bodies of public sector entities need to determine closely how they define performance and making it SMART⁸ enough to be properly managed.

As part of the planning process, the governing body should decide how the performance of its services and projects are to be measured, establish appropriate Key Performance Indicators, and make sure the entity has the capacity to generate (capture, process, analysis, and report) the information needed to review service delivery and quality regularly. This will mean ensuring that processes, systems, and frameworks in place are logical and that the various inputs, throughputs, and outputs, such as public expenditure, can be tracked accurately and quickly. The mechanisms will need to cover:

- strategic planning;
- program/performance budgeting;
- value chain analysis;
- clear budget documentation;
- risk management processes; and
- managing performance through monitoring and review.

In view of the longer-term nature and wider impacts of their activities, public service entities should prepare their budgets in accordance with their organizational objectives, strategies, and medium-term financial plan. The medium-term financial plan, consistent with a sustainable macro-fiscal framework, will need to ensure that there is adequate funding available to support delivery of the entity's defined objectives and/or strategic outcomes.

Medium- and long-term resource planning should be informed by a forward projection of expenditure and revenue sources. The aim should be to develop a sustainable funding strategy that fully supports future expenditure and liabilities. At a macro level, strategic planning will need to consider issues such as sustainability (including solvency), variation in the tax base, intergenerational equity, and stability of taxation levels. The projections should also take account of risk assessment and sensitivity testing, for example, risks related to future grant levels or to taxation dependent on levels of economic activity. Medium-term expenditure frameworks are also one mechanism for a stronger connection between program and financial planning.

The governing body should also ensure that feedback from citizens and service users is considered when making decisions about service improvements or when services are no longer required, in order to balance and prioritize competing demands within limited available resources (see [Principle B](#)). Where evidence is provided on service issues or even service failures, the governing body should ensure that action is taken to tackle them, including terminating contracts if necessary. This would apply equally to tax assessment and collection activities as well as to service delivery programs.

D3. Optimizing achievement of intended outcomes

The medium-term financial strategy of a public sector entity must integrate and trade off service priorities and affordability and other resource constraints in order to set the framework for the

⁸ SMART goals or objectives are Specific, Measurable, Achievable, Result-based, and Time-bound.

annual planning process. This should ensure that the budgets and service and project plans are aimed at achieving the intended outcomes, while making the best overall use of scarce resources. The strategy should then continue to set the context for ongoing decisions on significant delivery issues or responses to changes in the external environment that may arise during the budget period in order to ensure that outcomes continue to be achieved while optimizing resource usage.

Increasing efficiency through optimization also helps achieve the desired outcomes. Public sector entities have to determine, for example, whether they will provide a certain output themselves or by private sector competition. The decision to perform work in-house or to contract out depends on many factors, including policy considerations, available expertise, and cost. Therefore, public sector entities should have an adequate, all-inclusive budgeting process, taking into account the full cost of their operations in the medium and longer term

Principle D: Examples

Regulatory impact analysis

Regulatory Impact Analysis (RIA) is a fundamental tool to assist governments in assessing the impact of regulation. Public sector activities frequently involve trade-offs between different possible uses of resources in order to maximize the benefit to society. 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 Organisation for Economic Co-operation and Development (OECD) has developed guidance and undertaken extensive research surrounding the issues and experiences associated with RIAs. Further information can be found at www.oecd.org/gov/regulatory-policy/ria.htm.

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 underpinned 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;
- integrating financial management; and
- establishing effective project management, budget classifications, and use of performance indicators.

Professional advice

It is helpful to draw on the support of a senior member of staff 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: Evaluation Questions

- 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 enable rigorous decisions regarding the improvement of value for money?
- Will the planned intervention succeed in solving the problem to the extent that at some future date the intervention is no longer necessary?
- Do those making decisions receive regular and comprehensive information on users' views of the services they receive?
- How effectively is the above information used when planning and making decisions?
- Does the entity publish its budget and explain the basis for policy decisions?
- Is specialist professional advice available and taken into account when it is sensible and appropriate to do so?
- Does the entity make use of techniques to avoid groupthink for decision-making purposes?
- Does the entity make use of incentives for the purposes of aligning decision-making processes?
- How well is the entity doing in relation to the achievement of intended outcomes?
- How does the entity know how effective it is?

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

Public sector entities need the right structures and leadership, as well as people with the right skills and mindset, to operate efficiently and effectively and achieve their intended outcomes within the specified periods. Changes in individuals, and the environment in which the entity operates, mean there will be a continuous need to develop its capacity as well as the skills and experience of its leadership and individual staff members. Public sector entities are strengthened by the participation of people with many different types of backgrounds reflecting the structure of their communities.

E1. Developing the capacity of the entity

Public sector entities need to ensure that they are and remain fit for purpose—meaning their underlying governance and staffing structures must enable them to deliver the planned services. At the same time, development of their capabilities must enable the entity to respond successfully to changing legal and policy demands, as well as to economic, political, and environmental changes and risks. These influence either the intended outcomes or the services and projects the entity needs to deliver to achieve its intended outcomes.

All entities depend on a variety of resources and relationships for their success. These resources and relationships can be regarded as different forms of capital that flow into, throughout (conversion process), and out of the public sector entity.⁹ They can be categorized as:

- financial capital;
- manufactured capital;

⁹ This concept is explored in the International Integrated Reporting Committee's [Consultation Draft of the International Integrated Reporting Framework](#) (2013).

- intellectual capital;
- human capital;
- social and relationship capital; and
- natural capital.

These six types of capital assets, whether belonging to the entity itself or to society more broadly, provide the inputs needed to achieve the public sector entity's outcomes. The entity's operations and outputs must, therefore, be regularly reviewed for their effectiveness, as well as in the light of internal and external changes and challenges. As part of this process, entities should strive to learn from each other, for example, through benchmarking. In developing options for improvement and solutions to resource issues, relevant experience in the public, private, and not-for-profit sectors may be a source of good practice. The decisions made as a result of this process will determine how resources are to be allocated and applied to achieve the intended outcomes effectively and efficiently. One example is determining both the levels of staffing and the types of skills an entity requires. Therefore, public sector entities need to strike an appropriate balance between the acquisition of new staff and/or development of existing staff and the use of external contractors.

Information technology (IT), for example, is both a manufactured and intellectual capital. Reinforced by the use of appropriate social media and other communication and consultation techniques, IT can promote good governance in three basic ways: increasing transparency, information, and accountability; facilitating accurate decision making and public participation; and enhancing the efficient delivery of public goods and services.¹⁰ However, deployment of new technology can also pose serious risks and cause many issues when either the technical or organizational aspects of its implementation and operation are not properly planned and managed. The right skills will therefore be required both during and after implementation.

E2. Developing the entity's leadership

The leadership of a public sector entity is usually made up of its governing body (either elected, appointed, or a combination of the two) and its senior management (the executive). Good governance requires clarity over the various organizational roles and responsibilities between the governing body, management at all levels, and employees. Their respective responsibilities also need to be communicated to stakeholders. Clarity about roles helps stakeholders understand how the governance system works and who is accountable for what and to whom. The governing body should, therefore, publish a formal statement that specifies the types of decisions that are delegated to the executive and those reserved for the governing body.

All members of the governing body and senior management should be appropriately qualified to meet the needs of their roles and responsibilities. They also need opportunities to develop further their skills and update their knowledge. Their competency and attendance record are critical success factors for the effective functioning of the entities that depend on them. This is also the case for those people who occupy these positions but are not, or only notionally, remunerated (volunteers).

Providing adequate and appropriate strategic direction and oversight is challenging and demanding, so governing body members need the right skills for their roles. The governing body

¹⁰ [Information Technology for Good Governance](#) (Francisco Magno and Ramonette Serafica, 2001)

needs to review its composition and effectiveness on a regular basis to ensure it continues to have the correct balance of skills and knowledge to continue to perform its role effectively. It is also important that governing bodies are stimulated by fresh thinking and new challenges and that they avoid lapsing into familiar patterns of behavior that may not best serve the entity's purpose. Where gaps in capability are noted, the governing body will need to consider how such gaps can be filled.

At the same time, governing bodies need continuity in their membership in order to make the most of the pool of knowledge and understanding and the relationships that have been formed, both within and outside the entity. Membership turnover that is too frequent can mean that the entity loses the benefit of longer serving members' learning and experience.

Encouraging a wide range of people to stand for election or apply for appointed positions to the governing body will assist in developing a membership that has a greater spread of experience and knowledge. This should include the establishment of fair, transparent, and effective election and recruitment processes.

A governing body can improve its collective performance by periodically taking the time to step back and consider its own effectiveness. Where it is clear that the governing body will be losing a particular skill set within a defined time scale, it may have the opportunity to make plans to fill the gap accordingly. There will need to be regular reviews to address changes in skill set following elections.

Where other organizations nominate people to join a certain governing body, that governing body should communicate clearly to the nominating body the set of skills and perspectives that are most helpful. A governing body with elected members should commit itself to developing the skills it has decided its members need to carry out their roles effectively.

E3. Developing the capability of individuals within the entity

Human capital is arguably the most important capital for many public sector entities. Recruiting, motivating, and retaining staff are, therefore, vital issues if public sector entities are to be successful. The governing body and management team needs to provide an environment in which staff can perform well and deliver effective services by creating a positive culture that, for example, welcomes ideas and suggestions, responds to staff views, and explains decisions. It is important that staff have realistic job descriptions to ensure that their core responsibilities can be performed effectively. For example, a senior manager's core responsibilities should not be compromised by creating too wide a portfolio of duties. It is important that senior managers who are responsible for performance have the authority to make the necessary decisions, are able to delegate tasks as appropriate, and have sufficient team support to assist them in their roles.

In appointing and remunerating senior managers, it is good practice to establish nominations and remunerations committees, made up of governing body members who are free of vested interests to guard against corruption and are, therefore, best able to make merit-based recommendations to the governing body. It is essential that these processes are transparent.

All new governing body members and staff should receive thorough orientation or induction tailored to their role in achieving the outcomes of the public sector entity while adhering to the principles of good governance. Subsequent training and development needs to be driven by matching organizational and individual development requirements. Sufficient opportunities and resources will also need to be provided for individuals to meet the ongoing professional development requirement of professional bodies.

Individual governing body members and staff should be held to account for their personal contribution through regular performance reviews. These should include an assessment of any training or development needs. There need to be appropriate incentives in place, which make a difference to the manager whether performance is achieved or not. Such incentives may be formal or informal and can include performance-based pay but may also take other forms.

In various jurisdictions, attracting and retaining quality governing body members and staff can be a challenge for public sector entities. They are sometimes perceived as less attractive in terms of financial reward and career progression when compared to other sectors. Ensuring attractive benefits, personal development opportunities, and potential career progression should be key considerations for building an engaged and competent work force.

Principe E: Examples

Horizon scanning

The UK Department for Environment, Food, and Rural Affairs (DEFRA)'s policy portfolio includes risks, like climate change, that might only mature 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, they have 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 developed, 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 can be searched and analyzed by researchers and policy makers using a number of different criteria.

Once the information had been collated and analyzed, DEFRA organized a series of seminars to inform staff, both internal and across the government, about how the data 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 subsystems. They focus on specific and narrowly defined aspects of governance. The World Bank's Human Resource Management Actionable Indicators diagnostic tool is designed to enable 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.

Further information on the indicators can be found at www.agidata.org/site/SourceProfile.aspx?id=2.

Principle E: Evaluation Questions

- What arrangements does the public sector entity have in place for assessing the adequacy of its six capitals?
- How often are the public sector entity's activities and outputs reviewed?
- What skills do the governing body members need to do their jobs effectively?
- What processes does the entity have in place to ensure that governing body members are appointed on a fully transparent basis?
- Does the entity have in place 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 and reach 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 governing body as a whole review its effectiveness in discharging its duties on a regular basis?
- Does the entity report on the effectiveness of the governing body in discharging its duties?
- Where the governing body is responsible for making appointments of non-executives to the governing body, are the appointments for a fixed term? Are reappointments subject to a formal appointment process?
- How effective are the entity's arrangements for reviewing the individual performance of staff?

Further Reading

[Consultation Draft of the International Integrated Reporting Framework](#) (IIRC, 2013)

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

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

Public sector entities need to implement and sustain an effective performance management system that enables them to deliver the planned services effectively and efficiently. Risk management and internal control are significant 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 to the achievement of 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 through enforcing financial discipline, strategic allocation of resources, efficient service delivery, and accountability.

F1. Managing risk

Public sector entities face a wide range of uncertain internal and external factors that may affect achievement of their objectives. The effect of this uncertainty on their objectives is called risk and can be positive (opportunities) or negative (threats). Public sector entities have to deal with risk in all their activities, including strategic, operational, financial (including fiscal), and fraud risks. Other examples include societal risks, risks to human rights, and risks to the independence of the judiciary. Proper risk assessment assists entities in making informed decisions about the level of risk that they want to take, and implementing the necessary controls, in pursuit of the entities' objectives.

Good governance requires that the notion of risk is embedded into the culture of the entity, with governing body members and managers at all levels recognizing that risk management is integral to all their activities. It is about being risk aware rather than risk averse—entities should not be so risk averse that they miss out on opportunities.

Effective risk management better enables public sector entities to achieve their objectives, while operating effectively, efficiently, ethically, and legally, and should include:

- implementing a risk management framework;¹¹
- defining the entity's risk management strategy, approving the limits for risk taking, where feasible, and determining the criteria for internal control;¹²
- integrating the process for managing risk into the entity's overall governance, strategy and planning, management, reporting processes, policies, values; and culture;
- reviewing key strategic, operational, financial, and fraud risks regularly and devising responses consistent with achieving the entity's objectives and intended outcomes;
- engaging staff in all aspects of the risk management process;

¹¹ Examples of a risk management framework include the Committee of Sponsoring Organizations of the Treadway Commission (COSO)'s [Enterprise Risk Management \(ERM\) Framework](#) or the International Organization for Standardization (ISO)'s [Standard 31000:2009—Risk Management](#).

¹² The ISO 31000 risk management standard uses the term "risk criteria" to indicate the terms of reference against which the significance of a risk is evaluated. Other guidelines use the terms "risk appetite" and "risk tolerance." However, as these terms are not clearly defined, this paper uses the term "limits for risk taking."

- monitoring and reviewing the risk management framework and processes on a regular basis; and
- reporting publicly on the effectiveness of the risk management system, for example, through an annual governance statement, including, where necessary, plans to address significant issues.

F2. Managing performance

Building on the arrangements put together in the planning stage (see [section D.2](#)), public sector entities should ensure that effective mechanisms exist to monitor service delivery throughout all stages in the process, including planning, specification, execution, and independent post-implementation review. This is essential whether services are produced internally, through external providers, or a combination of the two. Where monitoring and review mechanisms have not been properly implemented prior to execution, there is a high probability that performance assessment will be unreliable and accountability weak.

From the perspective of the maintenance of organizational capacity, meaningful financial analysis and robust interpretation of results are key components in performance management. At all levels in an entity, those making decisions should be presented with relevant, objective, and reliable financial analysis and advice that clearly points out financial implications and risks with regard to the entity's financial performance, position, and outlook. Information should be fit for purpose and not obscure key information by providing inappropriate detail. It will also need to be set in the context non-financial performance data, as adverse financial variances can result from favorable non-financial performance and vice versa.

Public sector entities should, therefore, continuously monitor and periodically review whether:

- the intended outcomes are still valid (this is still what we want to achieve) or whether they should be adapted to new insights;
- the public entity's service delivery activities can still effectively and efficiently achieve those outcomes; and
- whether there are any changes in the internal or external environment (the context) that might pose a risk, positive or negative, to achieving the outcomes, which need to be managed.

Monitoring and review mechanisms should provide governing body members and senior management with regular reports on progress of the approved service delivery plan and on progress toward outcome achievement. Reports should ideally include detailed performance analyses, both absolute and relative to peer entities. They should give a clear indication of below, on, or above target results, highlighting areas where corrective action is necessary. This action may include service or contract termination. Reports should also indicate where corrective action is planned, underway, or has resolved the issue.

A further aspect of managing performance in the public sector is ensuring consistency between specification stages (e.g., budgets, see [section D](#)) and post implementation reporting (e.g., financial statements, see [Principle G](#)). For example, if the concept of resource use in the budget is a cash

concept and in the financial statements it is an accrual basis, performance management and performance assessment are both compromised.¹³

F3. Robust internal control

Internal control supports a public sector entity in achieving its objectives by managing its risks while complying with rules, regulations, and organizational policies. Internal control is an integral part of an entity's governance system and risk management arrangements, which is understood, effected, and actively monitored by the entity's governing body, management, and other personnel.¹⁴ It should take advantage of opportunities and counter threats, in line with risk management strategy and policies on internal control. Risk management strategy and policies on internal control should be set by the governing body in order to achieve an entity's objectives through, among other things:

- executing effective and efficient strategic and operational processes;
- providing useful and reliable information to internal and external users for timely and informed decision making, whether services are delivered by the entity itself or are contracted out;
- ensuring conformance with applicable laws and regulations, as well as with the entity's own policies, procedures, and guidelines;
- safeguarding the entity's resources against loss, fraud, misuse, and damage;
- safeguarding the availability, confidentiality, and integrity of the entity's information systems, including IT; and
- monitoring, internal auditing, and other control activities to hold the executive to account.

Controls are a means to an end—the effective management of risks enabling the entity to achieve its objectives. Before designing, implementing, applying, or assessing a control, public sector entities should first consider the risk or combination of risks at which the control is aimed (see [section F.1](#)). They should also consider the need to remain agile, avoid over-control, and not become overly bureaucratic. Internal control should enable, not hinder, the achievement of organizational objectives.

While the governing body should ensure that the entity's risk management and internal control is periodically monitored and evaluated, the actual assessment should be executed by the entity's management. Someone sufficiently independent from those responsible for the system, such as the internal auditor, should provide additional assurance regarding the adequacy of the risk management framework and processes and of the internal controls implemented to manage risk. The function of internal auditing is to provide independent, objective assurance and consulting services designed to add value and improve an entity's operations. The internal audit activity helps an entity accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management, and control processes.

It is good practice for public sector governing bodies to establish an audit committee or equivalent group or function. The audit committee provides another source of assurance regarding the entity's arrangements for managing risk, maintaining an effective control environment, and reporting on

¹³ This point was made in the International Monetary Fund (IMF) publication [Fiscal Transparency, Accountability and Risk](#) (2012).

¹⁴ [Evaluating and Improving Internal Control in Organizations](#) (IFAC, 2012)

financial and non-financial performance. Its effectiveness depends on it being independent of the executive. It can have a significant role in:

- helping to improve the adequacy and effectiveness of risk management and internal control; and
- reinforcing the objectivity and importance of internal and external audits and, therefore, the effectiveness of the audit function.

F4. Strong financial management

Strong financial management ensures that public money is safeguarded at all times and used appropriately, economically, efficiently, and effectively. Having a strong system of financial management underpins sustainable decision making, delivery of services, and achievement of outcomes in public sector entities, as all decisions and activities have direct or indirect financial consequences. Public sector entities should ensure that their financial management supports both long-term achievement of outcomes and short-term financial and operational performance. A sustainable public sector entity will have well-developed financial management integrated at all organizational levels of planning and control, including management of financial risks and controls.

Strong financial management in public sector entities should consist of activities such as:

- provision, analysis, and interpretation of financial and non-financial information to the governing body and managers, supporting them in understanding the financial health of the entity and progress in delivering financial objectives, and providing the information and analysis needed for organizational objective setting, strategy formulation, execution, and control;
- funding and allocation for the delivery of public services, including establishing financial objectives, policies and strategies, capital planning and budgeting, raising finances, tax planning, and managing working capital, cash flow, and financial risk; and.
- performance management through developing and implementing a financial strategy, cost determination, budgeting, forecasting, and financial control.

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 stands out because, rather than being an add-on, it is, in their own 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 and how they are modified. 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 to get involved and helping them to 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.
- 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 transports furnace oil through a pipeline, primarily through uninhabited rural terrain. A significant operational risk arises due to unauthorized excavations, deliberate pilferage, and terrorist activities. The security function, outsourced to an external company, frequently malfunctioned due to vehicle breakdown and 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, along with a checklist to observe during the tour. The transformation created a positive "tone at the top," increasing security awareness among all employees in the organization, who now feel motivated and provide valuable suggestions to bolster the security of the company.

The management of non-financial risks

The Commission believes that supervisory boards should give broader consideration to the entire range of risks faced by their company. Extending the reporting requirements with regard to non-financial parameters would help establish a more comprehensive risk profile of the company, enabling 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*). Although this report focused on the private sector it also has relevance 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 by which financial resources are planned, directed, and controlled to enable 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 the overall PFM system in a jurisdiction 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 inputs provided to the system; 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 the openness to the public of the 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 subsystems. They focus on specific and narrowly defined aspects of governance. The Public Expenditure and Finance Accountability (PEFA) Indicators, developed by the PEFA Program, provide an officially endorsed set of AGIs, which 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 can be found at <http://pefa.org/en/content/pefa-framework-material-1>.

Principle F: Evaluation Questions

- How effective is the entity's risk management system?
- How does the entity assess whether its risk management system is working effectively?
- Is the management information received by those making decisions robust, objective, and timely?
- Are action plans developed and implemented correcting any deficiencies found in the internal control system?
- 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 reported comprehensively and at least annually?

Further reading

[*Risk Management: Principles and Guidelines ISO 31000: 2009*](#) (ISO, 2009)

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

[*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)

[*Fiscal Transparency, Accountability, and Risk*](#) (IMF, 2012)

[*Evaluating and Improving Internal Control in Organizations*](#) (IFAC, 2012)

[*Public Financial Management: A Whole System Approach*](#) (CIPFA, 2010)

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

Accountability is about ensuring that those making decisions and delivering services are answerable for them. Effective accountability is concerned not only with reporting on actions completed but ensuring stakeholders are able to understand and respond as the entity plans and carries out its activities in an open manner.

G1. Implementing good practices in transparency

The public sector entity, as a whole, should be open and accessible to its various stakeholders including citizens, service users, and its staff. Accountability reports should, therefore, be written and communicated in an open and understandable style appropriate to the intended audience. There are now many different channels for public sector entities to use to communicate with their stakeholders, including web-based information and social media. In providing information, a balance needs to be struck so that the right amount of information is provided through appropriate channels of communication to satisfy transparency demands while not becoming too onerous for the entity or for the receiver.

Public scrutiny creates a demand for transparency and improved accountability, so its influence can help to build pressure for a more open, honest, and, ultimately, more effective public sector. They can be formal, such as through a formal legislature committee, or informal, such as via the media.

G2. Implementing good practices in reporting

Public sector entities need to demonstrate that they have delivered their stated commitments, requirements, and priorities and have used public resources effectively in doing so. They, therefore, need to report publicly at least annually, so that stakeholders can understand and make judgments on issues such as how the entity is performing and whether it is delivering value for money and has sound stewardship of resources. It is also important that the process for gathering information and compiling the annual report ensures that the governing body and senior management own the results shown.

To demonstrate good practice, governing bodies should assess the extent to which they are applying the principles of good governance, set out in this International Framework, and report publicly on this assessment, including an action plan for improvement.

The performance information and accompanying financial statements published by a public sector entity should be prepared on a consistent and timely basis. They should allow for comparison with other, similar entities and be prepared using internationally accepted high-quality standards. International Public Sector Accounting Standards (IPSASs), as issued by the International Public Sector Accountancy Standards Board (IPSASB), provide the most complete suite of international financial reporting standards developed specifically for the public sector.

External audit, provided by qualified professionals, is also an essential element of the public sector entity's accountability by providing a review by an independent, qualified person of the regularity and reliability of an entity's financial reports. External audit involves analytical review, systems evaluation, compliance, and substantive testing. In particular, an opinion is given on the entity's financial statements and on whether they have been prepared in accordance with legal requirements and a recognized reporting framework. External auditors assist governing body members in discharging their responsibilities by making appropriate recommendations for corrective action in response to audit findings. External audit reports made publicly available in a timely and accessible manner assist in empowering the public to hold the government and public sector entities to account.

In many jurisdictions, the independent supreme audit institutions' (SAIs) function is extremely important in providing independent and objective oversight of a public entity's governance, risk, and control processes and the stewardship of public resources. The oversight responsibility involves not only financial reporting but also operational processes, including accountability for efficiency and effectiveness as well as performance reporting. SAIs require sufficient capacity to hold public sector entities to account effectively.

Principle G: Examples**User views**

It is good practice to publish information on research into the public's views of the entity and information on service users' views of the suitability and quality of the services they receive. It is important to include the diversity of the public and of service users in this information to give a complete and representative picture.

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 and outturns, as well as brief analysis of the major variations and 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 accounts. Forecasts also comply with New Zealand accounting standards that, among other things, requires that forecasts be prepared using the accounting rules that will apply to retrospective reports and that assumptions be 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 enable the UK Parliament and the public to understand better and 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 in order 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 for international comparisons of fiscal balance sheets to be made, provided that other countries' accounts are produced on a comparable basis.

The Whole of Government Accounts for the fiscal year ending March 31, 2011 can be found at http://hm-treasury.gov.uk/d/whole_of_government_accounts_31-03-2011.pdf

Principle G: Evaluation Questions

- Does the entity know to whom it is accountable and for what?
- How well do the entity's accountability relationships work?
- How well 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 the language used in reports is suitable and easily understood by the stakeholders?
- Does the annual report of the governing body contain a statement in the remuneration policy and details of the remuneration of the members of the governing body?
- Can information be found by interested parties with a minimum of effort? For example, can information online be accessed by one click on the entity's website?
- Is it sufficiently clear to stakeholders who is responsible for what within the public sector entity?

Further reading

[*Fiscal Transparency, Accountability, and Risk*](#) (IMF, 2012)

Appendix A: International Reference Group

Yoseph Asmelash	United National Conference on Trade and Development (UNCTAD)
Ian Ball	IFAC
Andreas Bergmann	International Public Sector Accounting Standards Board (IPSASB)
Jon Blondal	Organisation for Economic Co-operation and Development (OECD)
Carlo Cottarelli	International Monetary Fund (IMF)
Robert Dacey	US Government Accountability Office
Steve Freer	CIPFA
Gert Jonsson	International Organization of Supreme Audit Institutions (INTOSAI) Financial Audit Sub-Committee
Mervyn King	King Committee on Corporate Governance
Chuck McDonough	World Bank
Ian McPhee	Australian National Audit Office
Maurice McTigue	George Mason University (USA)
Roger Tabor	Professional Accountants in Business Committee, IFAC

Project Secretariat

Kerry Ace	CIPFA
Ian Carruthers	CIPFA
Stathis Gould	IFAC
Vincent Tophoff	IFAC

The International Reference Group members provided their input in their individual capacities and not as representatives of their organizations.

CIPFA and IFAC would like to express their gratitude for the individual contributions by Group members to the development of this document, as well as to other individuals who have provided valuable comments.

Appendix B: Existing governance definitions

Public Sector focused definitions

Definition used in this International Framework:

Governance in the public sector comprises the arrangements put in place to ensure that the intended outcomes for stakeholders are defined and achieved.

[The Good Governance Standard for Public Services](#), Independent Commission on Good Governance in Public Services, Office for Public Management, CIPFA, 2004:

The function of governance is to ensure that an organization or partnership fulfills its overall purpose, achieves its intended outcomes for citizens and service users, and operates in an effective, efficient, and ethical manner.

[Governance in the Public Sector: A Governing Body Perspective](#), IFAC, 2001:

Governance is concerned with structures, processes for decision making, accountability, control, and behavior at the top of organizations.

[Implementation of Program and Policy Initiatives: Making Implementation Matter](#), Australian National Audit Office and Department of the Prime Minister and Cabinet, Australian Public Service Commission, 2006:

Public sector governance covers the set of responsibilities and practices, policies and procedures, exercised by an agency's executive, to provide strategic direction, ensure objectives are achieved, manage risks, and use resources responsibly and with accountability.

[The Role of Auditing in Public Sector Governance](#), Institute of Internal Auditors, 2012:

Public sector governance encompasses the policies and procedures used to direct an organization's activities to provide reasonable assurance that objectives are met and that operations are carried out in an ethical and accountable manner.

[Governance for Sustainable Human Development](#), United Nations Development Programme, 1997:

The exercise of economic, political, and administrative authority to manage a country's affairs at all levels. It comprises mechanisms, processes, and institutions through which citizens and groups articulate their interests, exercise their legal rights, meet their obligations, and mediate their differences.

[Manual On Fiscal Transparency](#), IMF 2007:

The process by which decisions are made and implemented (or not implemented). Within government, governance is the process by which public institutions conduct public affairs and manage public resources. Good governance refers to the management of government in a manner that is essentially free of abuse and corruption, and with due regard to the rule of law.

Other definitions of corporate governance

[Report on the Financial Aspects of Corporate Governance in the UK](#), Committee on the Financial Aspects of Corporate Governance, 1992:

Corporate Governance is the system by which companies are directed and controlled.

[OECD Principles of Corporate Governance](#), OECD, 2004:

Corporate governance involves a set of relationships between a company's management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set and the means of attaining those objectives and monitoring performance.

[CACG Guidelines—Principles for Corporate Governance in the Commonwealth](#), Commonwealth Association for Corporate Governance, 1999:

Corporate governance is essentially about leadership: leadership for efficiency, leadership for probity, leadership with responsibility, and leadership which is transparent and accountable.

[Good Governance: An Islamic Perspective](#), Professor Dr. Anis Ahmad, 2010:

“The Qur’an defines good governance as the rule of justice, a just and ethical order and observance of rights and obligations in a society. The Qur’an declares: *Those when given authority in land, establish (system of) salah, give zakah and enjoin what is good (ma’ruf) and forbid what is wrong (munkar)*. [al-Hajj 22:41.]”

Appendix C: Definitions used

Definition	Source (the Project Secretariat unless otherwise stated)
<ul style="list-style-type: none"> • Accountability: the obligation of public sector entities to the citizens and other stakeholders to account, and be answerable, for their policies, decisions, and actions, particularly in relation to public finances. • Assurance: an assurance engagement in which a practitioner expresses a conclusion designed to enhance the degree of confidence of the intended users, other than the responsible party, on the outcome of the evaluation or measurement of a subject matter against criteria. Under the IAASB's International Framework for Assurance Engagements, there are two types of assurance engagements a practitioner is permitted to perform: a reasonable assurance engagement and a limited assurance engagement. For more information, see the IAASB's Glossary of Terms in the 2012 Handbook of International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements. • Audit Committee: the governance group independent from the executive charged with providing assurance of the adequacy of the risk management framework, the internal control environment and integrity of financial reporting. • Benefits: outcomes that are to the benefit of the public sector entity's stakeholders that can be of an economic, social, or environmental nature. • Budget documents: are financial expressions of service plans that set the limits of expenditure authorization for managers. • Capabilities: the professional knowledge, professional skills, and professional values, ethics, and attitudes required to demonstrate competence. • Capacity: the underlying governance and staffing structures of a public sector entity necessary to remain fit for purpose—being able to deliver the planned services. • Capital(s)/resource: stores of value on which all organizations depend for their success as inputs, in one form or another, to their business model, and are increased, decreased, or transformed through the organization's activities and outputs. The capitals are categorized in this International Framework as financial, manufactured, intellectual, human, social and relationship, and natural. • Code of Conduct: Principles, values, standards, or rules of behavior that guide the decisions, procedures, and systems of an organization in a way that contributes to the welfare of its key stakeholders and respects the 	<p>International Auditing and Assurance Standards Board (IAASB)</p> <p>CIPFA</p> <p>CIPFA</p> <p>International Accounting Education Standards Board</p> <p>International Integrated Reporting Council (IIRC)</p> <p>IFAC</p>

Definition	Source (the Project Secretariat unless otherwise stated)
<p>rights of all constituents affected by its operations.</p> <ul style="list-style-type: none"> • Conformance: compliance with laws and regulations, best practice governance codes, accountability, and the provision of assurances to stakeholders in general. The term can refer to: internal factors defined by the officers, shareholders, or constitution of an entity as well as external forces, such as consumer groups, clients, and regulators. • Ethical values: standards or principles that are commonly considered to be good. Ethical values can change over time and differ between societies or cultures. • Ethics: a system of moral principles by which human actions may be judged. • Executive: executive management and/or chief executive. • External audit: a review carried out by an independent, qualified person on the entity's financial statements, systems, and processes. • External reports: reports from a public sector entity, containing both financial and non-financial information, that are useful to the intended stakeholders in making informed decisions on behalf or about the entity. • Governance (in the public sector): comprises the arrangements* put in place to ensure that the intended outcomes for stakeholders are defined and achieved. *includes political, economic, social, environmental, administrative, legal and other arrangements • Governing body: the person(s) or group with primary responsibility for overseeing the strategic direction and accountability of the entity. • Input(s): capitals/resources used to generate and deliver services. • Institutional stakeholders: the other entities with which a public sector entity needs to work to improve services and outcomes, or for accountability reasons. • Integrated report: a concise communication about how an organization's strategy, governance, performance, and prospects, in the context of its external environment, lead to the creation of value in the short, medium, and long term. • Integrated reporting: a process that results in communication by an organization, most visibly through a periodic integrated report, about value creation over time. • Integrity: being straightforward and honest in all of one's actions. 	<p>IFAC</p> <p>CIPFA</p> <p>CIPFA</p> <p>IIRC</p> <p>IIRC</p>

Definition	Source (the Project Secretariat unless otherwise stated)
<ul style="list-style-type: none"> • Internal auditing: an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. • Interventions: the means by which the public sector achieves its outcomes. These include enacting legislation or regulations; delivering goods and services; redistributing income through mechanisms such as taxation or social security payments; and the ownership of assets or entities, such as state owned enterprises. • Leadership team: comprises the governing body and management team. • Management: person(s) with executive responsibility for the conduct of the public sector entity's operations. • Management team: group of executive staff comprised of senior management charged with the execution of strategy. • Outcome(s): the impact of services, including the delivery of goods and the redistribution of resources, provided by a public sector entity in achieving its objectives. (IFAC, 2001): • Output(s): (IFAC, 2001) services that have been delivered. • Performance: a public entity's achievements relative to its strategic objectives and its outcomes in terms of its effects on the capitals. • Performance measures: usually measure economy, efficiency, effectiveness, and appropriateness of a public sector entity's activities, outputs and outcomes. The most usual bases of comparisons are: comparison with previous years, comparisons with similar entities, and comparison of actual with target. • Performance management system: mechanisms to monitor service delivery throughout all stages in the process, including planning, specification, execution, and independent post-assessment review. • Public financial management: the system by which financial resources are planned, directed, and controlled to enable and influence the efficient and effective delivery of public service goals. • Public interest: the net benefits derived for, and procedural rigor employed on behalf of, all society in relation to any action, decision or policy. • Public sector: national governments, regional (state, provincial, territorial) governments, local (city, town) governments and related governmental 	<p>Institute of Internal Auditors</p> <p>CIPFA</p> <p>IAASB</p> <p>CIPFA</p> <p>IFAC</p> <p>IFAC</p> <p>IIRC</p> <p>IFAC</p> <p>CIPFA</p> <p>IFAC</p> <p>IPSASB</p>

Definition	Source (the Project Secretariat unless otherwise stated)
<p>global population to continue to survive successfully by meeting its intended outcomes while living within its resource limits.</p> <ul style="list-style-type: none"> • Transparency: openness about the outcomes a public sector entity is pursuing, the resources necessary or used, and the performance achieved. • Useful information: information that is relevant to users and faithfully represents what it purports to represent. The usefulness of information is enhanced if it is comparable, verifiable, timely, and understandable. • Values: what an entity and individuals stand for. • Tone at the top: the words and deeds of an organization’s governing body and senior management that determine its values, culture, and the behavior and actions of individuals; also defined as leading by example. • Whole system approach: based on the argument that public financial management (PFM) will be more effective and more sustainable if there is a balance across the full range of PFM processes, buttressed by effective national, sub-national and supra-national organizations and, in the context of international development, supported by relevant donor contributions. It defines how the key constituent parts (such as external assurance and scrutiny, financial reporting, and audit standards) contribute to the integrity of the whole system. 	<p>International Accounting Standards Board (amended)</p> <p>CIPFA</p>

Appendix D: Important Sources of Information

This list of resources is not intended to be exhaustive. Use the IFACnet at www.IFACnet.org to search IFAC, CIPFA, and many of IFAC's member body websites for additional information. IFACnet is also accessible from the [IFAC website](#), click on the search function and select IFACnet.

IFAC Resources

- [Governance in the Public Sector: A Governing Body Perspective](#) (2001) outlines principles of governance and their application to public sector entities.
- [Internal Controls—A Review of Current Developments](#) (2006) reviews developments and some of the thinking of that time in the area of internal control.
- [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.
- [Internal Control from a Risk-Based Perspective](#) (2007) features ten senior-level professional accountants in business sharing their experiences and views on establishing effective internal control systems.
- [Evaluating and Improving Governance in Organizations](#) (2009) includes a framework—consisting of a series of fundamental principles, supporting guidance, and references—for how professional accountants can contribute to evaluating and improving governance in organizations.
- 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)
- [Global Survey on Risk Management and Internal Control—Results, Analysis, and Proposed Next Steps](#) (2011) contains over 600 responses from around the globe and provides an analysis of survey results and summarizes respondents' recommendations for the next steps in this area.
- [Integrating the Business Reporting Supply Chain](#) (2011) features 25 prominent business leaders provide their recommendations on what should be done to effectively 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 provides a summary of interviewees' recommendations in each area and highlights some of IFAC's related initiatives.
- [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.
- [Integrating Governance for Sustainable Success](#) (2012) analyzes how professional accountants in business can support their organizations and increase performance by integrating governance into the key drivers of sustainable organizational success.
- [Evaluating and Improving Internal Control in Organizations—Executive Summary](#) (2013), this condensed version summarizes the principles and the importance of effective systems of internal control, as well as explains some of the pitfalls that can be avoided.

CIPFA Resources

- [*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)
- [*Whole System Approach to Public Financial Management*](#) (2010)

Other IFAC Member Body Resources

- [*The Role of Auditing in Public Sector Governance, 2nd edition*](#) (Institute of Internal Auditors, 2012)
- [*King Report on Corporate Governance for South Africa*](#) (King Committee on Corporate Governance, 2009)
- [*OECD Guidelines on Corporate Governance of State-Owned Enterprises*](#) (Organization for Economic Co-operation and Development, 2005)
- [*Corporate Governance for Public Bodies: A Basic Framework*](#) (Hong Kong Institute of Certified Public Accountants, 2004)
- [*Protocol on Corporate Governance in the Public Sector*](#) (South African Institute of Chartered Accountants, 2002)
- [*Setting High Professional Standards for Public Services around the World*](#) (Association of Chartered Certified Accountants, 2013)

Other Resources

- [*Building Better Governance*](#) (Australian government, 2007)
- [*The Netherlands Code for Good Public Governance*](#) (Dutch government, 2009)
- [*Guidelines on Corporate Governance for Central Public Sector Enterprises*](#) (Indian government, 2007)
- [*Standards Matter: A Review of Best Practice in Promoting Good Behavior in Public Life*](#) (UK Committee on Standards in Public Life, 2013)
- [*Actionable Governance Indicators—Concepts and Measurement*](#) (World Bank, 2010)
- [*Developing Corporate Governance Codes of Best Practice*](#) (Global Corporate Governance Forum, 2005)
- [*Public Financial Management Performance Measurement Framework*](#) (Public Expenditure and Financial Accountability, 2011)
- INTOSAI [*Guidance for Good Governance*](#) series
- James Ralston and Liane Sauer, [*Risk Management in the Public Sector*](#) (The Conference Board of Canada, 2010)
- [*Consultation Draft of the International Integrated Reporting Framework*](#), (International Integrated Reporting Committee, 2013)
- [*Strengthening Governance: Tackling Corruption*](#) (World Bank, 2012)
- [*Governance Rules for Public Sector Companies approved by the Securities and Exchange Commission of Pakistan \(SECP\) Policy Board*](#) (SECP, 2013)

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