INTERNATIONAL FRAMEWORK: GOOD GOVERNANCE IN THE PUBLIC SECTOR

IFAC International Federation of Accountants®

CIPFA The Chartered Institute of Public Finance & Accountancy

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

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

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. IFAC is comprised of 179 members and associates in 130 countries and jurisdictions, representing approximately 2.5 million accountants in public practice, education, government service, industry, and commerce.

Published by:

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Foreword

There is now widespread understanding and acceptance of the important role that good governance plays in the success of organizations. While a great deal of work has been done on this subject in the private sector, there has been less in the public sector. And some of that has become dated as expectations changed and greater recognition emerged of the significant role that poor governance (and especially weak public financial management) in the public sector played in the sovereign debt crisis. So it is very welcome indeed that IFAC and CIPFA have collaborated to produce this Framework.

This Framework is novel in a number of ways, in particular its positioning of the attainment of sustainable economic, societal, and environmental outcomes as a key focus of governance processes and structures. Outcomes are what give the role of the public sector its meaning and importance, and it is fitting that they have this central role in public sector governance. Also, the focus on sustainability and the links between governance and public financial management are very welcome—governments more than anybody must recognize the need to focus on the long term. They have responsibilities to more than their current electors; they must take account of the impact of current decisions and actions on future generations.

Another aspect of public sector governance highlighted in this publication is the need for integration in both the reporting of and thinking about organizational performance. The International Integrated Reporting Council's release of its *Framework for Integrated Reporting* (December 2013) makes this publication especially timely, as these two documents complement each other extremely well. Indeed, *Good Governance in the Public Sector* makes explicit reference to integrated reporting, which of course I very much welcome!

Good governance requires a qualitative approach, not a mindless quantitative one. It requires integrity, objectivity, transparency, and accountability, built on a foundation of intellectual honesty. These principles are already embedded throughout this Framework, but it should be read with these fundamentals firmly in mind.

It has been a privilege for me to have been a member of the International Reference Group (IRG) established to provide guidance in the development of this publication. The commitment of both IFAC and CIPFA to this project, coupled with the insights of the IRG and those who responded during the consultation process, mean that this document will address an important and urgent need.

Good governance in the public sector is essential if governments around the world are to play their proper role in the long-term development of our economies and societies, and in the protection of our natural environment. *Good Governance in the Public Sector* will be an important contribution to guiding them in this endeavor.
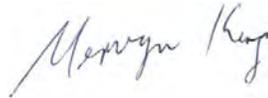
MERVYN KING

Mervyn King
Chairman, International Integrated Reporting Council
Chairman, King Report on Governance for South Africa

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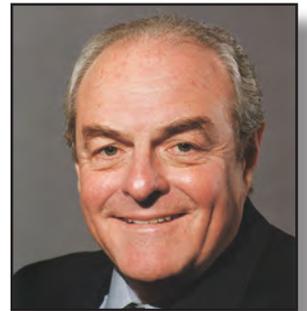
Introduction

The public sector plays a major role in society.[1] In most jurisdictions, 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, the legal, ethical, and other standards and norms, and the different types of intervention required to achieve these objectives. Potential interventions include enacting legislation or regulations; delivering services; redistributing income through mechanisms such as taxation or social security payments; and the control of assets or entities, such as state-owned enterprises. Governments also have a role in promoting fairness, peace and order, and sound international relations.

Good governance in the public sector encourages better informed and longer-term decision making as well as the efficient use of resources. It strengthens accountability for the stewardship of those resources. Good governance is characterized by robust scrutiny, which places important pressures on improving public sector performance and tackling corruption. Good governance can improve organizational leadership, management, and oversight, resulting in more effective interventions and, ultimately, better outcomes. People's lives are thereby improved.[2]

CHARACTERISTICS OF THE PUBLIC SECTOR

To fulfill its wide range of functions, the public sector must satisfy a complex range of political, economic, social, and environmental objectives over the short, medium, and longer term. This subjects it to a different set of external and internal constraints and incentives than those found in the private sector, all of which affect its governance arrangements.

Generally, the main objective of public sector entities is to achieve intended 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 rather than smaller groups of equity and other investors;

- possess the power to regulate entities operating in certain economic sectors, 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.

- 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.

- Service recipients, unlike consumers in the private sector, may have little or no option to use a different service provider or to withhold payment.

[1] This covers national (state, provincial, territorial) governments, local (city, town) governments, and related government entities (agencies, boards, commissions, and enterprises).

[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.

Stakeholders are, therefore, interested in issues such as (a) whether an entity's 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 overall budget and its 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.

PURPOSE OF THE FRAMEWORK

The aim of *Good Governance in the Public Sector* (the Framework) is to encourage better service delivery and improved accountability by establishing a benchmark for aspects of good governance in the public sector. It is intended to apply to all entities that comprise the public sector.

The Framework is not intended to replace national and sectoral governance codes. Instead, it is anticipated that those who develop and set governance codes for the public sector will refer to the Framework in updating and reviewing their own codes. Where codes and guidance do not exist, the Framework will provide a powerful stimulus for positive action.

The Framework should be useful for all those specifically associated with governance—governing body members, senior managers, and those involved in scrutinizing the effectiveness of governance, including internal and external auditors. It also provides a resource for the public to challenge substandard governance in public sector entities.

DEVELOPMENT OF THE FRAMEWORK

The Framework was developed after a review of relevant current governance literature, and builds on this literature, particularly IFAC's and CIPFA's earlier work on governance, including *Governance in the Public Sector: A Governing Body Perspective* (IFAC, 2001) and *Good Governance Standard for Public Service Organisations* (CIPFA/OPM, 2004). An overview of how the Framework maps to this literature is available on the IFAC

website in Publications & Resources. The guidance 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.

Approach

GOVERNANCE IN THE PUBLIC SECTOR

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

Governance comprises the arrangements[4] put in place to ensure that the intended outcomes for stakeholders are defined and achieved.

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

WHOLE-SYSTEM-BASED APPROACH

Governments and other public sector entities raise resources from taxpayers, donors, lenders, and other suppliers for the provision of services for citizens and other recipients, as well as other activities, such as regulation and policy development. These entities are primarily accountable for their management and use of resources to those providing the resources and those depending on the resulting services. The resources raised are commonly distributed through a network of public sector and other entities with specific functions that have a range of accountability mechanisms, on both an individual basis and as part of an overall delivery system.

Although most governance codes focus on delivering good governance practices at an organizational level, the fundamentals of good governance remain the same for both an individual entity and the funding/service delivery system of which it is a part. The Framework, therefore, aims to be relevant not only to the individual entity, but also for the whole delivery system, which may be sub-national, national, or international.

Accordingly, it is consistent with the philosophy described in CIPFA's *Whole System Approach to Public Financial Management*, which outlines how the key constituent elements of public financial management contribute to the integrity of a whole system.

As the Framework may be applied to a system involving a number of organizations, as well as to each of them individually, the term "entity" has been used instead of "organization" throughout this document.

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.[5] While this Framework does not specifically apply to such governance arrangements, the principles may be relevant all the same.

PRINCIPLES-BASED FRAMEWORK

As noted in the Introduction, the aim of the Framework is to promote the development of robust governance in public sector entities by establishing a benchmark for good governance.

Public sector entities worldwide do not operate within a common legislative framework, nor do they have standard organizational structures, shapes, or sizes. In developing the 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 Framework does this by setting out principles for good governance in public sector entities, rather than prescriptive requirements.

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. The supplement to the Framework provides more detailed explanatory

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[4]   Includes political, economic, social, environmental, legal, and administrative structures and processes, and other arrangements, as encapsulated in the principles defined in this guidance.

[5]   In some instances, these are referred to as public-private partnerships.

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 a way that is appropriate to their structures, taking account of the legislative and constitutional arrangements that underpin them.

GOVERNING BODY

Every public sector entity needs one or more individuals who are explicitly responsible for providing strategic direction and oversight while being accountable to its stakeholders. The Framework uses the collective term "governing body" for this individual or group regardless of the various forms it may take, and adopts the following definition:

Governing body: the person(s) or group with primary responsibility for overseeing an entity's strategic direction, operations, and accountability.

Governing bodies can be made up of independent and non-independent members. They may have various subcommittees, such as audit or finance, which have specific delegated powers and processes but are accountable to the governing body. In some entities, 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 is sometimes described as a two-tier structure.

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 structures and processes are in place, and that there is an effective team 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.

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 vary among jurisdictions.

In some local governments, the governance arrangements are characterized by a two-tier structure. This model often has a top, or supervisory, tier comprising democratically elected councilors. While their role is broadly analogous to that of a non-executive board, they also have a political representational function.

State-owned enterprises often have governing bodies similar in composition to those seen in the private sector, with a mixture of executive and non-executive members, although these are commonly appointed by ministers of the state. In such entities, transparency over ministerial involvement is critical to good governance.

Whichever structure is adopted, the governing body has a crucial leadership role with respect to implementing, evaluating, and improving an entity's governance.

Principles for Good Governance in the Public Sector

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

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

Acting in the public interest requires:

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

B. Ensuring openness and comprehensive stakeholder engagement.

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

C. Defining outcomes[6] in terms of sustainable economic, social, and environmental benefits.

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

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

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

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

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

governance on a continuing basis through a process of evaluation and review.

The core, high-level principles characterizing good governance in the public sector set out above bring together a number of interrelated concepts. Principles C to G are linked to each other via the so called "plan-do-check-act" cycle.[7]

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

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

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

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

Achieving the Intended Outcomes
While Acting in the Public Interest at all Times
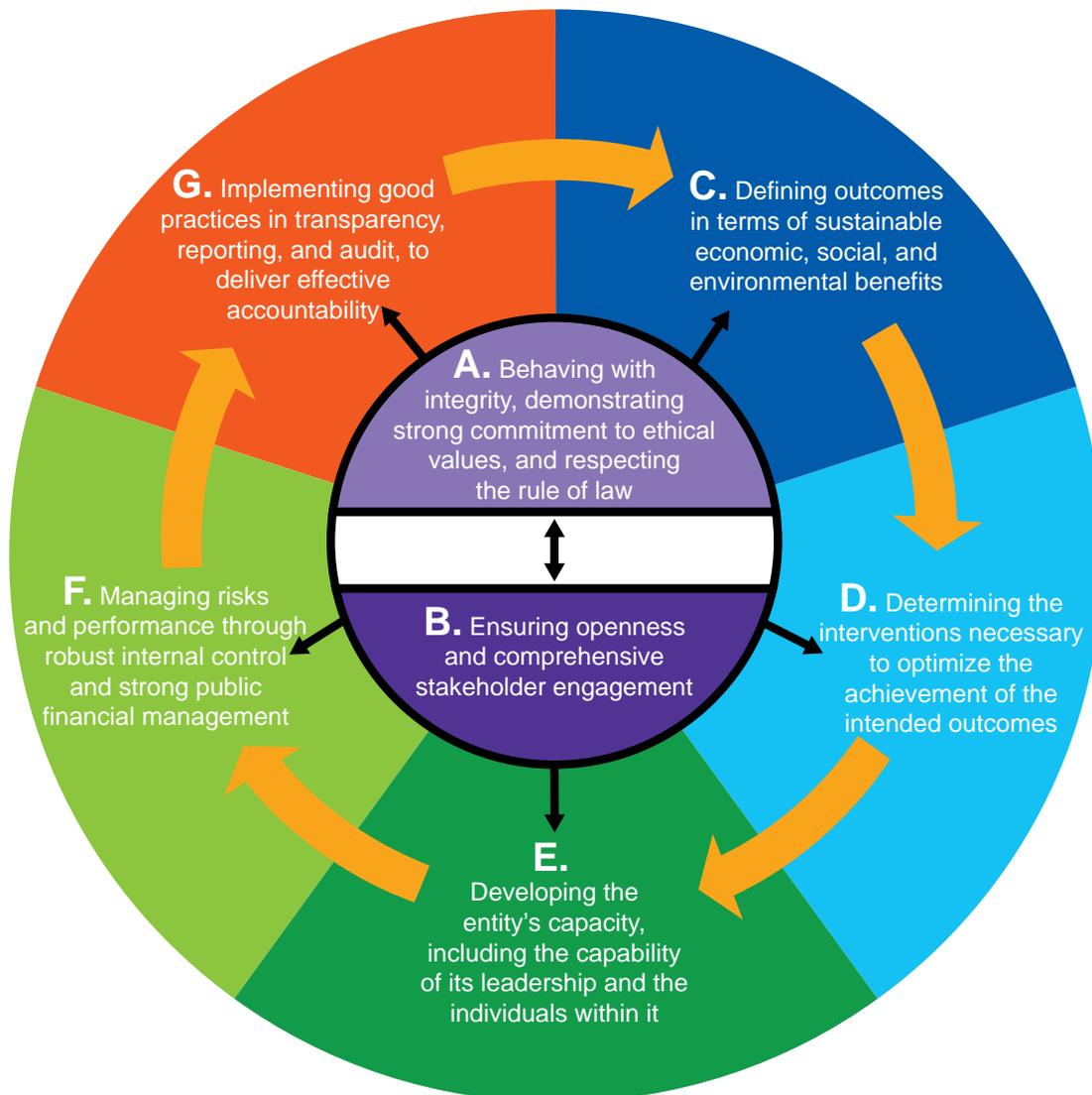
Guidance on Implementing the Principles for Good Governance in the Public Sector

To deliver good governance in the public sector, both governing bodies and individuals working for public sector entities must try to achieve their entity's objectives while acting in the public interest at all times, consistent with the requirements of legislation and government policies, avoiding self-interest and, if necessary, overriding a perceived organizational interest. This requires both governing body members and staff in public sector entities to make a firm commitment to the principles in this Framework. Acting in the public interest implies primary consideration of the benefits for 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:

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

IFAC recognizes that differences in culture and ethical systems should be considered when 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 both individuals and 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.

All these points have been encapsulated in the guidance principles of this Framework.

This section considers the underlying rationale for each principle and provides supporting commentary on the key elements of each principle, expressed through sub-principles. The section first considers the two principles required for acting in the public interest:

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

B. Ensuring openness and comprehensive stakeholder engagement.

The additional five principles required for achieving good governance in the public sector are covered later in this section.
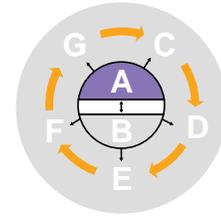
A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law

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

A1. Behaving with integrity

Governing body members should behave with integrity. Each governing body should promote a culture where acting in the public interest at all times is the norm, together with a continuing focus on achieving the entity's objectives. 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 communicated, understood, and shared. 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.[8] These principles reflect public expectations about the conduct and behavior of entities, groups, and individuals who manage public service provision and spend public money. In particular, in most instances, the goods and services offered by the public sector cannot be obtained through alternative service providers. In some instances, central agencies may have a role in promoting values and ethics and may provide assistance and support to smaller entities. Each entity, however, remains responsible for demonstrating the integrity of its own actions.

The governing body is a role model and it is, therefore, important that it keeps the entity's values at the forefront of its own thinking and behavior and uses them to guide its decision making and other actions (often referred to as

the "tone-at-the-top" or "leading by example"). The values can also be used to promote an ethical culture 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, training, and performance assessment and reward processes.

Implementation tip—feedback mechanisms

Creating a feedback mechanism (often known as "whistleblowing") whereby staff can report non-ethical behavior of a governing body member or another staff member can be useful in achieving the goal of acting in the public interest at all times.

The governing body should ensure that "whistleblowing processes," including proper safeguards for whistleblowers, are in place and operating effectively. In some jurisdictions, entities are subject to government-wide whistleblowing processes. Such processes should enable individuals or groups 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 whistleblowers will be protected from any potential negative repercussions.

Conflicts can arise between the personal interests of individuals involved in making decisions and the decisions that the governing body or staff need to make in the public interest. To ensure continued

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

integrity and transparency, and to avoid public concern or loss of confidence, the governing body should ensure that appropriate policies are in place so that members and staff take decisions objectively and steps are taken to avoid or deal with any conflicts of interest, whether actual or perceived.

A2. Demonstrating strong commitment to ethical values

Ethical values should permeate all aspects of a public sector entity's operation, for example the procurement of goods and services, the appointment of staff on merit, performing job responsibilities properly, and using public funds to benefit the community. These values should underpin the personal behavior of all governing body members and staff. It is the role of the governing body to ensure that these ethical values are embedded throughout an entity.

Having an effective code of conduct for governing body members and for staff is one of the key elements 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. It is the governing body's responsibility to ensure that the code of conduct is understood, implemented, adhered to, and reviewed on a regular basis to ensure it remains up to date.

Implementation tip—external suppliers

For many public sector entities, external supplier costs represent one of the most significant lines of expenditure, with the proportion of this expenditure increasing with the incidence of outsourcing non-core work. Accordingly, an entity's strong commitment to ethical values needs to be communicated to suppliers through a formal Statement of Business Ethics.

It may not always be easy to objectively measure factors affecting an entity's performance in leadership, ethics, and culture, or to identify ethical problems before they manifest themselves in organizational performance. It is important, however, that the governing bodies of entities seek to know, understand, and maintain their performance in these areas. Useful evaluative approaches to measure ethical performance include staff surveys, performance appraisals, administrative reviews, exit interviews, whistleblower arrangements 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.

Implementation tip—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 operational, of an entity and its services.

Complaints should be managed through a formal process, for example through an ethics help-line, which can serve as a record for reporting complaints to, and follow up by, the governing body. It can also help identify trends in types of ethical transgressions, which can then be used to close gaps in the understanding or in the communication of requirements and expectations.

A3. Respecting the rule of law

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

Public sector entities at all levels may be involved in creating, interpreting, applying, or enforcing laws. Such activities demand a high standard of conduct to prevent these roles from becoming tainted and losing their credibility. Adhering to the rule of law also requires the governing body to ensure that there are effective mechanisms to deal with breaches of legal and regulatory provisions. To ensure equity, public sector entities should, as far as possible, be subject to the same laws that are generally applicable to the rest of the community.

Public sector entity governing bodies and staff should, therefore, demonstrate a strong commitment to the rule of law, as well as comply with all relevant laws and regulations. They should also strive to utilize their powers for the full benefit of their communities and other stakeholders and avoid corruption or any other misuse of power.
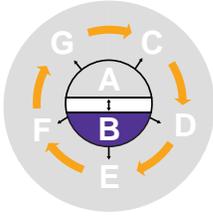
B. Ensuring openness and comprehensive stakeholder engagement

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

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, their governing bodies should ensure that this commitment is documented and communicated through a formal policy on openness of information. These policies are often set government-wide rather than by individual entities.

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 used in their decision making 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 in only 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 and personal data protection requirements[9] would prevent information from being publicly available.

B2. Engaging stakeholders effectively, including individual citizens and service users

Governing bodies should ensure that entities have a clear policy on the types of issues they will consult on with all stakeholders (either individually or through representative groups) to ensure that the services provided (or other interventions) are contributing to the achievement of intended outcomes. They should also ensure that entities have processes in place to collect and evaluate the views and experiences of people and organizations of all backgrounds.

Communication and consultation methods should be balanced and fair, allowing stakeholders to express their views freely and make informed decisions based on unbiased information. Governing bodies may also need to take account of different stakeholders' needs and linguistic requirements. An entity's evaluation processes should enable the interests of more vocal stakeholder groups to be balanced with other stakeholders' interests to ensure that no one group becomes too dominant. In addition, such processes 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.

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9   These may not exist in all jurisdictions.

B3. Engaging comprehensively with institutional stakeholders

Few public sector entities can achieve their intended outcomes solely through their own efforts. Often they also need to work with institutional stakeholders, such as other public sector entities, 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, which will vary in range and strength. Some are lateral relationships between partners, while others 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 the governing body to clarify the 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.

Effective collaboration among public sector entities can reduce waste of assets, avoid unnecessary information gathering, and improve service delivery.

Achieving good governance in the public sector

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

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

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

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

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

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

Each of these principles are described on the following pages in this section.
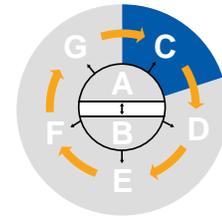
C. Defining outcomes in terms of sustainable economic, social, and environmental benefits

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

C1. Defining outcomes

It is essential that governing bodies develop and articulate a clear vision for their entities given the roles and functions that public sector entities fulfil, the nature of their funding, their impact on society, and the resulting need for accountability. This should be a formally agreed-on statement of an entity's purpose and the intended outcomes, which should be used as a basis for the governing body's overall strategy, planning, and other decisions. The statement should contain appropriate performance indicators (sometimes known as key performance indicators or KPIs) for measurement and evaluation.

Outcomes may be viewed as the impact of the goods and services, including the redistribution of resources, that a public sector entity provides in delivering its objectives—a measure of the effectiveness of its policies. Defining outcomes, therefore, involves specifying the intended impact on, or changes to, stakeholders outside the entity. This could be immediate or occur over the course of a year or longer. Achievement of those intended outcomes may be affected by factors beyond the entity's control. In some jurisdictions, outcomes for one entity may be specified by another. For example, they may be determined by a government department centrally, but further shaped and executed by another entity at a local level.

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 about the services they can provide with the resources available to them. Resource allocations among 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 (also called service performance objectives).

Implementation tip—measuring outcomes

The development of sustainability indicators in terms of economic, social, and environmental benefits is useful as a means of measuring whether intended outcomes have been achieved.

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 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 in meeting its intended (economic, environmental, and social) 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, a governing body must ensure they can be delivered on a sustainable basis. This also emphasizes the importance of managing the capacity of entities to ensure that 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. The impacts of unsustainable decisions can include (but are not limited to) economic, social, or environmental waste; lack of investor confidence; economic stagnation; and inadequate or poor service delivery.

Public sector entities also have the overarching mission to ensure that they are acting in the public interest at all times. This means governing bodies taking a longer-term view and being transparent about where there are potential conflicts between an entity's intended outcomes and shorter-term factors, such as political cycles, that favor short-term decision making, and other external pressures, including loyalty to a political party.

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

An important factor in determining the appropriate buffer capacity that an entity needs is the level of resilience required if significant adverse events were to occur. Public sector entities concerned with the protection and safety of citizens are likely to place even greater emphasis on resilience.
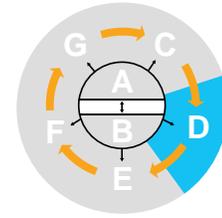
D. Determining the interventions necessary to optimize the achievement of the intended outcomes

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

D1. Determining interventions

To determine the most 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. It should also consider legal and financial matters and governance procedures. This type of 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.

Implementation tip—measuring value for money

Governing bodies need to make sure entities have the processes and information they require 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, based on the overall strategy set by the governing body. 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, governing bodies of public sector entities need to carefully determine how they define performance and make it SMART[10] 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 KPIs, and make sure that an entity has the capacity to generate (capture, process, analyze, and report on) 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.

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

Such mechanisms include:[11]

- 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 an 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.

Implementation tip—projections

Projections should 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 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 the limited resources available (see Principle B).

Implementation tip—using feedback

Where evidence is provided on service issues or even service failures, a 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

To provide a strong framework for the annual planning process, a public sector entity's medium-term financial strategy must integrate and trade off service priorities, affordability, and other resource constraints. This process 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. Public sector entities should have an adequate, all-inclusive budgeting process, taking into account the full cost of their operations over the medium and longer term. Such processes are still required in entities where governments rather than individual organizations make the decisions.

To ensure that outcomes continue to be achieved while optimizing resource usage, the medium-term financial strategy should 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.

Implementation tip—determining delivery approaches

Public sector entities may have to determine whether they will provide a certain output themselves or procure it from another provider. The decision to perform work in-house or to contract out depends on many factors, including policy considerations, available expertise, and cost.

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[11] Public sector entities will put these into practice in a way that reflects their structure and is proportionate to their size and complexity.
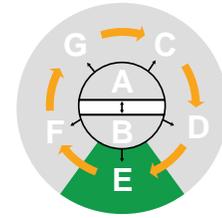
E. Developing the entity's capacity, including the capability of its leadership and the individuals within it

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

E1. Developing the entity's capacity

Public sector governing bodies need to ensure that their entities are and remain fit for purpose. This means considering whether they continue to have the appropriate underlying governance and staffing structures to enable the delivery of planned services. At the same time, developing the capabilities of the governing body and senior management must equip 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 each public sector entity.[12] They can be categorized as:

- financial capital;
- manufactured capital;
- intellectual capital;
- human capital;

- social and relationship capital; and
- natural capital.

These six types of capital assets, whether belonging to an entity itself or to society more broadly, provide the inputs needed to achieve that entity's outcomes. The entity's operations and outputs must, therefore, be reviewed regularly for their effectiveness, as well as in the light of internal and external changes and challenges.

As part of the above process, entities should strive to learn from each other, for example, through benchmarking. In developing options for improvement and solutions to resource issues, including outsourcing, 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 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. 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.

Linked to the above is the need for public sector entities to have in place robust procurement policies and processes. As public procurement can be particularly vulnerable to corruption, it is essential that the procurement process takes account of the principles of good governance, with particular emphasis on ethical values, transparency,

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[12]   This concept is explored in the International Integrated Reporting Committee's *International Integrated Reporting Framework* (2013), which provides examples of each of the capitals.

and accountability. It must also take account of other business objectives including the efficient preservation and management of resources (often called stewardship) and providing value for money.

Implementation tip—use of information and communication technology

Reinforced by the use of appropriate social media and other communication and consultation techniques, information and communications technology (ICT) 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. Deployment of new technology can also pose serious risks, however, and cause many problems when either the technical or organizational aspects of its implementation and operation are not properly planned and managed. The right skills will be required both during and after implementation. The governing body should approve the ICT strategy and ensure there is appropriate oversight of ICT projects. It should also make sure that senior management sufficiently addresses ICT security, and specifically cyber security, whether developed in-house or outsourced.

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 about the various organizational roles and responsibilities and how they are allocated 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 delegated to the executive and those reserved for the governing body. A specific governance task of the governing body is to appoint the chief executive (or equivalent) and, potentially, other senior managers.

The chair of the governing body and the chief executive should share the leadership role. The chair's role is to lead the governing body, ensuring it makes an effective contribution to the entity's governance; and the chief executive's is to lead the entity in implementing strategy and managing the delivery of services and other outputs. A good working relationship between the two can make a significant contribution to effective governance. The roles of the chair and chief executive should be separate and provide a check and balance for each other's authority.

All members of the governing body should have the appropriate skills and knowledge to exercise leadership and to fulfill their roles and responsibilities. Non-executive members of the governing body should also be independent of management and free from any other relationships that would materially interfere with their role. All members of the governing body should receive appropriate introductory training tailored to their role. They also need opportunities to develop their skills further, such as improving their ability to challenge and scrutinize the entity's plans and actions and update their knowledge on a continuing basis. 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 people who occupy these positions but are not, or only notionally, remunerated (volunteers). Individual members of the governing body should be held to account for their contribution through regular performance reviews, which should include an assessment of any training or development needs.

Implementation tip—recruiting governing body members

Where governing bodies are responsible for their own recruitment processes, it is good practice to establish a nominations committee to ensure that the recruitment processes can identify and attract the types of people they require.

Providing adequate and appropriate strategic direction and oversight is challenging and demanding. Governing bodies need the correct balance of skills and knowledge to perform their roles 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 best be filled.

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

Succession planning should be an ongoing process, but where it is clear that a 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 appropriately.

Where other organizations nominate people to join a certain governing body, that governing body should clearly communicate to the nominating body the set of skills and perspectives that are most helpful in carrying out the duties required. A governing body with elected members should commit to developing the skills its members require to carry out their roles effectively. There will need to be regular reviews to address changes in skill set following elections.

Implementation tip—membership turnover

It is important that the majority of appointees should not change at the same time. Options to ensure this does not happen include fixed terms of membership or limits on the number of terms a member of the governing body can serve.

Encouraging a wide range of people to stand for election or apply for appointed positions on the governing body will assist in developing a membership with a greater diversity 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 (at least annually) taking the time to step back and consider its own effectiveness.

Implementation tip—reviewing governing body performance

It is useful for the governing body to be subject to independent review on a regular basis—such as three-year intervals. It should also implement a self-assessment process to evaluate the effectiveness of the work of individual members under the responsibility and supervision of the governing body's chair. Where gaps in capability are noted, the governing body will need to consider how such gaps can best be filled.

E3. Developing the capability of individuals within the entity

Human capital is arguably the most important capital for many public sector entities. Effectively recruiting, motivating, and retaining staff are, therefore, vital if public sector entities are to be successful. It is the role of the governing body to ensure an entity has implemented appropriate human resource policies.

The governing body and management team need to create an environment where staff can perform well and deliver effective services by fostering a positive culture that, for example, welcomes ideas and suggestions, responds to staff views, and explains decisions. It is important that staff members have

realistic job descriptions to ensure that their core responsibilities can be effectively carried out. For example, a senior manager's core responsibilities should not be compromised by creating too wide a portfolio of duties. It is important that the senior managers 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. All staff should be appointed and promoted based on merit.

**Implementation tip—appointing and remunerating senior managers**

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

All new 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 need to be driven by matching organizational and individual development requirements. Sufficient opportunities and resources will also need to be given to individuals for meeting the ongoing professional development requirements of their professional bodies.

Staff should be held to account for their personal contribution through regular performance reviews, which must be taken seriously and not regarded as a "tick box" exercise. Reviews should include an assessment of any training or development needs. There need to be appropriate incentives in place, which will drive managers to achieve their expected performance levels. Such incentives may be formal or informal, and can include performance-based pay as well as other forms of incentives. Remuneration for senior managers may be linked to the achievement of medium- and long-term performance targets.

Attracting and retaining quality staff can be a challenge for public sector entities, as working in the public sector is sometimes perceived as less attractive in terms of financial reward and career progression when compared to other sectors. Creating attractive benefits, personal development opportunities, and potential career progression should be key considerations for building an engaged and competent work force.
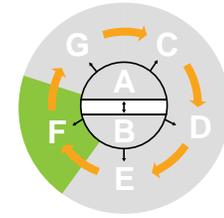
F. Managing risks and performance through robust internal control and strong public financial management

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

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

F1. Managing risk

Public sector entities face a wide range of uncertain internal and external factors that may affect the 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 of 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 governing bodies in public sector entities in making informed decisions about the level of risk they are prepared to take, and implementing the necessary controls, in pursuit of the entities' objectives.

Good governance requires that the notion of risk be embedded into an entity's culture, with governing body members, together with managers at all levels, recognizing that risk management is integral to all their of activities and must be regarded as a continuous process. 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. Governing bodies should ensure that entities have effective risk management arrangements in place.

These should include:

- implementing a risk management framework;[13]

- defining the entity's risk management strategy, approving the limits for risk taking, where feasible, and determining the criteria for internal control;[14]

- integrating the process for managing risk into the entity's overall governance, strategy, and planning, management, reporting processes, policies, values, and culture;

- regularly reviewing key strategic, operational, financial, reputational, and fraud risks and then devising responses consistent with achieving the entity's objectives and intended outcomes;

- engaging staff in all aspects of the risk management process;

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[13]   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*.

[14]   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." As these terms are not clearly defined, however, this paper uses the term "limits for risk taking."

- monitoring and reviewing the risk management framework and processes on a regular basis, with the results reported to the governing body and/or its audit committee; 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), the governing bodies of 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 maintaining organizational capacity, meaningful financial analysis and robust interpretation of results are key components in performance management. At all entity levels, those making decisions should be presented with relevant, objective, and reliable financial analysis and advice. That advice should clearly point out financial implications and risks inherent in an entity's financial, social, and environmental 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 of non-financial performance data, as adverse financial variances can result from favorable non-financial performance and vice versa.

Governing bodies 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 for new insights;

- the public entity's service delivery activities can still effectively and efficiently achieve those outcomes; and

- there are any changes in the internal or external environment (the context) that might pose a risk, positive or negative, to achieving the outcomes and that need to be managed.

Monitoring and review mechanisms should provide governing body members and senior management with regular reports on the progress of the approved service delivery plan and on progress toward outcome achievement.

Implementation tip—monitoring reports

Ideally, monitoring reports should 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 an 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 resource use is on a cash basis in the budget and on an accrual basis in the financial statements, performance management and performance assessment are both compromised.[15]

F3. Robust internal control

Entities need clear accountability frameworks and processes for governance, risk management, and internal control. Internal control supports a public sector entity in achieving its objectives by managing its risks while complying with rules, regulations,

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

and organizational policies. Internal control is an integral part of an entity's governance system and risk management arrangements, which is understood, implemented, and actively monitored by the entity's governing body, management, and other personnel.[16] It should take advantage of opportunities and counter threats, in line with the risk management strategy and policies on internal control. The governing body should set the risk management strategy and policies on internal control 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 ICT; and

- monitoring, internal auditing, and other control activities to hold the entity's executive to account.

Controls are a means to an end—the effective management of risks enables an entity to achieve its objectives. They are a dynamic and fluid set of tools that evolve over time as the entity's objections, environment, technology, and corresponding risks change. 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, it should be up to management to undertake the actual assessment. Someone sufficiently independent from those responsible for the system, such as the internal auditor, should provide additional assurance on the adequacy of the risk management framework and processes and 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. Internal audit reviews can cover a wide range of topics, including those relating to the achievement of value for money and the prevention and detection of fraud and corruption.

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 on an entity's arrangements for managing risk, maintaining an effective control environment, and reporting on financial and non-financial performance. The committee's 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;

- promoting the principles of good governance and their application to decision making;

- overseeing internal audit and supporting the quality of its activity, particularly by underpinning organizational independence;

- reinforcing the objectivity and importance of external audits and, therefore, the effectiveness of the audit function;

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

- raising awareness of the need for sound risk management and internal control and the implementation of recommendations by internal and external audit; and

- helping the entity to embed the values of ethical governance, including effective arrangements for countering fraud and corruption.

Implementation tip—audit committees

To enhance the effectiveness of an audit committee, the majority of its members should be independent members of the governing body. It is also important that a public sector entity's annual report contains appropriate information about the mandate, operations, activities, and outcomes of the audit committee.
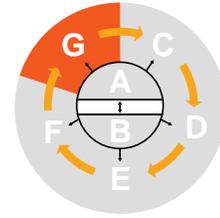
F4. Strong public financial management

Strong financial management ensures that public money is safeguarded at all times and used appropriately, economically, efficiently, and effectively. 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. The governing bodies of 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:

- 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;

- performance management through developing and implementing a financial strategy, cost determination, budgeting, forecasting, and financial control; and

- provision, analysis, and interpretation of financial and non-financial information to the governing body and managers; supporting them in understanding the entity's financial health and progress in delivering financial objectives; and providing the information and analysis needed for organizational objective setting, strategy formulation, execution, and control.

G1. Implementing good practices in transparency

Each public sector entity, as a whole,[17] should be open and accessible to its various stakeholders, including citizens, service users, and its staff. Accountability reports should be written and communicated in an open and understandable style appropriate to the intended audience. Public sector entities now have many different channels for communicating with their stakeholders, including web-based information and social media. When releasing information, entities need to strike a balance between providing the right amount of information through appropriate communication channels to satisfy transparency demands while not becoming too onerous for the entity to provide or for the users to understand.

Public scrutiny creates demand for transparency and improved accountability, thus helping to build pressure for a more open, honest, and, ultimately, more effective public sector. Mechanisms can be formal, such as a through a legislative 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. To that end, they need to report publicly at least annually in a timely manner, so that stakeholders can understand and make judgments on issues such as how the entity is performing, whether it is delivering value for money, and the soundness of its 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, as set out in this Framework, and report publicly on this assessment, including an action plan for improvement.

The performance information and accompanying financial statements that public sector entities publish should be prepared on a consistent and timely basis. The statements should allow for comparison with other, similar entities and be prepared using internationally accepted high-quality standards.

Implementation tip—financial reporting standards

International Public Sector Accounting Standards (IPSASs), issued by the International Public Sector Accountanting Standards Board (IPSASB), provide the most complete suite of accrual-based international financial reporting standards developed specifically for the public sector.

Integrated reporting can also support public sector entities in engaging with their internal and external stakeholders about their decisions, actions, plans, resource use, forecasts, outputs, and outcomes in a more integral and coherent manner.

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[17] Including outsourced service delivery, e.g., through private or not-for-profit entities.

G3. Assurance and effective accountability

Public sector entities are subject to standards—statutes, regulations, governance codes, and statements of best practice—and must have effective arrangements for demonstrating adherence to them.

The provision of assurance through external audit, performed by qualified professionals, is an essential element of a public sector entity's accountability. External audit involves analytical review, systems evaluation, compliance, and substantive testing. In particular, an audit opinion is given on the adequacy of the entity's financial statements and on whether they have been prepared in accordance with legal requirements and a recognized reporting framework and fairly reflect an entity's performance and position. External auditors assist governing body members in discharging their responsibilities by making appropriate recommendations for corrective action in response to audit findings. Making external audit reports public in a timely and accessible manner assists in empowering the public to hold the government and public sector entities to account.

In many jurisdictions, the independent supreme audit institutions (SAIs)'s 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. To accomplish their tasks objectively and efficiently, they must also be independent of audited entities and protected from outside influence.

SAIs, through their investigations or role in setting targets or standards, are also a means for strengthening oversight of senior management actions. Other mechanisms include the use of commissions such as an anti-corruption or information commission. Additionally, where maladministration may have occurred, an aggrieved person may appeal directly to an ombudsman.

External audit can have a further role in supporting and enhancing public sector entities' accountability and transparency by providing assurance over the effectiveness of governance arrangements. The external auditors may do this by, for example, raising any concerns they may have about the consistency of an entity's annual governance report with their knowledge of the entity.

Internal audit can also contribute to an entity's accountability mechanisms. Generally, it is the role of internal audit to provide a range of assurances, including reports on specific systems or work areas, new or developing systems (including how risks in those areas are being managed), partnerships, and an overall annual opinion. This opinion is one of the main objective sources that an entity's chief executive and governing body will have for preparing the annual governance report.

Appendix A: International Reference Group

Yoseph Asmelash	United National Conference on Trade and Development
Ian Ball	Former Chief Executive Officer, IFAC
Andreas Bergmann	International Public Sector Accounting Standards Board
Jón Blöndal	Organisation for Economic Co-operation and Development
Carlo Cottarelli	International Monetary Fund
Robert Dacey	US Government Accountability Office
Steve Freer	Former Chief Executive, CIPFA
Gert Jönsson	International Organization of Supreme Audit Institutions (INTOSAI) Financial Audit Sub-Committee
Mervyn King	Chairman, International Integrated Reporting Council and King Report on Governance for South Africa
Ian McPhee	Australian National Audit Office
Maurice McTigue	George Mason University (US)
Roger Tabor	Former Chair, 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 the organizations for which they worked when they were appointed.

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 Framework:

"Governance 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."

What is Governance?, World Bank:

The way "… power is exercised through a country's economic, political, and social institutions."

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)
Accountability: the obligation of public sector entities to the citizens and other stakeholders to account, and be answerable to, democratically chosen supervisory bodies, for their policies, decisions, and actions, particularly in relation to public finances.	CIPFA
Annual governance report: the mechanism by which an entity publicly reports on its governance arrangements each year.	CIPFA
Arrangements: includes political, economic, social, environmental, legal, and administrative structures and processes, and other arrangements.	
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 *2013 Handbook of International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements*.	International Auditing and Assurance Standards Board (IAASB)
Audit Committee: the governance group independent from the executive charged with providing oversight of the adequacy of the risk management framework, the internal control environment, and integrity of financial reporting.	CIPFA
Benefits: outcomes that are to the benefit of a public sector entity's stakeholders that can be of an economic, social, or environmental nature.	
Budget documents: financial expressions of service plans that set the limits of expenditure authorization for managers.	CIPFA
Capabilities: the professional knowledge, professional skills, and professional values, ethics, and attitudes required to demonstrate competence.	International Accounting Education Standards Board (IAESB)
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.	IAESB
Capital(s)/resource(s): stocks of value on which all organizations depend for their success as inputs to their business model, and which are increased, decreased, or transformed through the organization's business activities and outputs. The capitals are categorized in this Framework as financial, manufactured, intellectual, human, social and relationship, and natural.	International Integrated Reporting Council (IIRC)
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 rights of all constituents affected by its operations.	IFAC

Definition	Source (the Project Secretariat unless otherwise stated)
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.	IFAC
Cyber security: a specialized form of ICT security specifically focused on (external) networks and internet connections (addressing threats from "cyber space").	
Effectiveness: the relationship between actual results and service performance objectives in terms of outputs or outcomes. Effectiveness describes the relationship between an entity's actual results and its service performance objectives.	IPSASB
Efficiency: the relationship between (a) inputs and outputs, or (b) inputs and outcomes. An efficiency indicator can be used to show when a service is being provided more (or less) efficiently compared to (a) previous reporting periods, (b) expectations, (c) comparable service providers, or (d) benchmarks derived, for example, from best practices within a group of comparable service providers.	IPSASB
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: independent, qualified person(s) who carry out a review to give assurance to external stakeholders on an entity's financial statements, systems, and processes.	CIPFA
Governance: 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 an entity's strategic direction, operations, and accountability.	
Independence is: a. Independence of mind—the state of mind that permits the expression of a conclusion without being affected by influences that compromise professional judgment, thereby allowing an individual to act with integrity and exercise objectivity and professional skepticism. b. Independence in appearance—the avoidance of facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude, weighing all the specific facts and circumstances, that a firm's, or a member of the audit or assurance team's, integrity, objectivity or professional skepticism has been compromised.	IESBA

Definition	Source (the Project Secretariat unless otherwise stated)
Input(s): capitals/resources used to generate and deliver services to achieve intended outcomes.	
Institutional stakeholders: the other entities a public sector entity needs to work with to improve services and outcomes, or for accountability reasons.	CIPFA
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.	IIRC
Integrated reporting: a process that results in communication by an organization, most visibly through a periodic integrated report, about value creation over time.	IIRC
Integrity: holders of public office must avoid placing themselves under any obligation to people or organizations that might try inappropriately to influence them in their work. They should not act or take decisions to gain financial or other material benefits for themselves, their family, or their friends. They must declare and resolve any such interests and relationships.	UK Committee on Standards in Public Life
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.	Institute of Internal Auditors
Internal control: the term "internal control" can have multiple meanings, including: • a system or process: the entirety of an organization's system of internal control, i.e., an organization's internal control system; • an activity or measure: the actual measure to treat risks and to effect internal control, i.e., individual internal controls; • a state or outcome: the outcome of the internal control system or process, i.e., an organization achieving or sustaining appropriate or effective internal control. See *Evaluating and Improving Internal Control in Organizations* for a more detailed definition.	
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.	CIPFA
Management: person(s) with executive responsibility for the conduct of the public sector entity's operations.	IAASB

Definition	Source (the Project Secretariat unless otherwise stated)
Management team: group of executive staff comprised of senior management charged with the execution of strategy.	CIPFA
Outcome(s): the impacts on society, which occur as a result of the entity's outputs, its existence, and operations. There may be a strong, direct causal link between an entity's actions and its achievements with respect to outcomes, but this will not always be the case. Factors beyond the entity's control may intervene to either hinder or facilitate the achievement of outcomes.	IPSASB
Outcome target/Service performance objective: a description of the planned result(s) that an entity is aiming to achieve expressed in terms of inputs, outputs, outcomes, efficiency, or effectiveness. Service performance objectives may be expressed using performance indicators of inputs, outputs, outcomes, efficiency, or effectiveness.	IPSASB
Output(s): the services provided by an entity to recipients external to the entity.	IPSASB
Performance: a public entity's achievements relative to its strategic objectives and its outcomes in terms of its effects on the capitals.	IIRC
Performance indicators: quantitative measures, qualitative measures, and/or qualitative discussions of the nature and extent to which an entity is using resources, providing services, and achieving its service performance objectives. The types of performance indicators used to report service performance information relate to inputs, outputs, outcomes, efficiency, and effectiveness.	IPSASB
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.	CIPFA
Public interest: the net benefits derived for, and procedural rigor employed on behalf of, all society in relation to any action, decision, or policy.	IFAC
Public sector: national governments, regional (state, provincial, territorial) governments, local (city, town) governments and related governmental entities (agencies, boards, commissions and enterprises).	IPSASB
Public sector entity: one or more legal bodies managed as a coherent operational entity with the primary objective of providing goods or services that deliver social benefits for society.	CIPFA (amended)
Public sector services: all the outputs of a public sector entity, such as products, services, or regulation geared toward achieving certain outcomes.	
Reporting process: the people and processes involved in the preparation, review, approval, audit (when relevant), analysis, and distribution of a public sector entity's reports, both internal and external. All sections in the process need to be robust and closely connected to yield effective reports.	

Definition	Source (the Project Secretariat unless otherwise stated)
Risk: International Organization for Standardization (ISO) *Standard 31000:2009—Risk Management* defines risk as "the effect of uncertainty on objectives," which can be positive or negative.	ISO
Risk management: ISO *Standard 31000:2009—Risk Management* defines risk management as "coordinated activities to direct and control an organization with regard to risk."	ISO
Rule of law: observing legal requirements. The rule of law also implies having effective mechanisms to deal with breaches of legal and regulatory provisions.	
Stakeholder: any person, group, or entity that has an interest in a public sector entity's activities, resources, or output, or that is affected by that output. Stakeholders can include regulators, shareholders, debt holders, employees, customers, suppliers, advocacy groups, governments, business partners, and society as a whole.	IFAC
Stakeholder engagement: communication and consultation between a public sector entity and the internal and external stakeholders it engages with.	
Stakeholder value: organizational value that is generated for stakeholders by creating, implementing, and managing effective strategies, processes, activities, assets, etc. Sustainable value creation for stakeholders occurs when the benefits to them are greater than the resources they expend. Value is generally measured in financial terms, as in the case of shareholders, but it can also be measured as a societal or environmental benefit, as in the case of both shareholders and other stakeholders.	IFAC
Strategic planning: a process by which an entity's vision is translated into defined objectives and associated steps to achieve them.	
Strategy: long-term plan or policy.	
Stewardship: responsible planning, management, and accountability of the use and custody of a public sector entity's resources (capitals).	
Sustainability: the capacity of an individual entity, community, or global population to continue to survive successfully by meeting its intended economic, environmental, and social outcomes while living within its resource limits.	
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."	
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.	International Accounting Standards Board (amended)
Value for money: achieving "value for money" is often described in terms of economy, efficiency, and effectiveness.	

Definition	Source (the Project Secretariat unless otherwise stated)
Values: what an entity and individuals stand for.	
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.	CIPFA