FEE Federation of European Accountants
Fédération des Experts comptables Européens

Roundtable on Good Governance in the Public Sector

Wednesday 9 November 2011, 9.30-13.40 hrs

S U M M A R Y

Opening and Welcome by Philip Johnson, FEE President

Philip opened the roundtable by welcoming the delegates and speakers, and by thanking those involved in organising the event. The roundtable had proved extremely popular, as the timing of the roundtable was right following the various events in Europe recently.

FEE has long supported stewardship and trust in financial reporting, and good governance is an important way of demonstrating that stewardship and trust.

Introduction by Caroline Mawhood, Chair of Roundtable

Caroline noted the diverse range of participants at the roundtable, with 55 participants from 14 different countries including representations from various organisations such as IFAC, European Commission, European Court of Auditors, European Court of Justice, Ministries of Finance of different counties, major accounting firms, accountancy bodies, European Investment Bank, European Parliament, universities and other civil and private organisations.

In introducing the speakers, Caroline explained that the roundtable would explore what FEE PSC can do to promote good governance in the public sector. She also explained that FEE PSC had been discussing governance issues for a number of years, and that the question as to what "good governance" meant was a difficult one due to the different perspectives in different countries.

Session I: Contribution of good governance to efficiency and effectiveness of the public sector

Ian Carruthers, CIPFA and IPSASB Member: Good governance in the public sector: IFAC / CIPFA international framework project

Ian introduced the joint IFAC / CIPFA project on good governance in the public sector. The project is currently in the early stages of development. An initial consultation has been held with a number of bodies, including FEE PSC. The project takes into account specific public sector issues such as stewardship, taxation and performance issues.

The intention of the project is to produce principles-based best practice guidance that will be applicable across organisations, not just to accountants. There are links to previous work by both CIPFA and IFAC, including the 2005 Good Governance Standard and the CIPFA Whole System Approach to Public Financial Management[1]. The Good Governance Standard set out high level principles that different regulators took up and applied as appropriate in their area; CIPFA and IFAC anticipate a similar approach to the best practice guidance produced as a result of the joint project.

Defining governance in the public sector is difficult, and a working definition has been adopted:

"The arrangements necessary to ensure that the intended outcomes for citizens, service users, and other public sector stakeholders, are delivered in a transparent and accountable manner that is efficient, effective, ethical, and sustainable."

Building on previous work, the draft framework has also identified six principles that are required for good governance in the public sector:

- Focusing on sustainable social benefits in terms of financial, social, and environmental outcomes;
- Planning delivery of service and project outputs to meet stakeholder needs sustainably;
- Promoting and demonstrating the values of good governance;
- Maintaining, managing, and developing the effectiveness of the organization and its governing body;
- Managing risks through a robust control system to deliver strong public financial management and performance; and
- Engaging stakeholders and making decisions transparently to deliver effective accountability.

Responses to the initial consultation supported the general direction of the framework and the directions, and that these could be applied at both entity and whole system levels, although some issues of detail were raised.

An International Reference Group (ERG) is being established, with the aim of producing an Exposure Draft by October 2012 and a final framework by mid 2013.

Pia Widén, European Commission: Good Governance in the context of Public International Financial Control (PIFC)

Pia introduced the work of the PIFC Department of the European Commission.

Governance is about managing risks and achieving objectives; an internal control framework is about putting governance into practice. The emphasis should be on improving services – "spending well, not just spending".

PIFC acts in the public interest. It creates a structured and operational internal control model to assist national governments in re-engineering their internal control environment and reinforcing managerial accountability. Implementing PIFC should be seen as a long-term process which requires the commitment of all stakeholders.

Leadership is needed to support and promote the principles of good governance.

PIFC is defined as having three pillars: managerial accountability (financial management and control systems), functionally independent internal audit (IA systems) and a central

[1] http://www.cipfa.org.uk/international/whole_system_approach.cfm

harmonisation unit (CHU) for developing methodologies and standards relating to the first two pillars.

Managerial accountability
Modern internal control is focused on transparency, both in terms of clear lines of responsibility and harmonised methodology and standards. Managerial accountability relies on an effective delegation framework that clearly defines responsibilities of all managers.

The first level of control should be at the level of the manager. This means that each public manager is responsible for establishing and maintaining adequate financial management and control systems to carry out the tasks of planning, budgeting, accounting, controlling, reporting, archiving and monitoring.

Transparent decision making, clear reporting and strong accountability lines are required to ensure timely reporting that reaches the right people.

Functionally independent internal audit
Budget and spending centres should be equipped with a functionally independent internal auditor to support management through the provision of objective assessments of the internal control systems in place. The auditor's role is to assess the adequacy of the internal control systems put in place by management, to highlight weaknesses and provide recommendations for improvements where necessary.

The Central Harmonisation Unit (CHU) as a driver for change
Given the length of time required to fully implement PIFC and the scope of the task of harmonising the approach across all levels of government, it is important to have in place a central structure, namely a Central Harmonisation Unit (CHU).

The CHU is responsible for developing and promoting internal control and audit methodologies on the basis of internationally accepted standards and best practice and for co-ordinating the implementation of new legislation on managerial accountability and internal audit.

PIFC works with candidate countries (as part of the enlargement programme) to ensure improved systems and to adequately implement PIFC.

Riccardo Mussari, University of Sienna, Italy: Contribution of good governance to public value

Professor Mussari introduced the concept of public value, and the perspectives that different groups have of public value.

Public value depends on citizens' preferences and as such is subject to change. Public value arises from a complex network of activities undertaken by both the public and private sector.

Public value can be considered in two ways – provided and recognised. Provided public value is the intrinsic utility of produced outputs, whereas recognised public value is the satisfaction of citizens' demands, preferences and needs. It follows that there can be a difference between the two perspectives – citizens will not see any public value in the outputs provided (mainly by the public sector) if these outputs are not aligned with their needs and preferences. As these needs and preferences can change over time, outputs (provided public value) that once met citizens' needs and preferences may cease to do so, and so may cease to provide recognised public value.

Recognised public value has two dimensions – singular (value to the individual) and plural (value to society in general). Good governance is important in ensuring decisions support both dimensions (see diagram on slide 4).

Professor Mussari discussed the decision making processes and models, and the public services production and distribution processes that supported the plural dimension of public value in the context of new public management. He concluded that the plural dimension of recognised public value depends on activity and decision making of a multiplicity of public and private organizations, profit and non profit.

Professor Mussari identified two networks, the functional and provisional network, and the institutional network. Network outcome (public value) depends on both institutional and economic relationships. Effective working of the two networks depends on the capacity of public administration to govern and to reinforce these relationships applying the core principles of good governance. It is in this way that good governance contributes to public value.

Philippe Peuch-Lestrade, Ernst & Young: Contribution of audit function to good public governance

Philippe began by defining governance in the public sector as the right organisation and processes in order to address - with transparency - the expectations of citizens, service users and taxpayers.

Governance comes down to compliance, internal control and reporting to meet the increased stakeholder scrutiny; but should go further than this by providing added value to decision makers.

Audit functions are assurance and compliance, including performance measures, and recommendations for improvement. This covers the accounting processes and figures; and should also include the budget process. The question is how to define the governance criteria / requirements?

The preliminary step – the bedrock – is better public accounting and financial information for Parliament, international institutions, markets and managers. This requires public accounting standards to be applied to public entities; mandatory audit for all public bodies; and an enhancement of the internal control.

Philippe discussed the design and deployment of an internal control framework, and noted that audit should focus on the risky operations.

Operational / performance audit provides analyses for improving the performance of the operations and projects; improving the quality of data systems and infrastructure; reducing costs; launching adjusting actions; improving the accountability process; and facilitating the decision making process.

There are improvements to the audit process that can and should be made: more reader friendly formats; more integrated / business-focused points of view; more decision – oriented analysis; and more transparent assumptions.

Philippe concluded by identifying five key players for risk management and control (managers; a risk management and internal control function; external auditors; internal auditors; and Parliament (or equivalent) and its audit board or committee), and setting out their respective roles.

Session II: Principles of good governance for managing public services

Jeroen Maesschalck, University of Leuven: Ethics management and good governance in the public sector: competing fads or complimentary approaches?

Professor Maesschalck began by defining ethics, integrity and integrity management.

Ethics management was a response to new public financial management reforms such as quality management, performance management and the establishment of autonomous agencies for e.g. policy implementation. These innovations created new types of discretion, and ethics management was intended to provide public servants with support in dealing with the new discretion, as well providing control mechanisms to prevent violations of integrity.

There are two approaches to ethics management – rules based and values based. A mixture of both is needed, although the public sector has traditionally majored on rules based ethics management.

An Ethics Management System has four functions:

- Determining / defining integrity,
- Guiding towards integrity,
- Monitoring integrity,
- Enforcing integrity.

Ethics management is (becoming) a separate sub-discipline. Although there are overlaps and potential conflicts with other disciplines such as HR and financial management.

Professor Maesschalck concluded that ethics management is not a competitor for good Governance; it is an increasingly established (sub)discipline that can deliver an important contribution to good governance.

Stéphanie Ledoux, Ministry of Finance, France: Preliminary steps for good governance – A case study of France

Stéphanie started by considering the accounting reforms made to provide better public accounting and financial information. As public sector accounting requirements are included in constitutional bylaws, Stéphanie explained the legal position and the changes that had taken place, the most significant of which was the move to accruals accounting.

France is in the process of converging the public accounting standards used by all public bodies, and is also a participant in IPSASB. Internal controls are also being improved to ensure the quality of accrual accounting information.

There has been an extension of the scope of certification for public accounts, and the role of the state audit office has been strengthened under the provisions of the Constitution – its mission is to assist Parliament and the Government, but it is also to give its opinion on the public establishment accounts.

The strengthening of internal control relies on the implementation of new IT systems.

At the core of these changes has been an emphasis on transparency and accountability, one example of which is a four page summary of financial statements for non-experts. Better quality accounting will better meet the needs of the users.

Stéphanie then moved on to consider the accounting reforms intended to produce better financial management. The budget process had been reformed, and was now presented on a policy basis. Consolidated accounts (along the lines of the Whole of Government Accounts in the UK) are a medium-term goal.

High quality general purpose accounts are required across Europe. The convergence of accounting standards for public sector at European level would make international comparisons between governments easier, and would be a tool for an efficient steering of the public finances at European level.

Judith Smyth, UK Office for Public Management (OPM): The Good Governance standard for public services: how it was developed and is being used

Judith began by explaining that OPM is employee owned mutual.

The Good Governance standard was developed by a group comprising CIPFA, OPM, and the Joseph Rowntree Foundation. It applies to various levels from a local group to central government.

As part of the development, research was carried out to determine how well was public governance working for the 450,000 people who are involved on boards of organisations providing public services? This highlighted the problems being experienced by these governors, and suggested various actions that were required, including the development of a common code for public service governance.

There was a need to think about bottom-up approaches to good governance, and allowing the public to challenge bad governance. It was also considered important not to overlay principles with systems and structures as this could inhibit adoption.

The Good Governance standard was published in 2006 and reviewed in 2008 (no changes made). It is the foundation for many different governance codes for different public services in all sectors.

There are six core principles:

- Focusing on the organisation’s purpose and on outcomes for citizens and users;
- Performing effectively in clearly defined functions and roles;
- Promoting values for the whole organisation and demonstrating the values of good governance through behaviour;
- Taking informed transparent decisions and managing risks;
- Engaging stakeholders and making accountability real;
- Developing the capacity and capability of the governance team to be effective.

Changes in public policy (such as the increased emphasis on commissioning and partnerships, and a greater mixed market approach) are presenting additional governance issues. For example, there is a need to require good governance from all providers, which raises cross–organisation governance issues.

Judith finished by outlining the lessons learned in developing the standard, and by setting out the need for an overarching standard or code. She noted that a compliance culture is required – especially as wider commissioning arrangements are implemented.

Discussion

The points raised by the speakers in Session II were debated by the attendees and the panel. The following additional points were raised:

- Regarding statistical accounts, it was noted that it is only recently that Eurostat obtained the right to audit these;
- There is a need to change behaviours, and it should be noted that not all failures are lower down the organisation (politics based decision making, not evidence based, etc.). But the good governance standard gives the public the right (and information) to challenge bad governance;
- There are two other actors that secure accountability: Financial Markets (reason behind austerity programmes) and the Voting Taxpayer;
- The fact that politicians are elected every 3, 4, or 5 years tends to short-termism, and this is exacerbated where there is a focus on cash accounting;
- The lack of trust is an issue, especially trust in politicians.

Summing up and Close by Caroline Mawhood, Chair of Roundtable

Caroline thanked all the speakers for their contribution to the roundtable, and briefly summarised the key points each had raised, such as:

- The definition of good governance remains a hotly contested subject across Europe;
- There was doubt whether there could ever be a meaningful standard definition developed for good governance;
- Internal audit is important for good governance and as is its relationship with audit committees;
- There was consensus on the great relevance of good governance to public value;
- There is too much complexity in the current governance structures and therefore there is a need for simplification;
- There are several actors in good governance which include the politicians, the public servant, the financial markets and the voting taxpayer;
- In the context of the audit function's contribution to good governance, it is essential to have audited accounts but these must be communicated in a clear and understandable way;
- Ethics management is a subset of good governance;
- There needs to be a political will to achieve accounting reforms and good governance in the public sector at national and other levels;
- Politics is an integral part of the public sector which is different from the private sector. There was extended discussion on the political dimension, its influence and its role in the public sector;
- There is a need to help the public challenge poor governance – both locally and nationally. This partly arises from the lack of trust in the public sector by citizens but also within the hierarchy of public sector organisations;
- Good accounting information, ethical behaviour, long term thinking and assurance over public information are essential to regain trust (public and lenders) and effectively balance fiscal positions.