



OFFICE OF THE
Auditor General
of British Columbia

Public Sector Governance
A Guide to the Principles of Good Practice

Why the Emphasis on Governance?

Governance deals with the structures and processes by which an organization is directed, controlled and held to account. Proper governance provides the means to help an organization achieve its goals and objectives.

The achievement of good governance is important for every public sector organization, including ministries, Crown agencies, health authorities and school boards, among others. Many of government's programs and services also cut across organizational or jurisdictional boundaries and if they are to be delivered in a seamless way then good governance needs to be in place.

The principles and ideas discussed through this document apply to cross-government initiatives as much as to individual public sector organizations.



"Government agrees that good governance is essential to the success of organizations, regardless of whether they are in the public, private or not-for-profit sectors."

Government of BC response to the Office of the Auditor General of British Columbia report, *"Public Sector Governance: A Guide to the Principles of Good Practice"* (December 2008, p. 39)

Where Should We Start?

Good governance is underpinned by five core principles. An organization that uses good governance is one that always, in word and action, demonstrates: accountability; leadership; integrity; stewardship; and transparency (the A.L.I.S.T.).

A

Accountability is the process whereby organizations, and the individuals within them, take responsibility for their decisions and actions.

L

Leadership is setting the "tone at the top" which is absolutely critical if an entire organization is to embrace good governance.

I

Integrity is acting in a way that is impartial, ethical and not misusing information or resources, which is reflected in part through compliance with legislation, regulations and policies as well as the instilling of high standards of professionalism at all levels.

S

Stewardship is the act of looking after resources on behalf of the public and is demonstrated by maintaining or improving capacity to serve the public interest over time.

T

Transparency is achieved when decisions and actions are open, meaning stakeholders, the public and employees have access to full, accurate and clear information on these matters.

How Can These Principles Be Put Into Practice?

The elements that constitute good public sector governance, and upon which practices can be modelled, can be demonstrated as the components of a house, as follows.

House of Governance



Source: Australian National Audit Office, "Public Sector Governance", 2003.

"Regardless of organizational type, corporate governance regimes are unlikely to be effective where there is a lack of clarity about the participants involved, their relationships with each other and their respective responsibilities."

Board Resourcing and Development Office of British Columbia, Best Practice Guidelines, (February 2005, p. 3)

Governance Framework

1) Leadership, ethics and a culture committed to good public sector governance

The implementation, evaluation and improvement of a public sector organization's governance structures and processes are the responsibility of leaders, and without such commitments, there would be no foundation to build on.

2) Stakeholder relationships (internal and external)

Understanding the various roles, accountabilities and needs of each stakeholder group contributes to strong relationships, and supports the success of the three central components, or "windows", of the "House of Governance".

3) Risk management

This provides a public sector organization with the means to understand and address risks in order to better achieve its objectives.

4) Internal compliance and accountability

An efficient and well-governed public sector organization will ensure that internal controls and accountabilities are clearly defined and consistent with the organization's objectives.

5) Planning and performance monitoring

Governing bodies that review and foster better planning and performance monitoring will be more effective and relevant.

6) External compliance and accountability

External scrutiny is an integral part of work in the public service and meeting these accountabilities is one of the measures of success for public sector organizations.

7) Information and decision support

Information management is critical for a public sector organization to meet its objectives and accountabilities, namely by ensuring that the right information gets to the appropriate people in a timely manner.

8) Review and evaluation of governance arrangements

Ongoing review, evaluation and adjustments of governance arrangements are a key process and this includes the governing body checking its own structures, processes and overall performance.

How Should We Gauge our Progress and Successes?

Good governance requires more than just a checklist approach and it is important that the following not be seen as an end in itself. The items listed below are a starting point for gauging the state of structures and processes that aid public sector organizations in achieving good governance and, in turn, obtaining stakeholder confidence.

1 *Leadership, ethics and a culture committed to good public sector governance*

- Leaders have clearly defined mandates and responsibilities as well as the skills, knowledge and available resources to lead effectively.
- A formal code of conduct is adopted by the organization.
- Appropriate structures and processes are in place to ensure the organization is free of influence by prejudice, bias or conflicts of interest.
- Members of the governing body exercise leadership by conducting themselves in accordance with high standards of behavior, as a role model for others in the organization.
- Good governance flows from a shared ethos or culture, with this being expressed as values and demonstrated in behaviour.

2 *Stakeholder relationships (internal and external)*

- An active and planned approach is taken to defining and understanding stakeholder relationships so they can be developed and strengthened.
- Appropriate structures and processes are in place to measure and review the quality and effectiveness of service or product delivery to stakeholders (both internal and external).
- Clear channels of communication are established with stakeholders regarding the organization's mission, roles, objectives and performance.

- Effective communication is established with stakeholders, including procedures for both internal and external enquiries and complaints.
- Information in general is shared among key players, politicians, public servants and other stakeholders subject to respecting the confidentiality of personal information and commercial confidences.
- Communication to stakeholders is balanced, understandable, transparent and timely.
- Accountability to stakeholders is promoted by publicizing the identity of the members of the governing body, together with information about how and why they came to be appointed.
- Clear management processes are established and documented.

3 *Risk management*

- The system is based on a clear understanding of the organization's objectives.
- Key strategic, operational and financial risks associated with the organization's objectives are identified and assessed, appropriate responses (e.g., implementing internal controls) are determined, and assurance is provided that the chosen responses are effective.
- Risks are monitored and the responses are evaluated.
- The effectiveness of the risk management system is reported publicly, referring explicitly to the governing body that holds responsibility for the system.
- The risk management system considers the full range of the organization's activities and responsibilities, and continuously checks that various good management disciplines are in place.

4 *Internal compliance and accountability*

- Staff's roles, responsibilities and accountabilities and how those relate to the rest of the organization are clearly defined.
- A strong internal control environment with processes and measures that are aligned with the external accountability framework is created.
- Actions already completed are reported and discussed, and stakeholder input is sought to help plan and carry out new activities.
- Staff are held accountable to the governing body, but the governing body's responsibilities to staff are also acknowledged.
- Clear policy is implemented on when and how the governing body will consult and involve staff and their representatives in decision-making.

5 *Planning and performance monitoring*

- A clear statement of the organization's purpose is in place, which is used as a basis for planning.
- Appropriate structures and processes are in place to monitor financial and non-financial performance against the organization's plan.
- Financial and non-financial performance measures are reported.
- Suitable and practical performance measures are used as management and accountability tools.
- The quality of service for users is measured and such information is made available as necessary to review service quality effectively and regularly.

6 *External compliance and accountability*

- A clear understanding exists of external stakeholder institutions and the organization's responsibilities and means of accounting to them.
- Strong and robust organizational structures and processes are in place to comply with and meet external accountabilities.
- An annual report (including financial statements) is published on a timely basis that presents an objective, balanced and understandable account along with an assessment of the organization's activities, achievements, financial position and performance prospects.
- A statement is published on whether or not standards or codes of governance have been adopted. This statement should identify the standards or codes adopted, whether compliance has been achieved with them and, if not, in what respect there has not been compliance and why.
- The interest and confidence of the public and service users are encouraged and maintained through relationship and dialogue building.
- The organization as a whole seeks and welcomes feedback, and responds quickly and responsibly to comments.
- The organization has a clear policy on the types of issues on which it will consult or engage the public and service users and clearly explains how it will use the input received in decision-making and how it will report back on these decisions.
- Relationships with the leaders of other organizations are formed and maintained as a foundation for effective working relationships at operational and strategic levels.

7 Information and decision support

- Governing bodies concern themselves with levels of detail that are most appropriate for their role, while ensuring they still provide effective oversight and scrutiny.
- Information and decision support structures reflect both external and internal accountabilities as well as major organizational decisions.
- The organization develops strong and robust record-keeping and file management systems.
- Clear objectives are stated for decisions.
- Information is tailored to the functions of the governing body.
- Information is directly relevant to the decisions the governing body has to make; is timely and objective; and gives clear explanations of technical issues and their implications.
- Professional advice on legal and financial matters is taken and used appropriately in decision-making and elsewhere throughout the organization.
- The organization's resources are used to provide the information and advice that is needed for good governance.

8 Review and evaluation of governance arrangements

- Reviews and evaluations are carried out on an ongoing basis, and led internally. As well, external reviews should be completed at intervals to give the organization the benefit of outside objectivity and expertise.
- Controls are reviewed as part of a continuous improvement process.
- Risks are monitored and evaluated constantly and programs and procedures are established to address these risks.

Is There More to Good Governance?

"In some ways compiling a best practices model for public sector governance is the easy part. The next stage, incorporating the principles in this model, will be much more challenging for some. While the principles involved in our good practices model may appear to be obvious and common sense, considerable effort and commitment will still be required by many organizations to embed these principles in the way they conduct their business and deliver services to citizens."

- John Doyle, Auditor General of British Columbia



For further information on this, please refer to the detailed report, *Public Sector Governance: A Guide to the Principles of Good Practice* found at:
<http://www.bcauditor.com>

OFFICE OF THE
Auditor General
of British Columbia



8 Bastion Square
Victoria, British Columbia
V8V 1X4
250 387 6803
www.bcauditor.com
bcauditor@bcauditor.com