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## Corporate Governance in the Public Sector



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# Corporate Governance

## Concept originated in the Private Sector

- Corporate failures:
  - weak management boards
  - over powerful chief executives
  - weak internal controls
- Characterized by:
  - lack of segregation of chairman and chief executive
  - lack of audit committee/internal audit functions
  - weak control/override of controls



# Corporate Governance

- Principles of Corporate Governance apply to Public Sector
- There are differences:
  - 'Board of Directors' may be difficult to define
  - no single framework of governance would apply to all public sector entities
  - need to identify the public sector stakeholders ('shareholders', 'customers')



# Corporate Governance

## **Public Sector Definition:**

“The system by which organizations are directed and controlled”

Underlying this definition are three principles:

- Openness
- Integrity
- Accountability



# Corporate Governance

## **Openness:**

- gives stakeholders confidence in decision making processes, actions of entities, and in the individuals concerned



# Corporate Governance

## **Integrity:**

- honesty and objectivity
- propriety and probity in the stewardship of public funds and resources
- dependent on control framework and on personal standards and professionalism of individuals within entity
- reflected in decision making procedures and quality of financial and performance reporting.



# Corporate Governance

## **Accountability:**

- process whereby entities and individuals within them are responsible for their decisions and actions, including stewardship of public funds and performance
- achieved through clarity of responsibilities and roles



# Corporate Governance

These principles are reflected in four “dimensions” of public sector governance:

- standards of behavior
- organizational structures and processes
- control
- external reporting



# Corporate Governance

## **Roles and Responsibilities**

Balance of Power and Authority

- Governing body of a Public Sector Entity
- Chairperson of the Governing body
- Non-executive Members of Governing body
- Executive Management



# Corporate Governance

## Control

- Risk Management
- Internal Audit
- Audit Committees
- Internal Control
- Budgeting, Financial Management and Training



# Corporate Governance

## **External Reporting**

- Annual Reporting
- Use of Appropriate Accounting Standards
- Performance Measures
- External Audit



# Corporate Governance

## **Governing body:**

- defines the vision, mission and long-term objectives within policy and resource framework set by Parliament/legislation
- oversees delivery of planned results
- appoints senior management
- approves and adopts annual report, including financial statements
- ensures there is an effective system of internal control
- oversees the processes of risk management



# Corporate Governance

## Chairperson:

- separate from Chief Executive
- preferably independent (non-executive)
- provides leadership and cohesion
- ensures there is an effective process for reviewing performance of governing body
- ensures that the governing body has adequate support and information
- ensures that the business of the governing body is undertaken efficiently and on a timely basis



# Corporate Governance

## Audit Committees:

- independent of executive management
- sub-committee of governing body
- membership confined to non-executives  
(but not necessarily limited to members of governing body)
- meetings normally attended by chief finance officer, head of internal audit and representatives of external audit



# Corporate Governance

## **Audit Committee's Terms of Reference:**

- oversight over management's responsibility for effectiveness of internal control system
- review adequacy of policies and practices for ensuring compliance with regulations, policies, etc.
- review adequacy of internal audit resources
- recommend/approve appointment/removal of head of internal audit
- review activities and program of internal audit and co-ordination with external audit
- oversee entity's relationship with external auditor



# Corporate Governance

## **Statement on Internal Control:**

- Acknowledges Chief Executive's responsibility
- Reasonable not absolute assurance
- Describe key procedures
- Review of effectiveness
- Weaknesses (where appropriate)



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Thank you

