



Corporate governance in the public

Promoting a high level of accountability and transparency

Accountability and public sector corporate governance

The awakening

With 24/7 social media alerts, demanding requirements such as tighter government budgets, past scandals and legislation targeting corruption being introduced across the Gulf Cooperation Council countries and the Middle East at large, there is an increased demand for accountability. Public skepticism, combined with unprecedented transparency, is placing everyone under scrutiny like never before. The boundaries of social responsibility are rapidly expanding, challenging individuals in authority to consider the public and its agenda.

In light of the global financial crisis, much commentary in corporate governance has been concentrated on the activity of organizations deemed 'systemically' important to the economy. Yet, relatively little discourse has been directed towards corporate governance in the public sector organizations which, arguably, have as much impact on the lives of each member of society. Government departments and public bodies make choices and take decisions on a daily basis that affect all citizens – understanding how these choices and decisions are made is, therefore, a matter of significant public interest.

Corporate governance in the public sector

Instituting corporate governance within public sector firms has recently begun to receive increased attention. This is particularly the case when countries are attempting to curb widespread corruption within the public sector, or when they are preparing public enterprises for privatization. In either scenario, sound corporate governance measures ensure that the public gets a fair return on its national assets.

The policy turnaround in the Arab countries followed intensifying pressure to open up their economies, attract foreign investment and eliminate red tape, corruption and other malpractices for a better standing in global indices. Such measures have been allied with other steps to tear down capital barriers and turning the Arab World into a top destination for Foreign Direct Investment.

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Departing from previous trends when corruption and related crimes went almost unnoticed and often unpunished; and perhaps reiterating their commitment to fighting global crime, such offences are now frequently and publicly reported, and high ranking Government officials are summoned for unprecedented questioning on suspected misappropriation of funds.

For example, in the United Arab Emirates, the State Auditing Court (SAC) recorded many cases involving misappropriation of federal funds and has reported that its surveillance activities have resulted in the recovery of large sums of wasted money and in curbing such malpractices where civil servants were involved in what is described as "illegal financial practices."

Similarly, in Saudi Arabia, the largest Arab economy and the world's top oil exporter, the National Commission Against Corruption was established following a royal decree.

In Kuwait, another GCC oil heavyweight, recent legislation to form a Public Authority for Integrity (PAI) was announced, an organization committed to implementing anti-corruption policies.

Public sector corporate governance – A roadmap

The topic of corporate governance has been high on the agenda in the private sector for more than a decade.

Although the private sector model of corporate governance, which tends to view shareholders as the main stakeholder group, requires some adaptation to fit the public sector, many of the underlying principles of good corporate governance would apply. In the public sector, specific user groups, those directly responsible for funding and the community at large assume a greater importance as stakeholders. However, the pivotal role of the governing board and the issues of transparency and accountability are as relevant to the public sector as they are to the private sector. Stewardship and accountability for the use of funds and assets is particularly important in the public sector.

It is becoming more important than ever to focus on Corporate Governance in the public sector to maintain faith in the system and promote better service to the public, accompanied by transparent and controlled operations.

Good institutional governance should be instilled by the development of governance systems in ministries and authorities, with the aim of focusing on enhancing the quality of public services consistent with citizen expectations, promoting compliance and conformance, with appropriate transparency and flexibility.

In this context:

- **Performance** - focuses on how governance arrangements are used to contribute to the overall performance and the quality and continuity of delivery of services or programs, and
- **Compliance and conformance** - focuses on how governance arrangements contribute to ensure meeting requirements of laws and regulations as well as community and stakeholder expectations.

As such, good public governance seeks to promote:

- **Accountability** - being answerable for decisions and having meaningful mechanisms in place to ensure adherence to all applicable laws, regulations and standards.
- **Transparency / openness** - having clear roles, responsibilities and procedures for making decisions and exercising power, and act with integrity.
- **Stewardship** - enhancing the value of entrusted public assets.
- **Efficiency** - applying the best use of resources to further the aims of the organization.
- **Leadership** - promoting an entity-wide commitment to good governance starting from the top.

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To achieve the above, the public sector is in definite need for a proper corporate governance framework to be instilled.

Ethics and integrity

Governing body members (Board of Directors or equivalent), need to possess high levels of integrity and ethical behavior and should, more importantly, be seen to possess such traits. This is extremely important as they participate in organizational decision-making and assessment of business.

Furthermore, being open is part of the process of being accountable, so governing board members need to be open and accountable to stakeholders for their part in the decision-making process and avoid any conflict of interest, apparent or implied.

Equally important, there should be a strong focus on promoting an entity-wide culture of ethics and integrity by developing and maintaining a code of conduct. The code of conduct would need to be supported by a whistle-blowing hotline and a fraud control system and policy, to ensure employees are encouraged to share and vent their concerns.

Organizational structures and processes

A strong and viable organizational environment that reinforces and encourages the ethical and responsible conduct of employees should be supported by structures and processes as follows:

- Proper organizational structure including board committees such as an Audit Committee, a Human resources and remuneration committee, etc.

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- A Board of Directors(or equivalent,) Charters or Terms of reference defining: composition and membership including non-executive members, roles and responsibilities, authority and delegation of power, quorum of meetings and related mechanisms, skills and training needs, self-assessment and compensation.
- Board Committees Charters or Terms of reference defining: composition and membership including non-executive members, roles and responsibilities, authority and delegation of power, quorum of meetings and related mechanisms, skills and training needs and self-assessment.
- Proper segregation between the Chairman and CEO or equivalent, with clear distinction and definition of the roles of each.
- Defining the relationship of the CEO with his/her line management as well as with the Board.
- Clearly-defined delegation of authority and authority matrix supported by clear processes and conditions for such delegations across all levels of the organization.
- Detailed policies and procedures for all departments and functions, defining the roles, responsibilities and standards of operations across the organization.

The organization needs to promote a high level of reporting transparency to the public, highlighting compliance with laws and regulations as well as initiatives taken by the entity

Strong internal control structure including Risk Management and Business Continuity

Internal control

There should be an effective internal control system to provide reasonable assurance regarding the achievement of effective and efficient operations, reliability of internal and external reporting and compliance with the applicable laws, regulations and internal policies, including corporate governance policies.

Risk management including Business Continuity Management

Enterprise risk management involves understanding organizational objectives, identifying the risks associated with achieving them and assessing the likelihood and potential impact of particular risks, developing a program to address the identified risks and monitoring and evaluating the risks and the arrangements in place to address them.

Risks are likely to affect many areas such as strategy, operations, finance, technology and environment, leading to interruptions of business and/or loss of records. Consideration needs to be given to contingency plans and ensuring the availability of strong business continuity planning to cover any major interruptions in the capacity to deliver services and also quality of services.

Internal audit

The main objective of an internal audit function is to provide for a degree of internal assurance in relation to the processes and systems for ensuring the completeness, accuracy and reliability of financial and other key information. For details please refer to the Middle East Point of View | February 2011 issue "Internal audit in the public sector - The quiet revolution."

Reporting and disclosure

Regular and informative reporting, both internally and externally, is a pre-requisite for operational effectiveness. Major issues which may affect the overall performance of the organization should be brought to the attention of the board in a timely manner and all relevant information should be presented in a clear and concise way. Financial and non-financial performance and other accountability information should also be reported to the board on a regular basis.

Equally important, the organization needs to promote a high level of reporting transparency to the public, highlighting compliance with laws and regulations as well as initiatives taken by the entity.

Budgeting, financial management performance measurement

The Board should establish an annual robust budgeting process, indicating how the resources allocated will be used. Budgeting should, as far as possible, be linked to measurable objectives. This encourages a clearer vision, enables proper forward planning to take place and facilitates the best longer-term use of resources.

Additionally, relevant financial and non-financial performance measures which are as important as the financial ones, need to be established utilizing Key Performance Indicators (KPIs) which provide a useful management and accountability tool, to ensure and demonstrate the efficient and effective use of resources.

Performance measurement is to be linked to the recruitment and retention and development of suitable staff. This in turn should consider appropriate packages to attract, retain and motivate talent, although issues relating to remuneration and dismissal of staff are likely to be subject to greater external scrutiny in the public sector.

Finally, performance measurement and talent management is to be supported by appropriate training opportunities, catering to immediate job requirements and career development.

Conclusion

Fundamentally, good governance arrangements increase participation, strengthen accountability mechanisms and open channels of communication within, and across, organizations. In this way, the public sector can be more confident about delivering defined outcomes and being accountable for the way in which results are achieved.

A focus on good corporate governance can help public bodies deliver the ever more exacting performance imperatives that are expected of them, whilst at the same time meeting demanding standards of accountability. To do this, however, corporate governance must not be simply seen as a narrow compliance obligation. By adopting a more multi-dimensional approach to corporate governance, there is a greater likelihood that it can be seen as a catalyst to achieve even better performance, allowing public bodies to adapt to their vastly changed circumstances.

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