

A coastal town scene with a waterfront, buildings, and a blue overlay. The foreground shows a body of water and a grassy bank. In the middle ground, there are several buildings, including a restaurant named "Beachcombers Restaurant" and a large grey building. In the background, there are more colorful houses and trees. A blue overlay covers the bottom left portion of the image, containing the title and speaker information.

Auditing Governance/ Auditing What is Important

Martin Ruben, FCPA, FCGA

APIPA Conference – August 11, 2020

WELCOME TO:
Auditing Governance/
Auditing What's Important

Suggestions for best participation

- Participate!
- Stay on mute
- Raise your hand
- Use chat box
- Be in a quiet room
- Use your webcam present
- Note you are away

Learning journal

- Sent out in advance
- Will be used throughout the session
- If you don't have one, use a piece of paper to take note of what you learned in one column and in the second, indicate how you will use what you learned when you get back to the office.
- Be specific: For the next audit, I will do the following:



Martin Ruben, Consultant

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Learning journal

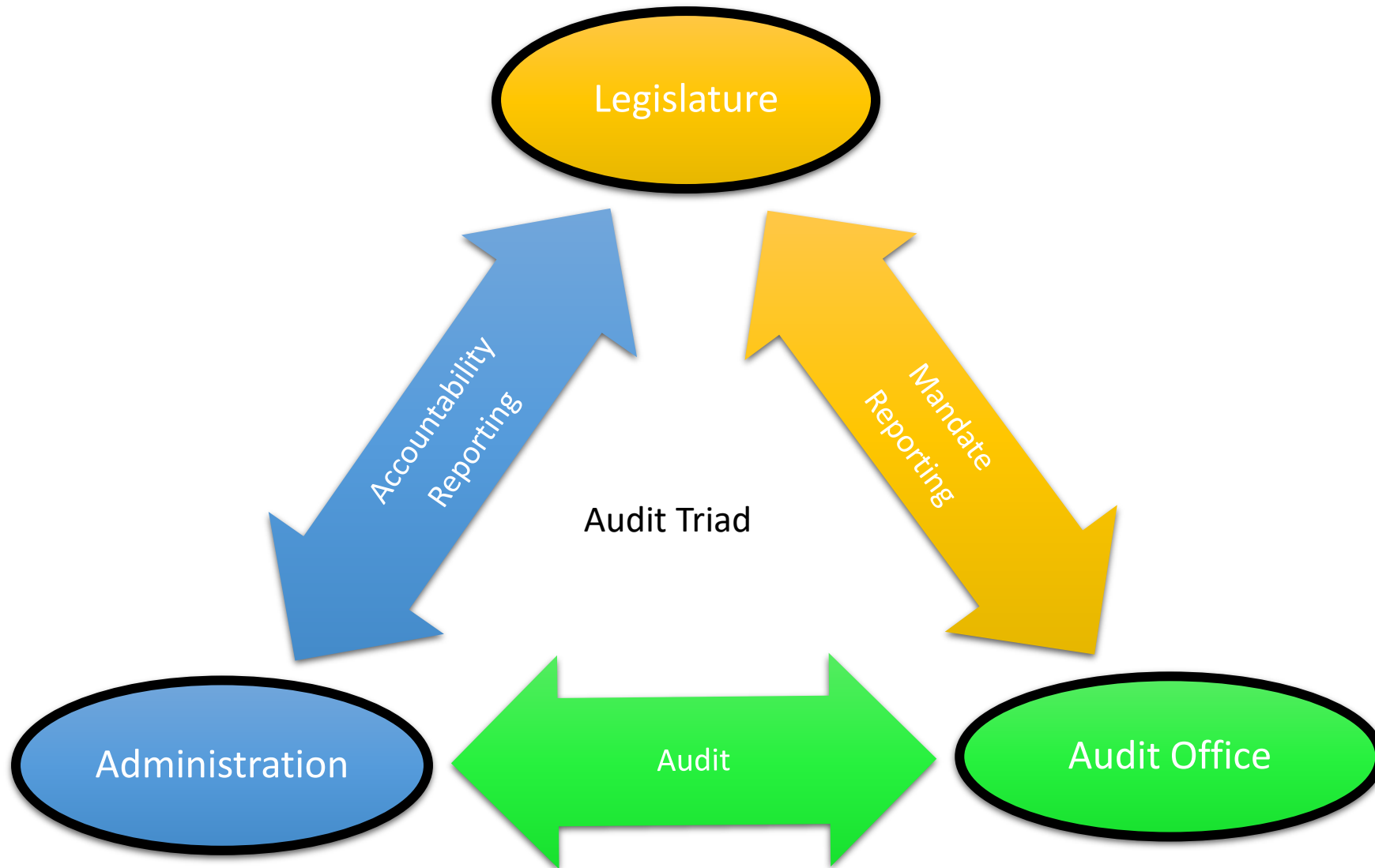
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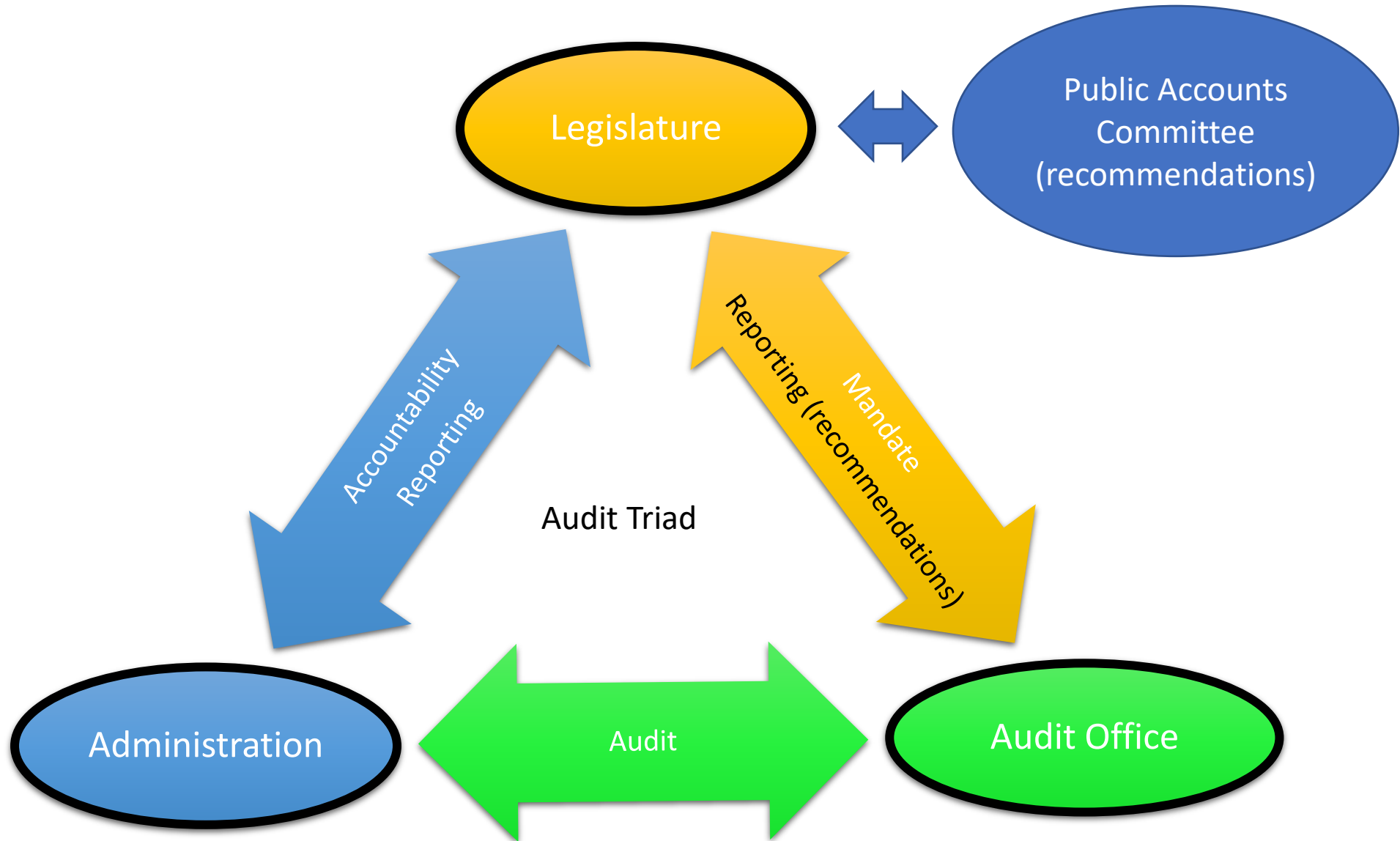
Topics for discussion today

- What is good governance in public sector?
- Relationship of good governance with good public financial management
- How the auditor considers governance when conducting audits
- Audits of governance:
 - Governance in the Cayman Islands Government: How Core Government Manages Resources
 - Accountability of Statutory Authorities and Government Companies

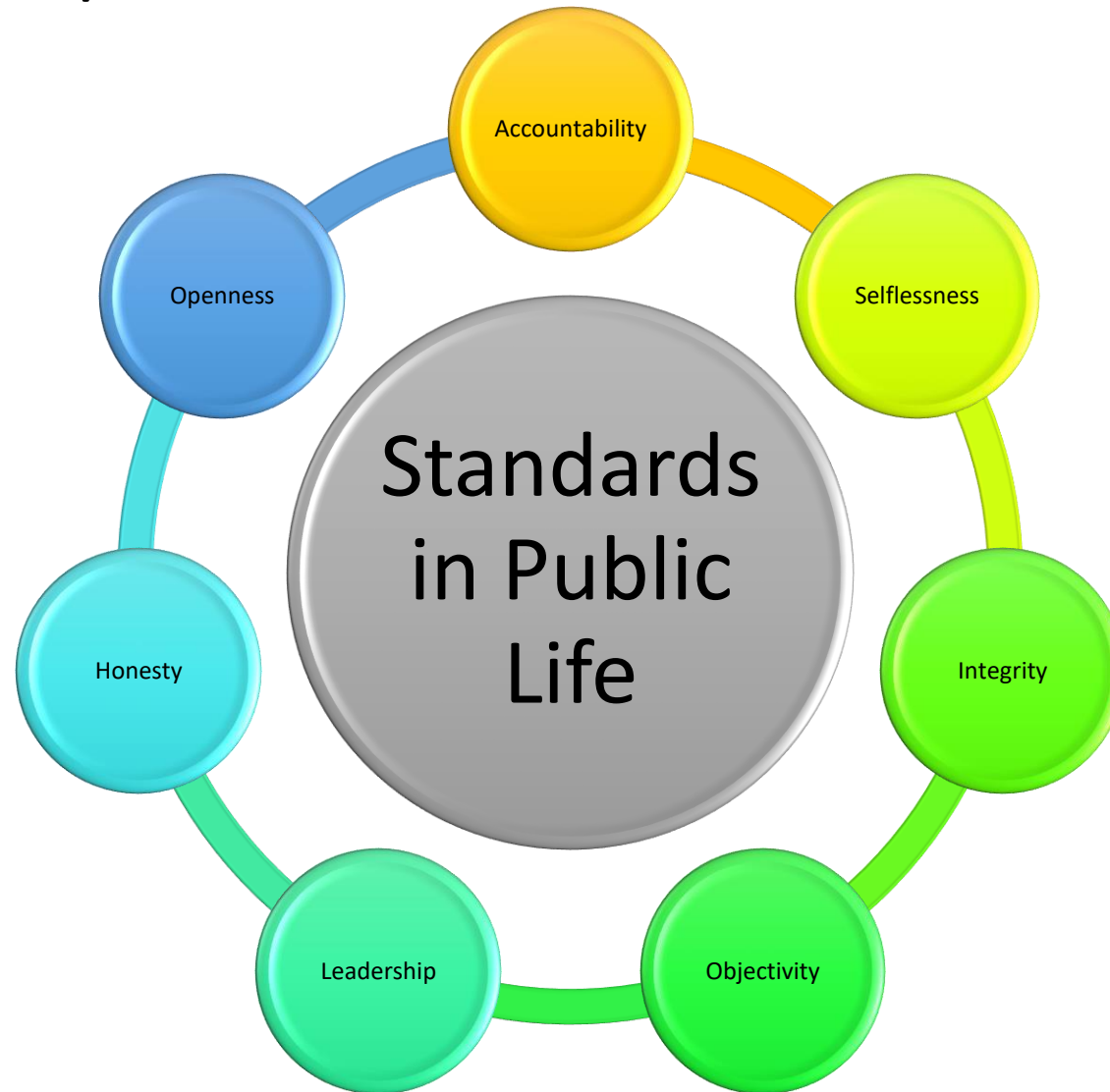
Where do you all come from?

- Turn on your mics
- On the count of 3, tell me where you are from





Nolan Principles



Bad governance

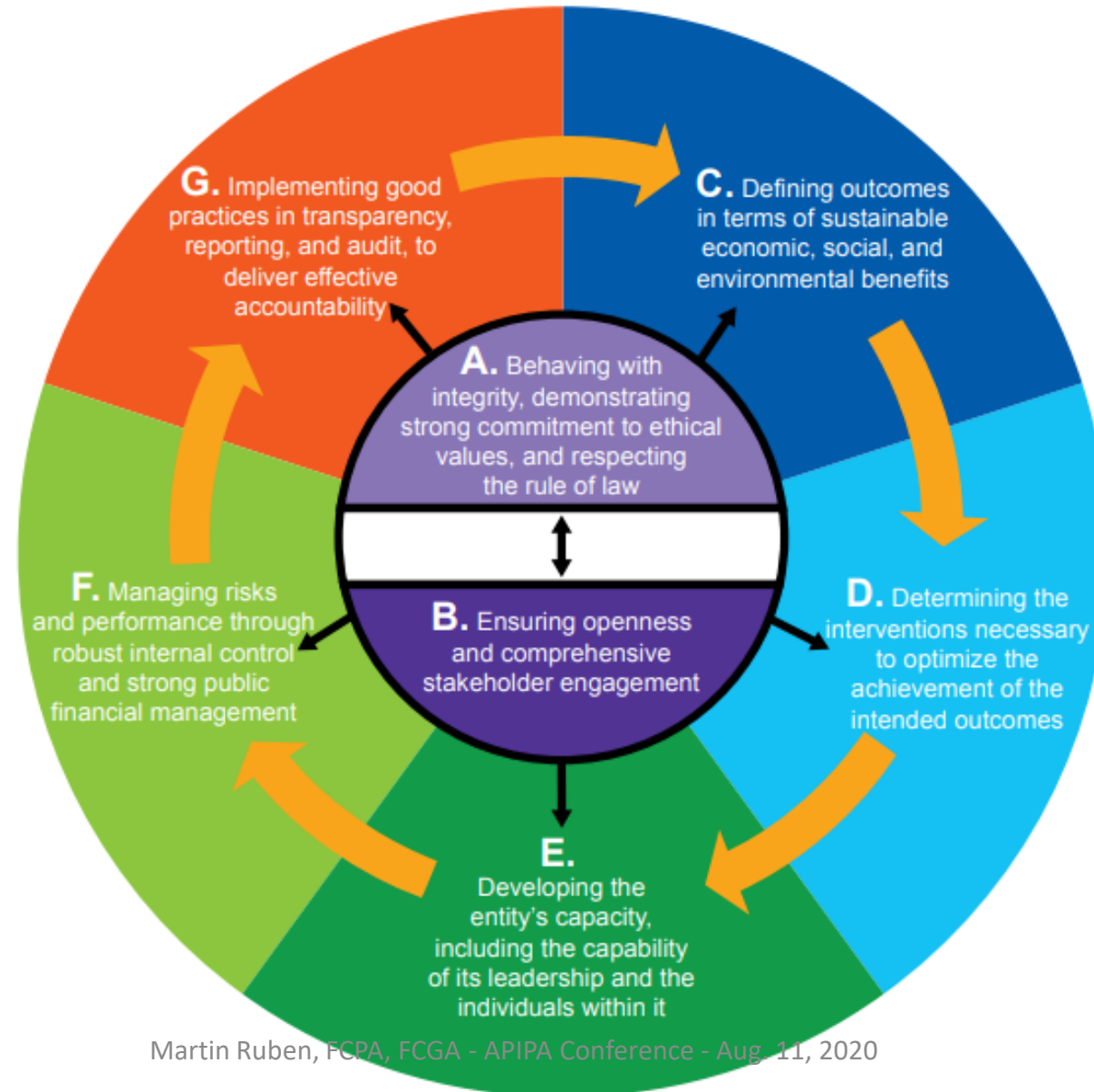
- Bad governance is centralised around the idea of not only corruption within a system but a lack transparency and accountability, arbitrary policy making and the cheating of those who are governed.

Wikipedia

What is good governance in public sector?

- Evolved over the years
- Several different models exist around the world
 - Institute on Governance (Canadian) (2014) – 5 principles – based on UNDP
 - CIPFA / Roundtree Commission (2005) – 6 core principles
 - IFAC / CIPFA (2014) – 7 principles
 - British Columbia Audit Office – 8 principles
- All models have one thing in common – provide the basis for Government / public sector to be successful and achieve better outcomes

Achieving the Intended Outcomes While Acting in the Public Interest at all Times

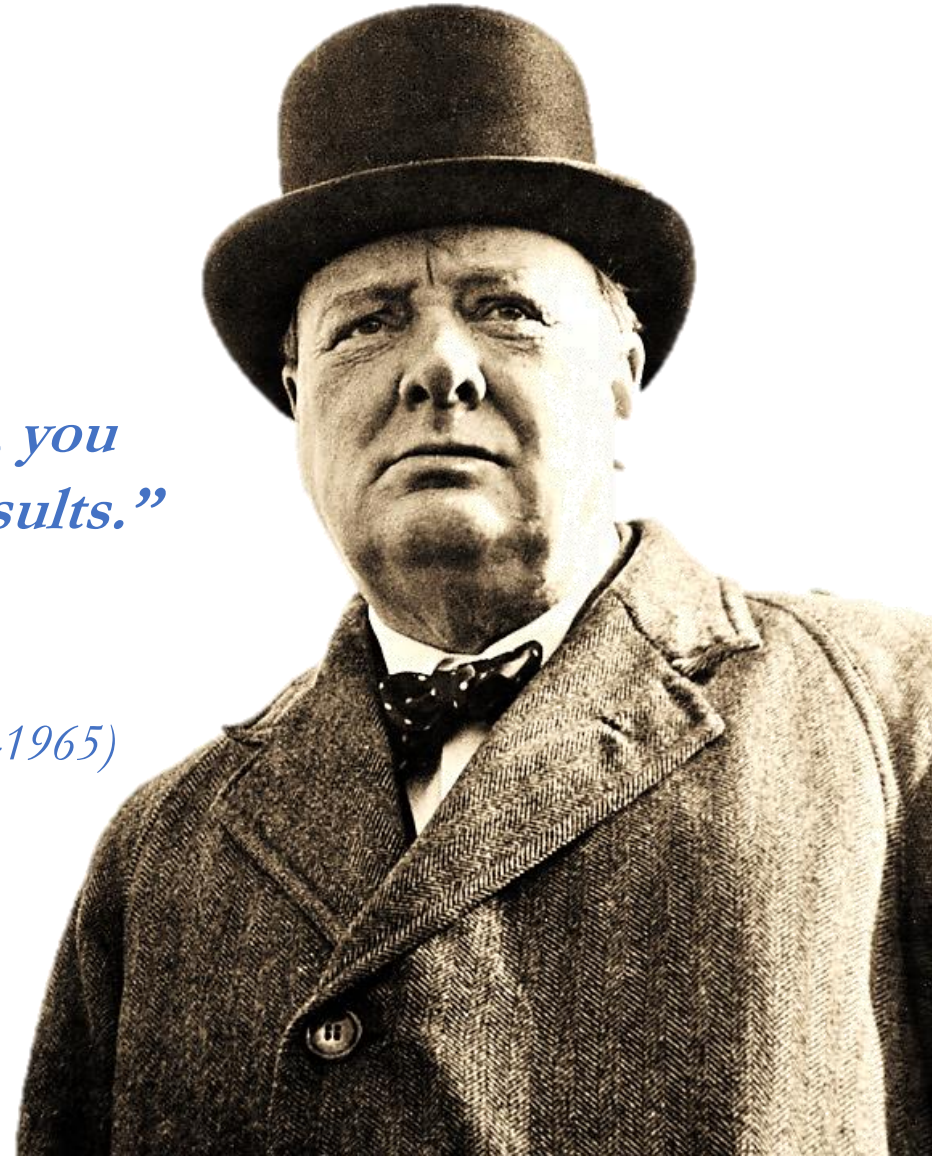


**IFAC / CIPFA –
International
Framework: Good
Governance in the
Public Sector**

Importance of managing outcomes

“However beautiful the strategy, you should occasionally look at the results.”

— Sir Winston Churchill (1874-1965)



Governance Framework

1. Leadership, ethics, and a culture committed to good public sector governance
2. Stakeholder relationships (internal and external)
3. Risk management
4. Internal compliance and accountability
5. Planning and performance monitoring
6. External compliance and accountability
7. Information and decision support
8. Review and evaluation of governance arrangements

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.

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STAKEHOLDER RELATIONSHIPS (INTERNAL AND EXTERNAL)

- Understanding the various roles, accountabilities and needs of each stakeholder group contributes to strong relationships

RISK MANAGEMENT

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

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.

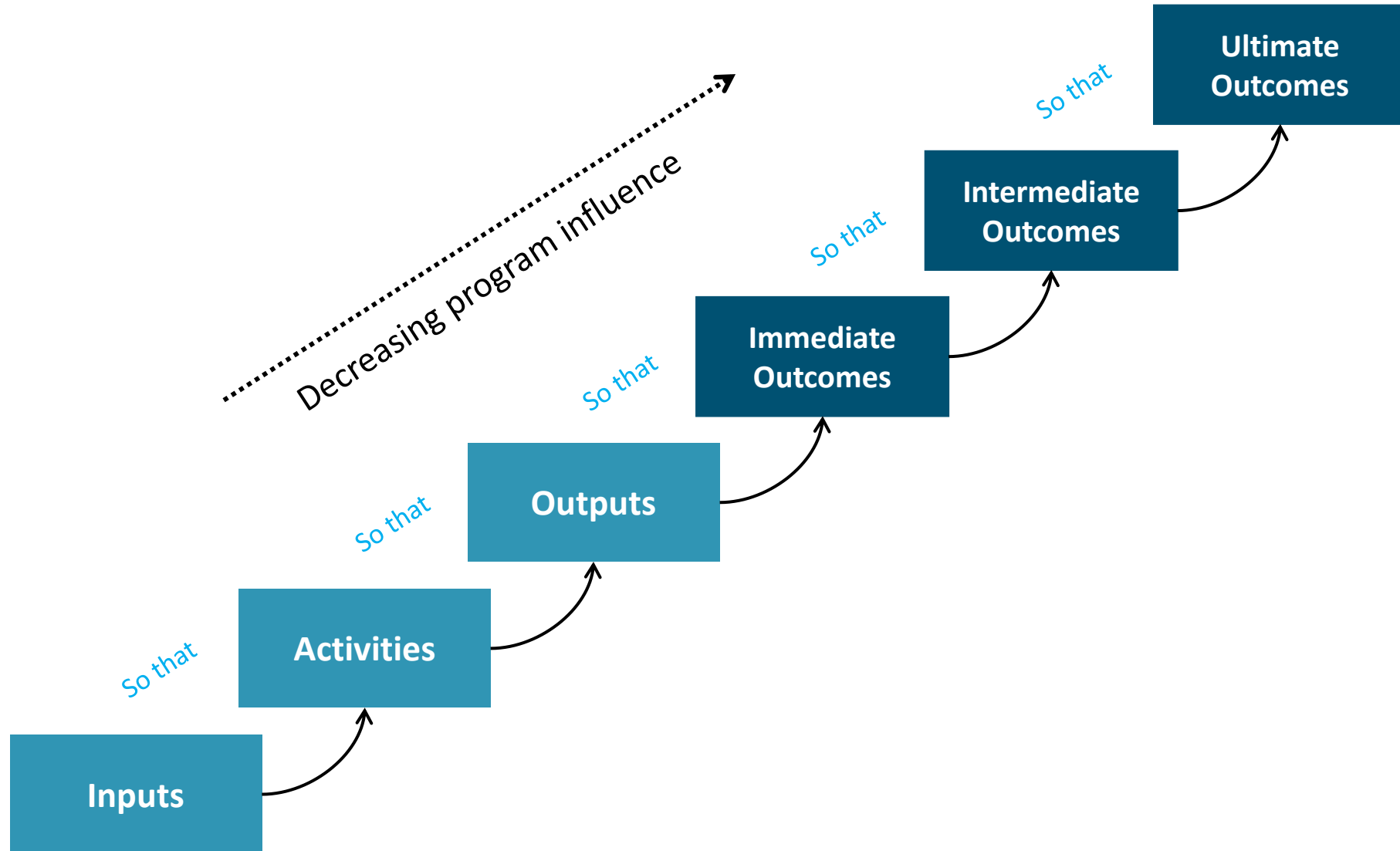
PLANNING AND PERFORMANCE MONITORING

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

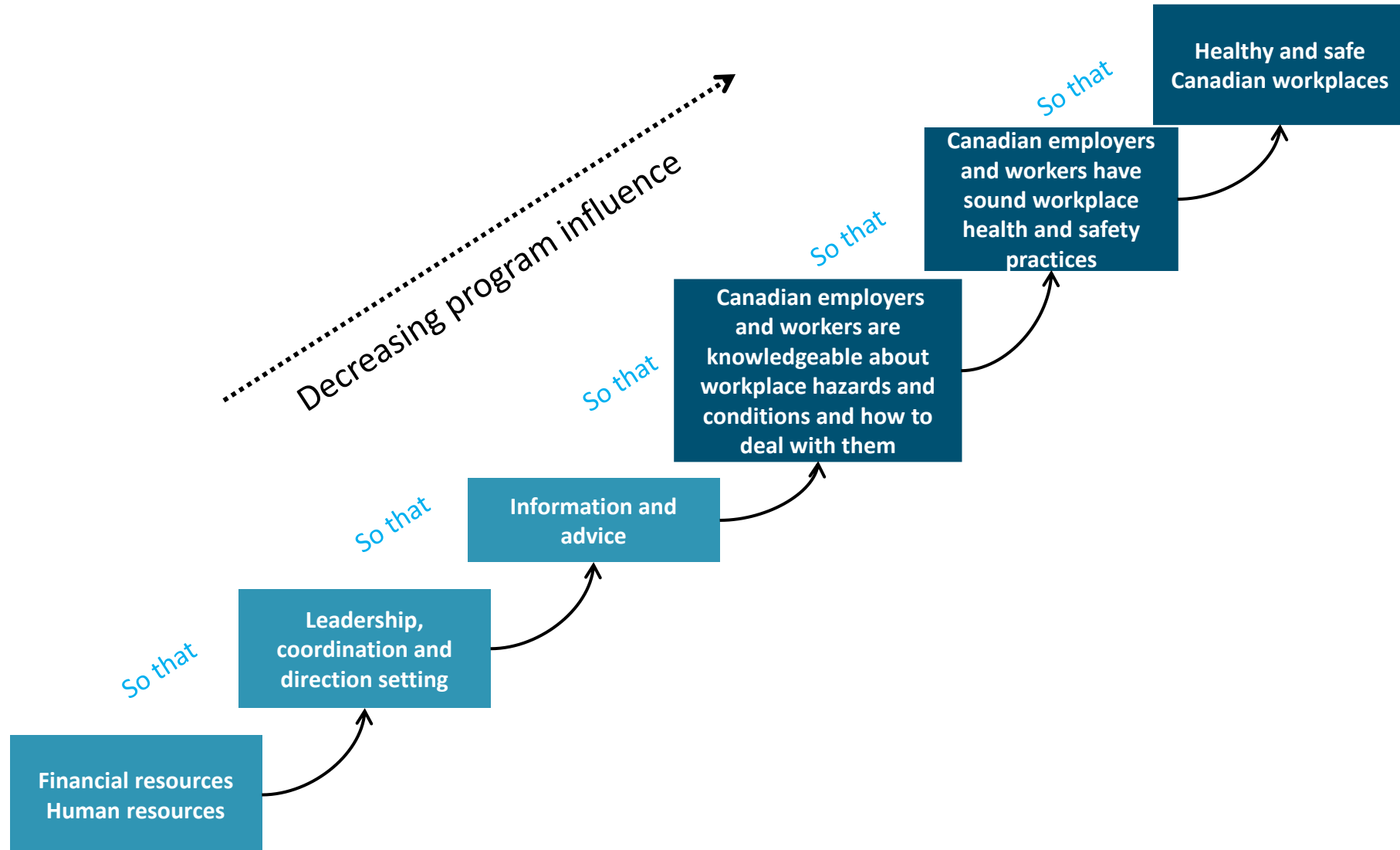
Good governance?



The Program Logic Flow

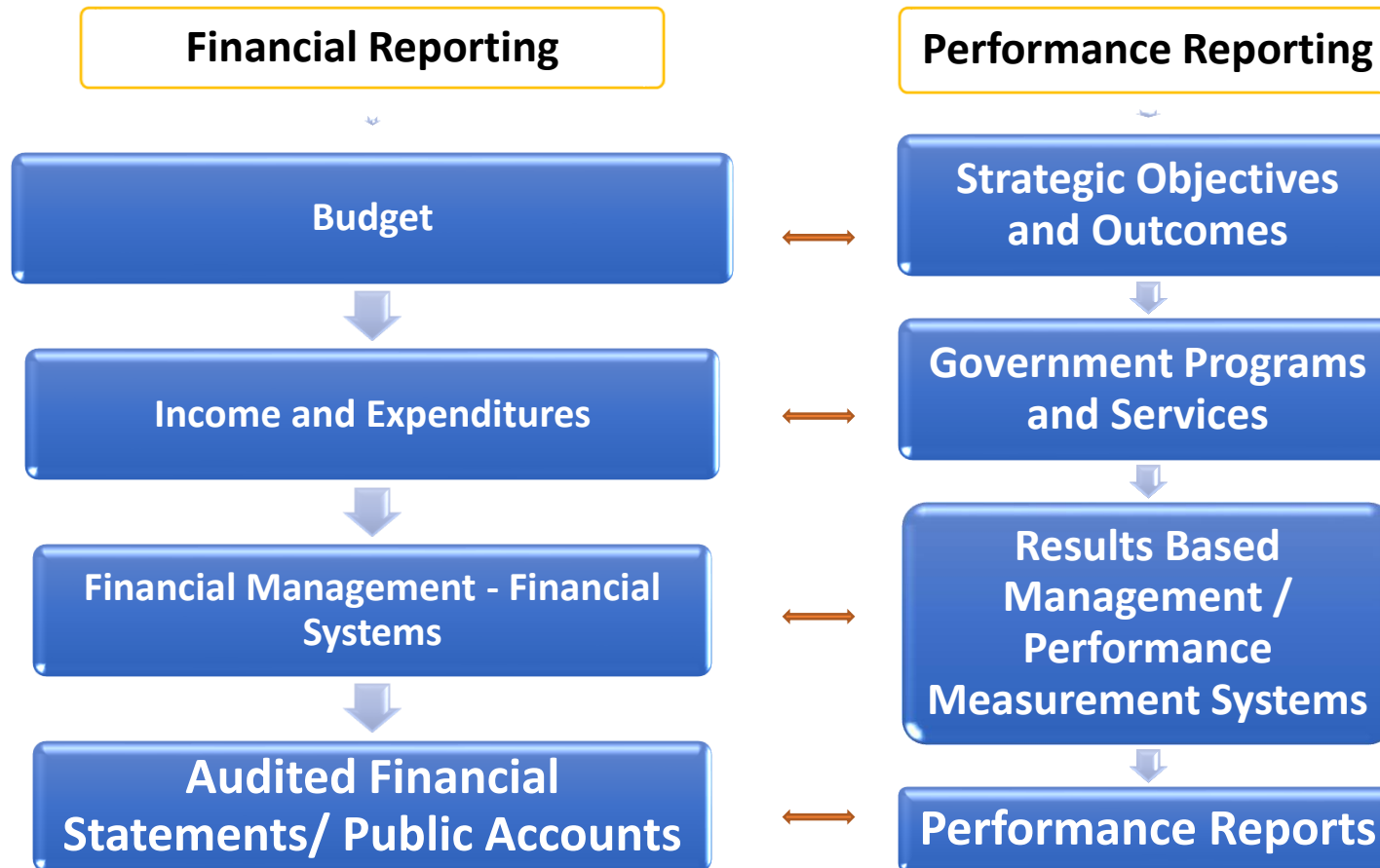


The Program Logic Flow



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.



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.

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.

A whole system approach

- Public financial management (PFM)
- Depends on a network of interlocking processes
- Depends on a number of important variables
- Requires the reporting of fiscal forecasts and other relevant information in an accurate, transparent, and timely manner for public accountability and decision making

CIPFA's 2010 report, *Public Financial Management: A Whole System Approach*

Measuring the effectiveness of governance systems: PFM

World Bank - PEFA Indicators

- credibility of the budget;
- comprehensiveness and transparency;
- policy-based budgeting;
- predictability and control in budget execution; and
- accounting, recording, and reporting.

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Considering governance for your audits

- Strategic planning
- Operational planning / engagement selection
- Engagement planning
- Risk assessment
- Audit conduct / Identification of issues
- Audit reporting

Update your learning journal

Governance in the Cayman Islands Government
How Core Government Manages Resources



Photo credit: G.I.S.

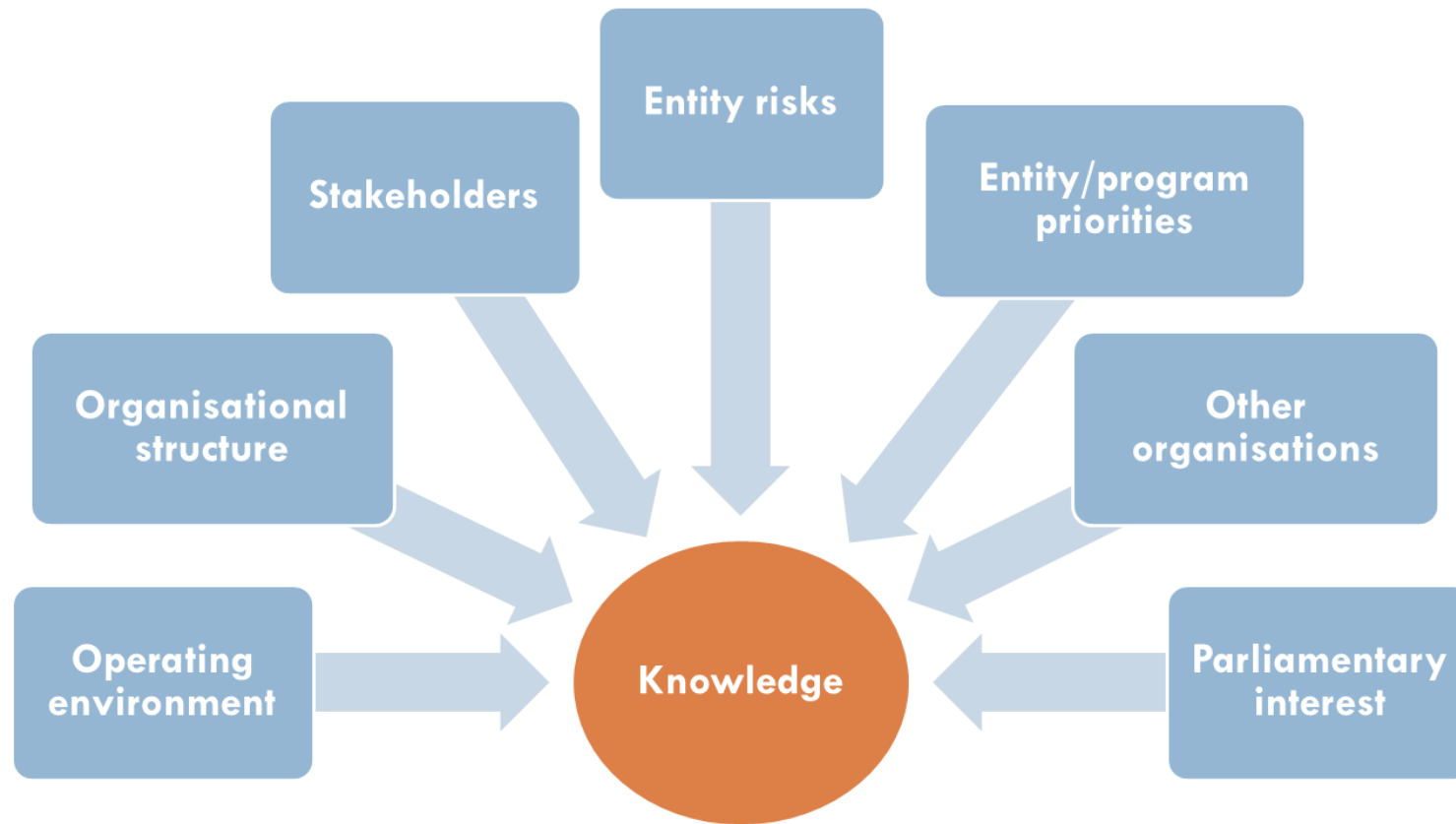


Governance in the Cayman Islands Government
**The Accountability of Statutory
Authorities and Government Companies**



Photo credit G.I.S.

What do I need to understand?



Considering governance for your audits

- **Strategic planning**
- Operational planning / engagement selection
- Engagement planning
- Risk assessment
- Audit conduct / Identification of issues
- Audit reporting

How core government manages resources: Strategic Planning

- Part of 5 year plan to help government manage better
- Identified in several audits as an underlying issue, but not in scope
- Meetings with stakeholders identified governance as an issue
- Legislators identified governance as an issue
- Instances of corruption over the last 10 years
- Some evidence in media that laws not complied with, roles not followed, information withheld from the public

Considering governance for your audits

- Strategic planning
- Operational planning / engagement selection
- Engagement planning
- Risk assessment
- Audit conduct / Identification of issues
- Audit reporting

How core government manages resources: Operational Planning / engagement selection

- Timing was critical
- Election just held
- Issues potentially impacting decisions by executive / cabinet
- External vs. internal reporting opportunities
- Other objectives such as providing information
- Meetings with senior government officials

Considering governance for your audits

- Strategic planning
- Operational planning / engagement selection
- **Engagement planning**
- Risk assessment
- Audit conduct / Identification of issues
- Audit reporting

How core government manages resources: Engagement planning

- Scope:
 - Governance in core government, all administrative areas
 - Governance in statutory bodies, oversight by Boards
 - Accountability relationship between core government and statutory bodies

How core government manages resources: Engagement planning - Criteria

- The governance framework is focused on achieving clear and measurable results for citizens and service users.
- The governance framework has clearly defined functions and roles with appropriate oversight to ensure they are being followed.
- The governance framework establishes and promotes values and ethics as a guide to public service behavior and decision making.
- Submissions to Cabinet for key decisions identify clearly the need being addressed, document viable options for addressing the need, include a complete analysis of the options, and a conclusion reached on the alternatives and a recommendation. Decisions of Cabinet are accurately communicated to Chief Officers.
- An effective risk management process is in place to identify, evaluate and respond to risks that could impact on the achievement of results.
- There is credible and timely reporting of results that sets out corrective action where targeted results have not been met.
- There is an ongoing program to develop the capacity and capability of elected and appointed officials.

How core government manages resources: Engagement planning

- Methodology
 - Interviews
 - Review of key corporate documents
 - Survey
- Staffing
- Reporting strategy
- Preparing client

Considering governance for your audits

- Strategic planning
- Operational planning / engagement selection
- Engagement planning
- Risk assessment
- Audit conduct / Identification of issues
- Audit reporting

How core government manages resources: Risk Assessment

- Review of decisions made by government (materiality, impact, responsibility)
- Potential for error / fraud / corruption

Considering governance for your audits

- Strategic planning
- Operational planning / engagement selection
- Engagement planning
- Risk assessment
- **Audit conduct / Identification of issues**
- Audit reporting

How core government manages resources: Audit conduct / identification of issues

- Documenting the current framework
- Documenting current practice

Performing effectively in clearly defined functions and roles	<p>The Constitution, Public Management and Finance Law (PMFL) and Public Service Management Law (PSML) set out the roles and responsibilities of a number of key positions within the governance framework.</p> <p>GIC requires the approval of the Legislative Assembly to enact legislation, to approve new coercive revenue or change existing revenue rates, to receive annual appropriations to implement the government's annual plan and estimates, to receive supplementary appropriations when required and to authorize any guarantee which the government wishes to give.</p>
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Considering governance for your audits

- Strategic planning
- Operational planning / engagement selection
- Engagement planning
- Risk assessment
- Audit conduct / Identification of issues
- **Audit reporting**

How core government manages resources: Audit reporting

<u>The Framework for Fiscal Responsibility has a significant impact on the governance framework</u>	. 11
<u>Governance currently not fully focussed on results</u> 12
<u>Roles are clearly defined but are not always followed</u> 24
<u>Values and ethics are promoted but implementation is a problem</u> 28
<u>Accountability relationships are not supported by credible and timely reporting of results</u> 33
<u>Legislators should be provided governance training</u> 36

How core government manages resources: Audit reporting

“I found that there are significant weaknesses in the implementation of the current framework that preclude the Government from being accountable for the results it obtains and how it tells the public about its performance. In some cases, such as the management of executive transactions, I found that the fundamental controls that ensure the lawful expenditure of public funds and expected controls outlined in the legislation were not sufficiently robust to prevent abuse and corruption.”

What changed as a result of conducting the governance audit?

- Government started using governance as part of their lexicon
- Developed a 5 year strategic plan that included strengthening governance
- Strengthened internal audit function
- Initiative to put in place a results based management framework
- Additional information provided in annual budget
- Greater awareness by senior management of their roles vis-à-vis Ministers – greater accountability

Main Categories of Possible Root Causes (Governance-related)

Main Category	Indicators of possible causes
Authority	<ul style="list-style-type: none"> • Authority for the program, activity or function absent • Clear direction for planning, delivery, or reporting not provided • Mandate not understood • Governance structures weak, inappropriate, or non-existent
Processes and planning	<ul style="list-style-type: none"> • Rules and processes, including for decision-making, not established or unclear • Strategic / operational plans not developed, not approved, or not SMART (Specific, Measurable, Attainable, Realistic, Time bound)
Oversight and performance reporting	<ul style="list-style-type: none"> • Oversight bodies not carrying out assigned functions. • Performance measures / intended outcomes not established • Performance not measured or reported • Information required not defined or not provided

Update your learning journal

Questions?

Thank you very much for your attendance and attention!