

# Government Governance

*Corporate governance in the public sector, why and how?*



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The Netherlands Ministry of Finance  
Government Audit Policy Directorate (DAR)

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Further information from the Netherlands Ministry of Finance on government  
governance and copies of this paper can be obtained from the Government Audit  
Policy Directorate  
attn Hans Timmers  
p.o. box 20201  
2500 EE The Hague  
E-mail address [gogo@minfin.nl](mailto:gogo@minfin.nl)

# Contents

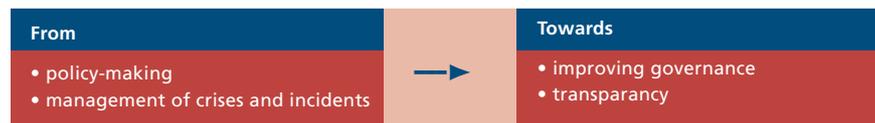
|          |   |           |
|----------|---|-----------|
| <b>1</b> | <b>Introduction</b>   | <b>5</b>  |
| 1.1      | The road to sound governance in the public sector                                 | 5         |
| 1.2      | Incidents   | 6         |
| 1.3      | The development of corporate governance   | 6         |
| 1.4      | The development of corporate governance in the public sector                      | 7         |
| <b>2</b> | <b>What does government governance entail?</b>                                    | <b>8</b>  |
| 2.1      | Introduction  | 8         |
| 2.2      | The governance concept  | 8         |
| 2.3      | The government governance concept   | 8         |
| 2.4      | The interrelationship between management, control, supervision and accountability | 9         |
| <b>3</b> | <b>Towards a governance analysis</b>  | <b>11</b> |
| 3.1      | Introduction  | 11        |
| 3.2      | Characteristics of policy areas   | 11        |
| 3.3      | Creating an analysis tool   | 13        |
| 3.4      | The relationship between management and supervision in government governance      | 14        |
| 3.5      | The relationship between governance at the various levels within a policy area    | 14        |
| <b>4</b> | <b>Review criteria for sound governance</b>                                       | <b>15</b> |
| 4.1      | Introduction  | 15        |
| 4.2      | General knowledge of the policy area  | 15        |
| 4.3      | Management  | 16        |
| 4.4      | Control   | 16        |
| 4.5      | Supervision   | 17        |
| 4.6      | Accountability  | 18        |
| 4.7      | Assessment of governance  | 18        |
| <b>5</b> | <b>Conclusions</b>  | <b>19</b> |
|          | <b>Appendix</b>   | <b>20</b> |



## 1.1 The road to sound governance in the public sector

Society considers that good government goes without saying. The general public follows the actions of government authorities with interest, especially when things go wrong or look like going wrong. The focus of this interest is both the government machinery itself and the responsible members of government. Parliament’s role of controlling government, in practice, is often directed at the details, and ministers are held accountable for these details, seemingly jumping from one incident to the other. Although, ideally, control of the organisation as a whole should be key, incidents seem to rule<sup>1</sup>.

This also applies to the functioning of the government machinery. Whereas until quite recently, government authorities focused on policy-making and, where necessary, managing crises and incidents, in recent years, attention has noticeably shifted to improving governance in an increasingly wider context<sup>2</sup>. In addition to processes aimed at controlling operations, policy-making processes are also important in this respect. Transparency of these processes, which may extend over an entire policy chain (from policy-making to the ultimate implementation of policy), is becoming increasingly essential.



There are many initiatives to improve governance. In an international context, IFAC’s Public Sector Committee recently published its proposed study on Corporate Governance in the Public Sector<sup>3</sup>. Improving governance is high on the agenda in various countries. At various levels within central government in the Netherlands, for example, initiatives have been launched to improve governance. Ministries, individually, are working on it, and there are also initiatives aimed at central government as a whole. The activities at central government level that involve the ministries in some way, either directly or indirectly, deal with improving transparency in respect of performance-oriented management, supervision and the relationship with the organisations and bodies at the periphery of government. The situation in the Netherlands is just one example; other countries are also paying a lot of attention to improving governance. Although these activities all play their own part in improving governance, they have been initiated from their own particular perspectives. That is why, government authorities must ensure that the underlying objective, i.e. improving governance, continues to receive attention. This paper provides a framework for analysing policy areas in terms of governance<sup>4</sup>. Evaluating solutions for certain areas using this analysis framework ensures that these solutions are not only a solution for the particular area, but also represent an improvement from the wider governance perspective. This major focus on sound governance has been induced by a number of developments.

<sup>1</sup> Incidents are often caused by flaws in the organisation.

<sup>2</sup> In the Netherlands, compliance with relevant laws and regulations and financial management were the first areas which witnessed this shift of attention. In recent years, this approach has extended from proper and compliant financial management to a control process in which efficiency and effectiveness of government policy and day-to-day operations also play a key role.

<sup>3</sup> Corporate Governance in the Public Sector: A Governing Body Perspective, IFAC, July 2000

<sup>4</sup> In January 2000, this tool was first presented in the Government Governance Manual of the Government Audit Policy Directorate of the Ministry of Finance, which was presented to the Lower House of the Dutch Parliament in September 2000.

## 1.2 Incidents

A number of incidents in public administration have created a breeding ground for improvements in administration. As a consequence of all these incidents, whether they involved fraud, improper administration, badly informed managers or failing supervision, corporate governance in the private sector and in the public sector have become subjects that are widely discussed and written about.

A recent incident involves the European Commission's resignation following alleged cases of fraud, misadministration and nepotism. An independent investigating committee concluded in 1999 that:

- none of the 20 commissioners had been directly involved in fraud;
- individual commissioners, however, had borne responsibility for fraud or irregularities or bad administration;
- the European Commission had lost control of its administrative system;
- the European commissioners had shirked their responsibilities.

Some incidents, influenced by the focus on core activities and market ideology, involve the hiving off or outsourcing public services through decentralisation and privatisation. Around the middle of the nineties, people started to become aware that the hiving off or outsourcing of some public services in the past had focused too much on the secondary objectives of decentralisation and privatisation. As a consequence, too little attention had been paid to being able to bear ministerial responsibility for the performance of public tasks and safeguarding public interests.

In 1993, the European Bank for Reconstruction and Development (EBRD) received some bad press. It turned out that the EBRD had spent USD 312 million on accommodation, staff and bonuses in its first two years of operation, whereas only USD 157 million had been given out in loans. Some striking details were:

- USD 87 million had been spent on redecorating and furnishing the head office;
- USD 1.2 million had been spent replacing the original marble with Italian Carrara marble, since this had a better feel to it;
- USD 900,000 had been spent on renting private planes for Mr Attali, the president at that time;
- USD 78,000 had been spent on an extravagant Christmas party.

In 1995, the Netherlands Court of Audit identified what had gone wrong in its report 'Autonomous administrative authorities and ministerial responsibility'<sup>5</sup>. The report noted that there was an abundance of ways in which the various autonomous administrative authorities were designed and structured and that there were flaws in the set-up preventing ministers from properly bearing ministerial responsibility.

<sup>5</sup> Parliamentary document TK 1994-1995, 24130 no. 2: 1994 report of the Court of Audit, part 3: Autonomous administrative authorities and ministerial responsibility

## 1.3 The development of corporate governance

Corporate governance applies primarily to the business sector. It deals with the responsibilities of the Supervisory Board, the General Meeting of Shareholders and the Board of Directors, the existence of adequate internal control systems, accountability and the role and function of the auditor. Modern governance thinking originates from the English-speaking countries, and has now received worldwide attention. The essence of corporate governance is that the organisation's internal and external stakeholders benefit from good internal control and a good account thereof; internal control is a term used in the COSO report. Internal control comprises much more than internal control for financial reporting purposes: control supports the organisation as a whole in achieving its objectives. A code of conduct, referred to in English literature on the subject as a code of best practice

6 Committee on Corporate Governance, Report of the Committee on the financial aspects of corporate governance (Cadbury report, December 1992)

(see for instance the Cadbury report<sup>6</sup>), a statement by management on the subject in the external reporting and an external auditor's opinion thereon can reduce the expectation gap between stakeholders and management.

More generally speaking, corporate governance is about the management and control of companies, the reporting thereon and the supervision thereof for the benefit of the stakeholders. The corporate governance discussion, too, is fuelled by incidents such as fraud, bankruptcies and excessive directors' remuneration. Other factors that have contributed to placing corporate governance on the agenda include growing internationalisation, deregulation and integration of financial markets, the development of complex financial instruments and the associated risks, changes in society's expectations of organisations, inadequate reporting and failing auditors.

Government authorities operate in a different context and are, therefore, confronted with other issues. However, the nature of the issues is similar. After all, management, supervision, stakeholders and external audit are also important in a public environment, which, as described earlier, is no stranger to incidents either.

#### 1.4 The development of corporate governance in the public sector

At the same time that the Committee on Corporate Governance in the Netherlands made its recommendations on corporate governance<sup>7</sup>, the Government Audit Policy Directorate (DAR) of the Ministry of Finance, on the occasion of its 50th anniversary, instituted a working party to take stock of 'government governance'<sup>8</sup>. This working group studied developments in government in the Netherlands in the context of governance, and, thus, phrased the term 'government governance'. Government governance, therefore, is a term referring to governance in the public sector. In English literature on the subject, the term corporate governance in the public sector is used. CIPFA<sup>9</sup>, for instance, has prepared a code of best practice for government authorities. The term has now become very popular, and, in its wake, so has the philosophy associated with it.

7 The Committee on Corporate Governance published its report entitled 'Recommendations on Corporate Governance in the Netherlands; recommendations for sound management, effective supervision and accountability' in 1997. The recommendations focus mainly on the role of the Supervisory Board in the supervision of a company's Board of Directors.

8 This term was first introduced in the study report 'Government Governance; on the management – control – supervision – accountability cycle' by the Government Audit Policy Directorate, 27 September 1996.

9 Chartered Institute of Public Finance and Administration: Corporate Governance, a framework for public service bodies, July 1995.

## What does government governance entail?

### 2.1 Introduction

In both the private and the public sector, there is a trend towards ever increasing demand for accountability and transparency as well as an ever increasing awareness of the necessity for having checks and balances. Governance and associated subjects have become, both explicitly and implicitly, important issues for business, government, politics, and last but not least for the general public. That is why governance should be in place in both the private sector as well as the public sector. This chapter sets out the concept of sound governance, the differences between governance in the public sector and governance in the private sector, and the importance of performing a governance scan.

### 2.2 The governance concept

Governance focuses on the organisation's stakeholders, the associated objectives, and the responsibility of the organisation's management to achieve these objectives.



After all, an organisation's basis for existence is to achieve certain objectives on behalf of its stakeholders. The goal of governance is to create safeguards enabling these objectives to be achieved, in view of management's responsibility in this respect. For this purpose, the organisation should be managed and controlled, and should be accountable for its activities to its stakeholders, in many cases, through a supervisor appointed on behalf of the stakeholders. Consequently, governance, and therefore government governance, in actual fact comprises management – control – supervision – accountability.

### 2.3 The government governance concept

The difference between the business sector and the government sector is best exemplified by the published documents attracting public attention. Companies publish their financial statements, on the basis of which the profit is appropriated and the directors are held accountable to the stakeholders. Government publishes its budget, whereby the discussion focuses on policy proposals. In both the government and business sectors, there is a trend towards increasing transparency, the business sector focusing more and more on sustainable development in its reporting.



Thus, in addition to traditional financial and economic information, i.e. disclosing profit, safeguarded continuity and growth, reporting also focuses on the organisation's social impact. Within the government sector, a trend has now developed placing more emphasis on the reporting of performance. The associated transparency makes the case for sound governance stronger.

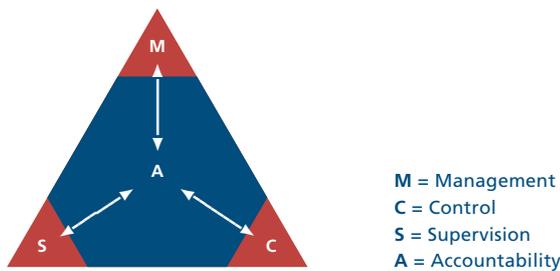


The objective of government governance is to create safeguards for achieving policy objectives. The design and operation of governance is important at various levels, from government minister to implementing organisations. Central government is concerned with policy objectives set by parliament. The minister is responsible and also accountable for achieving these objectives. The essence of sound governance, from the perspective of the ministerial responsibility, is that there are enough safeguards enabling the minister to bear ministerial responsibility.

These safeguards should exist within a policy area, which may extend over an entire policy chain, through a well-designed cycle of the management, control, supervision and accountability processes.

Hence, government governance is defined as safeguarding the interrelationship between management, control and supervision by government organisations and by organisations set up by government authorities, aimed at realising policy objectives efficiently and effectively, as well as communicating openly thereon and providing an account thereof for the benefit of the stakeholders.

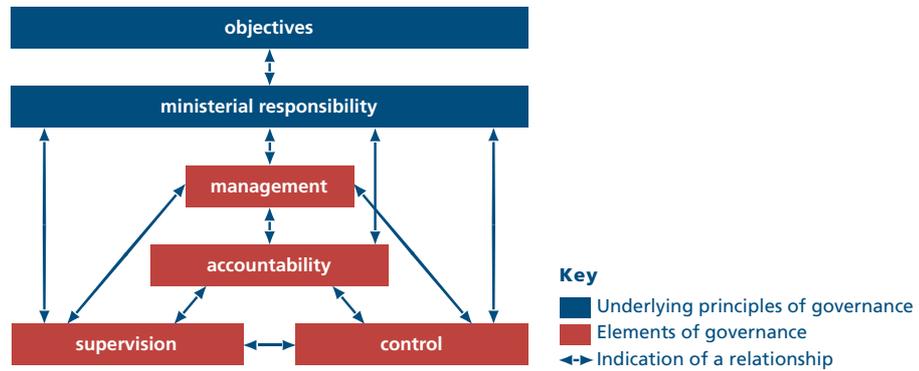
The definition shows that government governance consists of four elements, which can be illustrated in the following triangular diagram.



#### 2.4 The interrelationship between management, control, supervision and accountability

Ministerial responsibility concerns both the nature of the relationship with the participants in a particular policy area and achieving policy objectives. That is why the minister should have a management vision on the policy areas he or she may be held accountable for, clearly defined policy objectives (i.e. effectiveness), and clearly defined preconditions (i.e. quality, efficiency, compliance with relevant laws and

regulations, financial control). This whole package forms the starting point for the further structuring of governance.



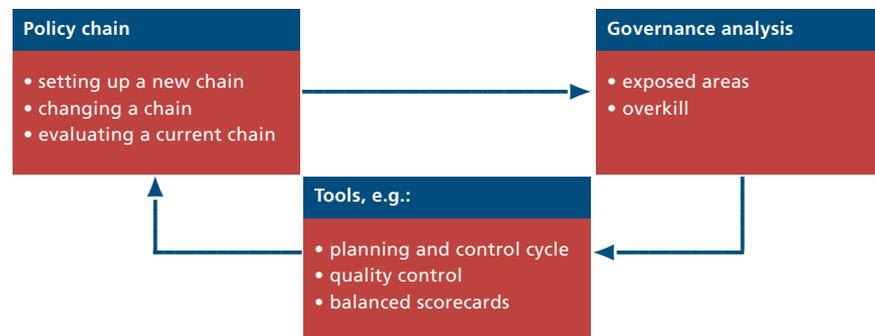
The first element in the government governance cycle is management (M), i.e. directing the realisation of an organisation’s goals through, among other things, structuring the organisation and developing processes. At the macro level, i.e. the Cabinet, management involves the process of a minister working towards the realisation of policy objectives set by parliament through, among other things, designing an organisational structure, also including his or her ministry, and developing policy implementation processes. Once an organisation has been designed, a system of measures and procedures has to be implemented and maintained, providing assurance to the administrators that the organisation will remain on the right course, i.e. on course for achieving the adopted policy objectives. This is called control (C). Supervision (S) is the third element. After all, it is required that the realisation of the organisation’s objectives can be ascertained for the benefit of all stakeholders. At the macro level, these are the policy objectives set by parliament. Accountability (A) is the fourth element. The organisation has to provide information on all tasks assigned and powers delegated to it, to which the right of discharge is attached. At the macro level, this means that the minister is accountable to parliament for management, control and supervision, in addition to the results of the implementation of policy.

The next essential aspect is the inter-relationship between management, control, supervision and accountability, aimed at realising policy objectives, and the required transparency. When the various elements are not fully linked, there are exposed areas. It is important that administrators recognise any exposed areas in their governance: this means that they are aware of any risks and know in which areas measures are necessary and/or appropriate. A governance scan supports the administrator in obtaining assurance as to whether there is sound governance, or assists in bringing to light any governance deficiencies or inefficiencies (i.e. overkill), and thus enhances the bearing of political responsibility.

<sup>10</sup> Government Governance Manual - a tool for evaluating governance in central government, Government Audit Policy Directorate, Ministry of Finance, January 2000

### 3.1 Introduction

A governance analysis model has been included in the Government Governance Manual<sup>10</sup> for applying the government governance philosophy in practice. This analysis model enables the user to identify any risks faced by the administrator. It is recommended, of course, that an analysis be performed beforehand during the setting up or changing of a policy chain. Applying this analysis model to existing arrangements may also be useful. The next sections of this paper address the special issues in the process of designing or evaluating governance in a particular policy area. These issues are based on the Government Governance Manual. Although this deals with the situation at the highest level of central government, the analysis may be quite easily applied to other situations.



<sup>11</sup> developed by the European Foundation for Quality Management

Applying the governance concept may be regarded as an analysis tool which can easily be supplemented by other tools. The exposed areas identified through governance analysis may be covered by using other tools such as planning & control, the EFQM model<sup>11</sup>, balanced scorecards, etc.

The next sections describe how a ministry may proceed in evaluating governance in a particular policy area. The Government Governance Manual offers guidance on both organising and actually carrying out the analysis. However, formulating the relevant questions for a specific analysis, and interpreting the outcome of the analysis is different for every situation; the government governance philosophy serves as a guide. The manual should not, therefore, be regarded as the cure-all for all governance-related problems, but as a good analysis tool.

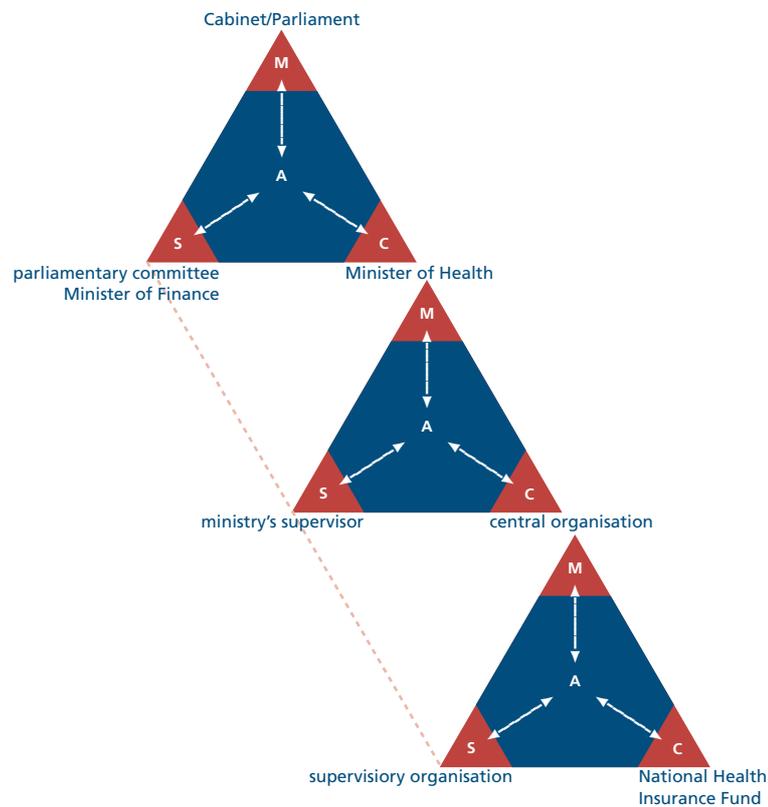
### 3.2 Characteristics of policy areas

The key question in a governance analysis is essentially whether the minister has enough grip on policy implementation to steer policy in the required direction. In practice, policy implementation differs from one policy area to the next and, therefore, is quite diverse. One can think of many variations in terms of the number and nature of the participants involved. Again using the example of a government minister, policy could be implemented through, for instance, a ministerial department, an autonomous administrative authority, a municipality (welfare) or

by a public-private partnership. In addition, one can think of many ways in which supervision may be organised.

In some areas, implementation is tiered. In the Netherlands, this applies, for instance, to statutory health insurance cover, where implementation has been delegated to an umbrella organisation, under which, individual National Health Insurance Funds function as implementing bodies. In order to evaluate total governance in this type of area, the analysis will focus on the various tiers of relationships in the policy area. In the case of statutory health insurance cover, for instance, this not only includes the relationship between the minister and parliament, but also between the minister and National Health Insurance Funds and between the umbrella organisation and National Health Insurance Funds. These relationships may be shown as follows.

#### Dutch Health care sector



A governance analysis covers the whole policy chain from ministry/local authority to hived-off implementing body. Gaining an understanding of this chain is a complex matter as a result of the many participants involved in a tiered implementation of policy, and who have formed various relationships with each other, e.g. in respect of management or accountability. For example, a participant provides an account of his management and control to either the minister, or an intermediate supervisor. A participant acting as supervisor on behalf of the minister should be accountable for this supervisory role. The minister himself or herself provides an account of his or her management and supervision to parliament. Given these relationships between the participants in a policy area, analysis requires that these participants should be identified and described, including their mutual relationships, and their roles in respect of management, control, supervision and accountability within the policy area. If all participants in a policy area play their roles in the chain responsibly, ideally, the minister could rely on the sound governance of the other participants, such as implementing organisations.

The above shows that evaluating a policy area is often very complex. In such cases, it is recommended to work out whether the analysis can be performed in several stages. This may be an area regulated by one law or one set of laws and regulations.

Management by government authorities may be organised in a number of ways. Implementation may take place through implementation arrangements, voluntary agreements, management contracts and other forms of agreements. In case of autonomous administrative authorities, government management is often laid down in specific laws and regulations, or, in case of agencies, in a contract setting out performance and funding. Generally speaking, management is laid down either in laws or regulations, or in contracts, or in both.

### 3.3 Creating an analysis tool

The premise is that the policy objectives have already been formulated and that the minister bears political responsibility for achieving these objectives. The analysis involves issues such as:

- Does the minister have enough powers to be able to bear responsibility for the policy?
- Can the minister intervene if supervision identifies that the objectives are not being achieved?
- Is an optimum division of tasks in place among the participants involved in implementation?

The minister's managing role is the starting point. As indicated above, it is important that the optimum design of governance from his or hers perspective is in place.

In addition, matters such as a clearly defined description of tasks to be fulfilled, the funding structure, how funds are channelled, openness and the safeguarding of legal rights are important.

Powers, in particular, can be prioritised. For example, determining policy rules by the minister outweighs subsequent tacit approval of rules prepared by the implementing bodies.

The analysis process begins with a general phase whose main purpose is to describe the policy area. After that, the government governance cycle is analysed. It is noted that, initially, the analysis is aimed at the policy area's formal structure, as laid down in laws and regulations, assuming that practice will leave much to be desired if tasks and powers have not been arranged properly on paper. This does not take away from the fact that anything may be put on paper and that although a lot of things may have been arranged, things may work differently in practice.

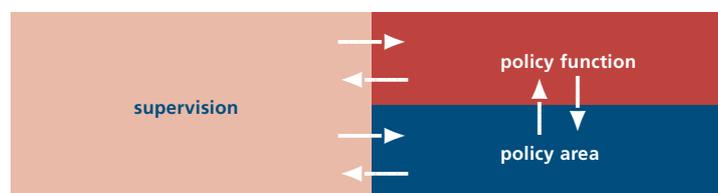
Proposed policies can only be evaluated by looking at the way bills and similar documents have been drafted. Sometimes, it is possible to also consider the actual practice of existing policies in the policy area in forming an opinion. In such cases, information on the real operations in practice may be provided by evaluations, auditors' management letters, or additional study of literature on the subject, interviews with people involved in the policies, and analyses based on the analyses of others.

### 3.4 The relationship between management and supervision in government governance

In practice, in situations where policy implementation has been decentralised, two aspects in the cycle will play a more manifest role: management, by the minister, and supervision, by or on behalf of the minister. This regards the minister's scope to manage and to exert the ministerial supervisory powers, in other words, supervision that safeguards the responsible minister's scope to manage. In addition, there is supervision by all kinds of stakeholders in society.

Despite the emphasis on these two aspects in making an overall assessment of governance, the other elements of the government governance cycle are also essential. After all, the interrelationships between the four elements – management, control, supervision and accountability – should be safeguarded and transparent, ministerial responsibility constituting the binding factor.

In principle, the supervisory function should be segregated from the policy function. Nevertheless, attention should be paid to the ways both functions interact.



Owing to this interaction between supervision and policy-making, the findings in of the supervisory function for policy making and implementation become more important. The range of supervision will broaden to include, for instance, the feasibility of objectives, the policy side-effects and the adequacy of regulations. And the policy function, in its turn, will contribute to supervision, e.g. by communicating signals from the 'work floor', specific issues arising from new policy measures or information on new policies.

Given the ministerial responsibility for management, control and supervision of policy implementation, it is important that the supervisory function provides impulses for policy-makers to develop and improve policies. As a result, policy alternatives can be weighed up against each other, existing and potential risks become transparent, which can then be taken into account in policy-making and benefits can also be gained by the people on the 'work floor'.

### 3.5 The relationship between governance at the various levels within a policy area

All organisations in a policy area have relationships with principals, customers and other stakeholders in society and interested parties, and, hence, have an interest in sound governance. They can achieve this through, for instance, setting up their own supervisory bodies, using quality systems and carrying out customer satisfaction reviews. In addition, organisations may introduce quality assurance systems in a collaborative relationship, for instance, in the form of peer reviews. This is important for ministries since, after all, this could change their attitude towards the policy area and, as a result, could change the way they play their supervisory roles.

## 4.1 Introduction

A governance analysis provides a top-down approach for reviewing a policy area, using the policy objectives as the starting point and making the current governance situation transparent. Governance analyses at the level of central government are aimed at establishing a minister's risk areas in terms of his or her ministerial responsibility. Using the government governance model enables conclusions to be drawn with respect to the extent in which the four constituent elements of the governance process – management, control, supervision and accountability – function and interact, uncovering missing links, i.e. exposed areas, or overkill as a consequence of too many links. The annex provides a tool in the form of a questionnaire. Then it is up to the organisation to repair any governance weaknesses using the set of tools used in the organisation.

## 4.2 General knowledge of the policy area

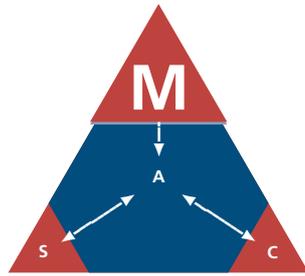
Initially, the policy area under review will have to be marked out clearly in terms of objectives, instruments, and implementation structures and target groups.

For this purpose, attention should be paid to:

- the objectives to be achieved;
- the definition of the ministerial responsibility;
- the participants in a policy area and the participants associated with the policy area, any implementing organisations involved, for example, and the role they play in management, control and supervision;
- the organisation at the ministry: the departments responsible for managing, controlling and supervising the policy area and the participants involved in terms of policy, day-to-day operations and financial affairs; the department or departments responsible for monitoring and reviewing the reports providing an account of the activities;
- the structure of the policy area itself:
  - any participants involved in the performance of the public services with an intermediate role or which are the ultimate implementing organisation;
  - the legal structure of these organisations;
  - any organisations which, apart from public services, also perform private-sector services, and, if they do, whether adequate arrangements have been made to eliminate any risks for the performance of the public duties;
  - the governance of the organisations involved, whether there is an internal supervisory body and who are represented in it.

#### 4.3 Management

The management element of the cycle deals with the question of how the management processes and associated division of responsibilities have been structured with a view to achieving the policy objectives.



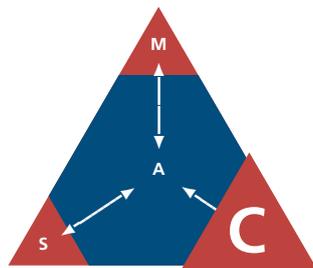
In addition, the governance approach requires a review to be performed, recognising the interrelationships with control, supervision and accountability.

Attention must be paid to:

- the adequate translation of policy objectives into operational goals;
- the division of responsibilities in line with the ministry's policy objectives and management philosophy;
- the adequate definition in law and regulations of the powers of the ministry, and/or the intermediate organisation, in respect of management, control (including day-to-day operations) and supervision of the autonomous administrative authorities;
- the awarding of powers and instruments to the ministry in respect of policy, day-to-day operations and financial affairs which match the chosen division of responsibilities;
- the segregation of public and private activities;
- the co-ordination between departments, and also between ministries, involved in the policy area.

#### 4.4 Control

The control element of the cycle deals with the issue of whether the minister has sufficient assurance that the policy implementation will achieve the policy objectives.



Key words in this respect are monitoring, and adequate and efficient organisational set-up. It is important to recognise the interrelationships between control and management, supervision and accountability.

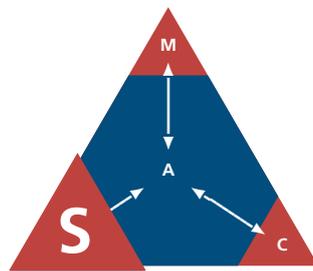
Attention must be paid to:

- the formulation of adequate requirements for operational purposes, in particular in respect of quantity, quality, timeliness, cost price and target group, for:

- the implementation;
- the internal organisational set-up and the governance of implementing organisations, including an internal planning and control cycle, a quality assurance system, adequate external audit, adequate documentation on the accounting and internal control procedures, and an internal supervisory body, and
- the supply of information on policy, day-to-day operations and financial affairs, not only for regular activities but also for unusual events and circumstances;
- the responsibilities within the ministry in terms of who is responsible for monitoring which aspects of the implementation of tasks and on the basis of what information, and who is authorised, on the basis of what information, to decide whether to intervene in an organisation in the performance of its tasks – in respect of policy, day-to-day operations and financial affairs – in the policy area, and which tools will be used for this purpose.

#### 4.5 Supervision

The purpose of supervision is to establish whether policy objectives are actually being achieved, providing, if necessary, opportunities to make adjustments.



Verification plays an important role in this. It has to be established whether the policy-maker performs adequate supervision and provides an account of this. It is important to recognise the interrelationship between supervision and management, control and accountability. Supervision also involves providing an account of the supervisory activities.

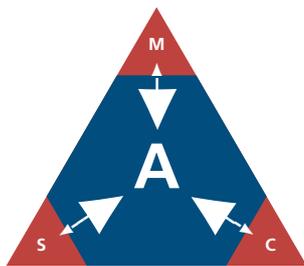
The analysis of supervision is aimed at the following items:

- the formal arrangement concerning supervision by central government of implementation, with regard to policy, day-to-day operations and financial affairs;
- the segregation of:
  - supervision by the implementing ministry;
  - the ministry's management of and control over implementation, and
  - implementation itself;
- arrangements concerning the co-ordination of supervision, management and control and implementation;
- whether the supervisor's tasks, responsibilities and powers are clearly in line with the minister's tasks, responsibilities and powers;
- the discussion on the outcome of supervision between the various supervisory parties;
- concrete supervisory output/information providing an account of supervisory activities performed, paying attention to frequency, timeliness, scope and quality, including:
  - compliance statements;

- efficiency statements;
- reports on the results of policy implementation;
- reports concerning specific investigations;
- annual reporting.
- the responsibilities within the ministry in terms of who decides on whether to intervene in the implementation on the basis of information from the supervisory function, and which tools will be used;
- the question whether supervision can rely on the governance structure, including forms of quality assurance, in organisations in the policy area and safeguards resulting from supervision by stakeholders in society.

#### 4.6 Accountability

Accountability deals with the question of whether the way of providing an account of activities at all levels provides sufficient certified information on whether the objectives are being achieved, and on the way management and control take place.



In order to provide sufficient information to the stakeholders, the reports providing an account of activities should be clear, transparent and issued on a timely basis.

With regard to accountability and reporting thereon, the following items are important:

- clearly defined requirements regarding the annual reporting to the minister by the implementing organisations on:
  - the performance of their duties, i.e. policy, day-to-day operations and financial affairs;
  - economy (i.e. spending less), efficiency (i.e. spending well), and effectiveness (i.e. spending wisely);
- clearly defined requirements regarding the various elements of this reporting;
- obtaining the required assurance in respect of this reporting, e.g. in the form of an auditors' report;
- the right to receive ad hoc reports on activities and to perform audits;
- the extent to which the obligation to report on activities matches the division of duties, responsibilities and powers between the minister and other participants in and around the policy area.

#### 4.7 Assessment of governance

Each element of the governance analysis will result in a number of recommendations. After that, making a final assessment of each element of the cycle, taking account of the interrelationships between the elements, will give an overall view of governance in the policy area examined.

The previous chapters set out the government governance philosophy. People expect sound governance from their government authorities. Society is increasingly calling government authorities to account. Government is not just accountable to parliament, but more and more to other parts of society as well. This is caused by all sorts of developments in society such as the population's increasing level of education accompanied by increasing emancipation, rapid developments in the field of information and communication technology (ICT) and the influence of the media. It is important for an administrator in the public sector to know and control the risks associated with his or her position in public administration, and a governance analysis is a useful tool to achieve this. This paper sets out how such an analysis can be performed. Something which has only been mentioned indirectly is the element of behaviour. As we all know, at the end of the day, it comes down to people. Setting up systems and designing procedures can result in perfect governance, on paper. To ascertain that the governance on paper is actually applied in practice, the government analysis can be extended to include specific questions aimed at establishing the operation of governance. However, recommendations in respect of any deficiencies in the operation will have to be derived from, for instance, behavioural sciences.

# Appendix

## Governance analysis standard format questionnaire

### A General

*The general questions are aimed at clearly defining the policy area in terms of objectives, tools, implementation structures and target groups*

- A1 What are the policy objectives?
- A2 What tools are used to achieve the objectives? Describe them.
- A3 Which implementation structure has been chosen:
  - centralised/decentralised;
  - under own management/outsourcing;
  - at a distance: autonomous administrative authority, agency, legal forms governed by private law, other government authorities or other forms;
  - contract;
  - funding system.
- A4 Which participants are involved in the implementation?
- A5 In what capacity are they involved? (executive, target group, etc.)?
- A6 What is their place in the governance cycle: management, control, supervision and accountability?

### B Management

*The management element deals with the way the management processes and the accompanying division of responsibilities and powers have been structured, with a view to achieving certain policy objectives. In addition, the governance perspective requires a review to be performed, and in doing so it is important to recognise that management is linked with control, supervision and accountability.*

#### Minister

- B1 What is the formal arrangement with respect to the minister's responsibility for achieving the policy objectives?
- B2 Has the minister's responsibility been described in detail in law and regulations, and in contracts?
- B3 Which of the minister's tasks in this respect are explicitly stated?
- B4 What measures and procedures, both at central government level and the level of implementing organisations, have been introduced or proposed to achieve the policy objectives?
- B5 Does the design of these measures and procedures provide the minister with sufficient assurance that the objectives will be achieved?
- B6 How much influence does the minister have over designing the implementation processes?
- B7 Have these powers been described in detail in the rules and regulations? For instance, does the minister have the authority to totally re-design the implementing organisation?
- B8 How much scope does the minister have to exert management powers over the implementing and supervisory bodies?
- B9 Describe the nature of the minister's powers in this respect:
  - power to give directions, issue guidelines, give instructions, etc.;
  - power to request additional information;
  - power to approve or adopt;
  - power to appoint and remove administrators.
- B10 How strong or weak are these powers?  
The powers have to be assessed in terms of weak or strong since they determine to what extent the person who is politically responsible is able to exert management influence. For instance, having the power to adopt implementation orders is stronger than having the power of subsequent tacit approval.

- B11 Are there any developments towards other management structures by the minister, e.g. a different approach to designing the implementing organisation, or from regulating towards stimulating market forces ('mega management')?

#### **Implementing organisations**

- B12 What are the measures and procedures that have been introduced at the level of the implementing organisations to achieve the policy objectives?
- B13 Does the design of these measures and procedures provide sufficient assurance for the administrators of these organisations?
- B14 Have the relationships between the minister and the implementing organisations been laid down in detail?
- B15 Have the relationships between the implementing bodies been described in detail, in terms of responsibilities and powers?
- B16 Are the implementing organisations accountable to the minister?

#### **Contracts**

- B17 Is there any management through contracts?
- B18 Are there any contracts available identifying performance and funding?
- B19 What is the structure of these contracts?

#### **Funding systems**

- B20 Is a funding system used in the process of managing?
- B21 Which type of funding system is used, funding based on input or performance?
- B22 What is the design of the funding system?
- B23 Does the design provide the minister with sufficient safeguards in respect of achieving objectives?

### **B Final assessment of management**

## **C Control**

*The control element deals with the issue of whether the minister can obtain sufficient assurance as to whether those responsible for policy implementation will achieve the policy objectives. Key terms in this respect are monitoring, and adequate and efficient organisational structures. It is important to recognise the interrelationships between control, management, supervision and accountability.*

- C1 Does the chosen implementation structure support achieving the policy objectives adequately and efficiently?
- C2 Is there a system in place monitoring whether policy objectives are realised:
  - both at central government level ('macro level') and at the level of implementing organisations ('micro level').
- C3 Is there a system in place monitoring efficiency, effectiveness and quality of the implementing organisations?
- C4 Is the design of the way implementation is organised adequate:
  - division of duties and co-ordination;
  - adequate fulfilment of tasks.
- C5 Are there any procedures in place to enable monitoring of implementation and of contracts, e.g. through management reports?

#### **Contracts**

- C6 What is the set-up for monitoring implementation through contracts?
- C7 Does this monitoring meet the information requirements of the managing minister?

### **C Final assessment of control**

## D Supervision

*The purpose of supervision is to establish whether the policy objectives are actually being realised, and, if necessary, offer an opportunity to make adjustments. An important tool in this respect is verification. It has to be established whether the policy-maker carries out sufficient supervision and provides an account of his or her activities, and also the interrelationships between supervision, management, control and accountability are important. Supervisory functions will also have to provide an account of their supervisory activities.*

- D1 What is the set-up of the supervisory role on behalf of the minister?
- D2 How does the minister manage situations where supervision has been awarded to separate bodies? (see management)
- D3 What duties, responsibilities and powers do these bodies have?
- D4 Do their powers include the introduction of, for instance, corrective measures or sanctions at implementing organisations?
- D5 How do the supervisors and law enforcers report and account for their activities to the minister?
- D6 What supervisory powers does the minister have in respect of implementing and supervisory organisations:
  - directions, corrective measures, sanctions;
  - removal of administrators;
  - enquiries, right of inspection, right to perform audits;
  - approval of financial statements and budgets;
  - authority to perform audits;
  - see also the management section.
- D7 What are the arrangements concerning the enforcement of the compliance with statutory provisions in relation to the achievement of the policy objectives:
  - are the conditions of 'spontaneous compliance' met;
  - what system of enforcement has been or is chosen; based on administrative, criminal or private law;
  - has the chosen enforcement system been customised to the policy contents;
  - who have been charged with enforcement;
  - are they prepared for this duty;
- D8 How is compliance verified?

### D Final assessment of supervision

## E Accountability

*This element deals with the issue of whether reports providing an account of activities at all levels provide sufficient certified information about whether objectives are achieved, and the way management and control have taken place. For the benefit of providing a proper understanding for the stakeholders, reports providing an account of activities should also be clear, transparent and issued on a timely basis.*

### Relation between the minister and parliament

- E1 How does the minister provide an account on achieving the policy objectives to parliament?
- E2 What is the structure of the minister's reporting to parliament:
  - requirements;
  - the way information is provided;
  - on what subjects (effects of policy, management, control and supervision);
  - definitions.
- E3 What information does the minister intend to provide:
  - information providing an account of his or her activities;
  - policy information.
- E4 Has the information provided by the minister been certified?
- E5 What is the assessment of the set-up of this accountability process:
  - enhances transparency;
  - supports supervisory role by parliament;
  - provides an understanding of the policy followed.
- E6 Does the minister's information supply to parliament meet their requirements?
- E7 In what way is control, as an assigned responsibility, reported on and accounted for?
- E8 What type of information is provided in this respect?

**Relationship between minister and implementing organisations**

- E9 In what way do participants in implementation provide an account of their activities to the minister in respect of realising the policy objectives:
  - timeliness, relevance, completeness, fairness and comparability;
  - requirements regarding the contents of reporting, covering both finance and policy matters;
  - frequency;
  - certification.
- E10 Does the information address the objectives to be achieved, the tools chosen and the arrangements made?
- E11 What is the assessment of the quality of these reports:
  - enhances transparency;
  - provides an understanding of the policy followed.
- E12 Do the reports providing an account of activities contain sufficient information for the management process?
- E13 Does the ministry require much additional information or does it require additional information often?
- E14 In what way is control, as an assigned responsibility, reported on and accounted for?
- E15 What type of information is provided in this respect?

**Contracts**

- E16 How is compliance with the contractual provisions accounted for?

**E Final assessment of accountability**

**F Overall assessment**

*Finally, the assessment based on the information obtained can be summarised in a schedule, an example of which is given below.*

| Governance                        | Objective 1 | Objective 2 | Objective 3 | Objective 4 |
|-----------------------------------|-------------|-------------|-------------|-------------|
| <b>Management</b>                 |             |             |             |             |
| • parliament                      | ▶           | ▶           | ⊙           | ⊙           |
| • minister                        | ▶▶          | ▶           | ▶           | ▶           |
| • implementing party              | ▶           | ▶           | ▶           | ▶▶          |
| <b>Control</b>                    |             |             |             |             |
| • minister                        | ▶           | ▶           | ⊙           | ▶           |
| • implementing party A            | ▶           | ▶           | ⊙           | ▶           |
| • implementing party B            | ▶           | ⊙           | ▶▶          | ⊙           |
| <b>Supervision</b>                |             |             |             |             |
| • parliament                      | ▶           | ▶           | ⊙           | ⊙           |
| • minister                        | ▶           | ▶           | ▶           | ▶           |
| • implementing party              | ▶           | ▶           | ▶           | ▶           |
| <b>Accountability</b>             |             |             |             |             |
| • minister                        | ▶           | ▶           | ▶           | ▶           |
| • implementing party 1            | ▶▶          | ⊙           | ▶           | ▶           |
| • implementing party 2            | ▶▶          | ⊙           | ▶▶          | ▶▶          |
| <b>Key to the symbols</b>         |             |             |             |             |
| ▶▶ well organised                 |             |             |             |             |
| ▶ adequately organised            |             |             |             |             |
| ▶ room for improvement            |             |             |             |             |
| ▶▶ recommendation for improvement |             |             |             |             |
| ⊙ not applicable                  |             |             |             |             |

## **Colophon**

Ministry of Finance

p.o. box 20201

2500 ee The Hague

Telephone (+31) 70 342 75 42

Internet address [www.minfin.nl](http://www.minfin.nl)

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Ministry of Finance

PO Box 20201

2500 EE The Hague

The Netherlands

Telephone (+31) 70 342 75 42

[www.minfin.nl](http://www.minfin.nl)