FRAMEWORK FOR CORPORATE & FINANCIAL GOVERNANCE

For Agencies funded by
The Department of Health & Children
Framework For Corporate & Financial Governance

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1. INTRODUCTION

- The Governance Framework

Corporate governance is the system by which organisations direct and control their functions and relate to their stakeholders in order to manage their business, achieve their mission and objectives and meet the necessary standards of accountability, integrity and propriety. It is a key element in improving efficiency and accountability as well as enhancing openness and transparency. A significant element of the Government’s programme for health service reform is the strengthening of governance and accountability arrangements across the health system.

Both the Audit of Structures and Functions in the Health System (the ‘Prospectus Report’) and the Report of the Commission on Financial Management and Control Systems in the Health Service (the ‘Brennan Report’) highlighted the need for strengthened accountability across the health system to be achieved by a range of measures including the development of a code of governance. Both reports pointed to the need for guidelines for governance for all health and social service agencies. The purpose of this document is to provide a framework for corporate and financial governance for agencies funded directly by the Department of Health and Children. In keeping with the minimum standards set out in the framework, agencies are expected to draw up their own tailored codes of governance or where codes are already in place, to review them in the light of the framework.

Best practice in the area of governance is recognised as being evolutionary in nature. Standards need to be responsive to the changing environment and will continue to develop and evolve. The standards set out in this document are the minimum standards of best practice at this time.


In recent years, a number of reports have been commissioned concerning corporate governance and as a result, a number of standards of best practice have emerged. While these standards were drawn up specifically in the context of listed companies, many of their principles can equally be applied to non-listed companies and State bodies in the interests of furthering best practice. Agencies should explore their potential. A bibliography that includes these reports is set out in Appendix A.
2. GUIDING PRINCIPLES

Standards of governance should be underpinned by a set of key principles which promote transparency, efficiency and effectiveness, are consistent with the regulatory environment and clearly articulate the division of roles and responsibilities within the organisation. Specifically, standards should provide that a publicly funded health sector organisation

- acts legitimately in compliance with legal requirements, within the authority conferred, observes due process in all its activities and respects the rights and aspirations of other stakeholders and the public;
- meets publicly declared standards of performance particularly relating to quality, equity, VFM in the use of public resources, delivery of agreed outputs and achievements of targeted health and social gains outcomes; and,
- accounts to stakeholders and to the public for its actions relating to the principles of equity, people-centredness, quality and accountability.

Good governance will reflect the following key characteristics

- **Propriety** – measured by the extent to which the Board and its executive carry out their duties with integrity and fairness and without self-interest or favouritism. It is reflected in the organisation’s decision making procedures, the quality of its financial and performance reporting, in guidance issued on governance and ethics as well as standards of conduct and behaviour;
- **Responsiveness** – measured by the ability of stakeholders, including patients/clients and the public, to secure performance to given standards and to obtain redress if these standards are not met.
- **Transparency** – measured by the extent to which patients/clients and the public are informed about the actions taken by the organisation and the rules governing these actions. It is also manifest by the degree of clarity and understanding that exists regarding roles and responsibilities together with authority and accountability levels.
- **Public Accountability** - the extent to which a publicly funded organisation accounts to Government, the Oireachtas and the general public for the use of public resources.

Internal standards, codes and guidelines on governance should be written in clear concise language and be easily accessible to all stakeholders.
3. STRUCTURES - ROLES & RESPONSIBILITIES

Central to good governance is a clear understanding by all parties of their respective responsibilities and roles. It is particularly crucial that this understanding is clearly articulated in writing and covers the:

- Board’s role, including a detailed description of the roles of the chairperson, the members and its committees;
- Chairperson’s and Chief Executive Officer’s roles. There should be a clear written statement describing the division of responsibilities of the chairperson and CEO having regard to relevant statutory provisions.

Having regard to the relevant legislative provisions, a clear understanding of the roles and responsibilities of key parties will support effective lines of communication between parties in the organisation’s governance process which include the Board, its Committees, Internal Audit, and the CEO and senior Management Team.

3.1. THE BOARD

The Board’s role across key areas should be clearly documented, having regard to relevant legislation and should reflect:

- its role as guardian of strategic direction and policy, including ensuring that these are in line with overall Ministerial/Government policy and reviewing and guiding corporate strategy;
- its stewardship role in relation to setting performance objectives, monitoring implementation and corporate performance, financial, manpower, planning, audit, risk policy, communications policy and due process;
- its ambassadorial role for both the Board, and the community and patients/clients – ensuring that the needs of patients/clients and the community are at the forefront of the Board’s consideration;
- its role in meeting its accountability to Government and the Oireachtas;
- its role in meeting its accountability to the Secretary General of the Department of Health & Children as the Accounting Officer;
- the need for expertise to enhance/support the Board and its executive, including the formulation and review of both Board and organisational strategy, policies and outcomes;
- appraisal of Board performance as well as developing and maintaining competencies and skill sets of its members and particularly induction training for new members;
- clearly documented procedures on its workings to ensure maximum transparency and contribute to effective monitoring of its performance;
its role in ensuring the integrity of the organisation’s accounting and financial reporting systems and in ensuring that appropriate systems of control are in place, in particular, systems for risk management, financial and operational control, and compliance with the law and relevant standards; and,

the clear definition of authority, responsibility and accountability levels for senior managers.

The chairperson should ensure that all members are properly briefed on issues arising at Board meetings. The Board should ensure that a formal schedule of matters specifically reserved to it for decision is drawn up and made available. A formal process of induction for new Board members should be in place.

Whilst being conscious of the commercial nature of the Code of Practice for the Governance of State Bodies, nevertheless the Board should have regard as appropriate to Appendix A of the Code - Framework Code of Best Practice for Corporate Governance in State bodies - in setting out its own governance arrangements.

3.1.1. COMMITTEES OF THE BOARD

Where the Board establishes committees to assist in the discharge of its responsibilities, it must ensure that authority and accountability are clearly defined in a written brief available to each committee, which encompasses the committee’s mandate, terms of reference, composition, term of office, working procedures, relationship with management and reporting responsibilities to the Board on a regular basis. Committee members, who are not Board members, should be provided with a written code of conduct that includes standards of integrity and conduct to be maintained by them in performing their functions.

3.2. THE CEO

The executive’s role is to manage the day to day operational issues on behalf of the Board. As head of the executive, the CEO is accountable to the Board and is expected to:

- carry on and manage and control generally the administration and business of the organisation;
- be accountable to the Board;
- put in place procedures to allow the Board to meet its accountability to Government and the Oireachtas;
- put in place procedures to allow the Board to meet its accountability to the Secretary General of the Department of Health & Children in his role as Accounting Officer;
- implement its annual business plan and its corporate plan;
- put in place a unified management structure to manage the work of organisation;

- agree individual plans including performance targets with his/her management team;
- delegate authority and accountability to his/her management team for operational matters;
- monitor performance and hold his/her management team accountable;
ensure that the Board has timely and accurate information to fulfil the statutory object and functions of the organisation;
ensure that the Board has timely and accurate information on the performance of management;
ensure that the Board has sufficient information on risk identification, measurement and mitigation strategies;
ensure economy and efficiency in the use of resources;
ensure systems, procedures and practices of the organisation are in place for evaluating the effectiveness of its operations; and,
appear before the Oireachtas Committees when duly requested.

4. CODES OF CONDUCT AND QUALITY CUSTOMER SERVICE

In keeping with best practice, the Government approved Code of Practice for the Governance of State Bodies (2001) outlines the need for State bodies to prepare written codes of conduct.

A code of conduct for the board must be in place setting out basic objectives on the conduct of the Board, its members and its committees’ members. The agency should also ensure that a code of conduct for its employees is drawn up and a copy given to every employee. A code of conduct for advisers, consultants and contractors should also be drawn up.

Codes of conduct drawn up by the agency should include at a minimum:

- the duty of the Board, its members, its committees’ members, employees, advisers consultants and contractors to maintain proper standards of integrity, conduct and concern for the public interest;
- an agreed set of ethical principles;
- rules regarding disclosure of confidential information;
- the promotion and maintenance of confidence and trust; and
- the prevention of the development or acceptance of unethical practices.

Typical components of the code include Obligations, Loyalty, Fairness, Work/external environment, Responsibility and Review, and the Acceptance of Gifts. Codes of Conduct should be made available to all persons for whose guidance they have been issued.

The Code also highlights the requirement on State bodies to publish a statement outlining the nature and quality of service which customers and clients can expect.
5. REPORTING PROCESSES

Agencies are required to report to Government through the Minister for Health & Children and through the Secretary General as the Accounting Officer for the Department of Health & Children. Reporting arrangements must be scrupulously observed. Good governance requires a high standard in terms of the quality, accuracy and timeliness of information and reporting as required to the Minister and the Secretary General.

Clear written guidelines should be set down on the key management information required by the Board to enable it to meet the Minister’s and Secretary General’s requirements.

6. CONTROL, COMPLIANCE & RISK PROCESSES

6.1. INTERNAL CONTROLS

A key element in any corporate governance framework is an effective system of internal control. Sound control of public moneys depends on a robust system of internal control. The internal control framework involves the whole system of controls, financial and otherwise, established by management in order to carry on the business of the organisation in an orderly and efficient manner, ensure adherence to management policies, safeguard the assets from inappropriate use and loss from fraud or error and secure, as far as possible, the completeness and accuracy of the records. It is the responsibility of the executive to decide the extent of the internal control system based on current best practice which is appropriate to the organisation and the responsibility of the Board to ensure that an effective internal control system is in place. Internal control systems should include a number of subsystems, including internal financial controls, internal audit, audit committees and risk management strategies. While sound internal controls are best achieved by a process firmly embedded throughout the organisation, the Board cannot solely rely on such an embedded process, but should regularly receive and review reports on internal control from management.

Good governance requires organisations to implement best practice in relation to internal controls. Appendix E of the Code of Practice for the Governance of State Bodies sets out the format for the Chairperson’s report on internal financial controls. This report should be the end result of a process of management that is embedded in the planning, operational, monitoring and review activities of the body, as these activities are the critical elements of the report.

6.2. AUDIT COMMITTEE

The Board should establish an audit committee of at least three members and provide it with written terms of reference which deal clearly with its authority, responsibilities and reporting procedures. The role of the audit committee should include:
monitoring the integrity of the financial statements;
reviewing the organisation’s internal financial control system and, unless addressed by a separate risk committee or by the Board itself, risk management systems; and,
monitoring and reviewing the effectiveness of the organisation’s internal audit function.

Where the audit committee’s monitoring and review activities reveal cause for concern or scope for improvement, it should make recommendations to the Board on action needed to address the issue or to make improvements. The Board should review annually the audit committee’s terms of reference and effectiveness. Section 4 of Appendix A of the Code of Practice for the Governance of State Bodies sets out a framework for the Board’s audit committee and for the internal audit function.

6.3. INTERNAL AUDIT

The internal audit function helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, internal control and governance processes. The scope of internal audit activity covers the whole network of the organisation’s systems. Its primary objectives are to review and appraise:

- the systems and procedures (financial and managerial) that are intended to control the organisation’s operations;
- the adequacy, reliability and integrity of the information being provided for decision-making and accountability;
- the degree of compliance with legislation, with requirements laid down centrally (e.g. by the Department of Finance, Department of Health & Children) and with management plans, procedures and policies;
- the procedures for the acquisition and disposal of assets and the safeguarding of assets and interests from losses, including those arising from fraud, malpractice and irregularity; and,
- arrangements for economic and efficient use of resources.

By providing independent opinion on systems, procedures and controls, internal audit is an important element in providing assurance to an organisation on the system of internal control. This is an important element in providing assurance to the accounting officer through the board on the system of internal control and assists him or her in discharging his or her responsibilities for the integrity of the accounts furnished to the C&AG and reported on to the Oireachtas, and also in discharging his or her responsibilities to the PAC.

6.4. RISK MANAGEMENT

Systematic risk identification, measurement and mitigation strategies are an increasingly important part of internal control, as the management of risk is seen as an integral part of achieving desired
outcomes. The risks to be addressed as part of a risk management programme are wide-ranging and include strategic, operational, financial and reputational risk. The roles and responsibilities of all key constituents in respect of the identification, evaluation, monitoring and reporting on risk should be clearly and explicitly stated by the Board.

A process of self-assessment of risk in the operating systems of the organisation should be developed. By being assured that employees are routinely assessing risks against defined standards in their work, it will assist the Board in assuring itself that the organisation is doing its reasonable best to achieve its objectives and protect against risks.

*Risk Management Guidance for Government Departments and Offices* published by the Department of Finance in March 2004 sets down guidelines on risk management as well as highlighting international risk management models and standards available.

In the absence of other arrangements, such as a risk committee, the audit committee of the Board should assess and scope the effectiveness of the systems established by management to identify, assess, manage and monitor risks, both financial and non-financial.

### 6.5. PROCUREMENT

The *Code of Practice for the Governance of State Bodies* (2001) identifies procurement as one of a number of activities requiring special attention in promoting good corporate governance. Public Procurement refers to the acquisition, whether under formal contract or not, of works, supplies and services by public bodies. It ranges from the purchase of routine supplies or services to formal tendering and placing contracts for large infrastructural projects by a wide and diverse range of contracting authorities.

Essential principles to be observed in conducting the procurement function include non-discrimination, equal treatment, transparency, mutual recognition, proportionality, freedom to provide service and freedom of establishment. EU Directives impose legal obligations on public bodies in regard to advertising and the use of objective tendering procedures for contracts above certain value thresholds. Even in the case of procurement which might not be subject to the full scope of the Directives, the EU Commission and European Court of Justice (ECJ) have ruled that the Treaty principles of non-discrimination, transparency, freedom of movement, and freedom to provide goods and services must be observed. ECJ case law implies a requirement to publicise and advertise such contracts of significant value to a degree which allows parties in other Member States the opportunity to express an interest or to submit tenders.

Agencies should ensure that staff involved in purchasing or placing contracts are familiar with national, EU and international rules that may apply and are aware of the legal and policy framework within which procurement must be conducted. To safeguard against improper or unethical practices, contracting authorities must also take measures to separate functions within the
procurement cycle by ensuring that, for example, ordering and receiving goods and services are distinct from payment for goods and services.

Agencies should also be aware of the National Public Procurement Policy Framework published by the Department of Finance in April 2005 and of the Public Procurement Guidelines – Competitive Process published in July 2004. Both documents are available at www.finance.irlgov.ie.


7. GOVERNANCE & CLINICAL/PROFESSIONAL ACCOUNTABILITY

In terms of organisational accountability, it is important that organisations’ governance arrangements reflect the efficiency, effectiveness and overall quality of services provided. Clinical and professional governance should provide the framework by which an organisation is accountable for the quality of services provided.

It is the responsibility of the Board to ensure that appropriate clinical and professional governance arrangements are put in place. These accountability requirements should be reflected within the broader governance arrangements and, in particular, through agencies’ business and corporate plans.

Controls assurance has historically been concerned with financial and organisational control matters. Clinical and professional governance is concerned with the quality and effectiveness of the professional services and procedures. Both agendas are complementary. Taken together and properly considered, they will enable agencies to say with some degree of confidence whether effective systems of internal control including risk management are in place.

8. REPORTING ON COMPLIANCE WITH GOVERNANCE STANDARDS

The agency’s Code of Governance should maintain the philosophy of “comply or explain”. The Board should report to the Minister for Health & Children on an annual basis on how they have applied the governance standards outlined in this framework document or to explain their reasons where the standards have not been implemented.
APPENDIX A
BIBLIOGRAPHY OF REPORTS RELATING TO CORPORATE GOVERNANCE


Code of Practice for the Governance of State Bodies (Department of Finance 2001)

Combined Code on Corporate Governance (2003).


National Public Procurement Policy Framework (Department of Finance)

OECD Principles of Corporate Governance (1999)

Public Financial Procedures (Department of Finance)

Public Procurement Guidelines – Competitive Process (Department of Finance)


Risk Management Guidance for Government Departments and Offices (Department of Finance 2004).

Role and Responsibilities of Accounting Officers (Department of Finance 2003)
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