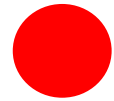


Welcome to:

We will start at  
12.00pm



Making Sense of  
Governance

Colin Langford

A bit about me...



... and a bit  
about logistics



Question panel

How can we talk?





By the end of the session you will be able to...

- Understand what “governance” is all about
- Consider how the most recent governance framework may apply to you and your organisation
- Identify today’s key governance issues

# It's a scandal .....!!!

- How often do you see headlines like this?
- Faith in human nature can be sorely tested by behaviours of those “charged with governance”
- Most notorious example – Enron ...

## Some quotes to ponder ...

- Governance has an intangible quality that relies on able; curious and courageous people working well together
- Governance cannot be reduced to a few handy metrics or key performance indicators
- The spirit and ethos of governance cannot be achieved by rules and procedures alone

I know governance is a serious subject,  
but ...



# Have you ever played “governance bingo”???

- Think about the number of times the word appears in board/senior management (and other) meetings
- What about the context and general perception?



# The UK Corporate Governance Journey

1992

1992 CADBURY REPORT	1998 HAMPEL REPORT	1999 TURNBULL REPORT	2003 HIGGS REPORT
UK governance failures <ul style="list-style-type: none"> <li>➤ Separate Chair &amp; CE roles</li> <li>➤ NED Audit Committee</li> <li>➤ <b>Openness, integrity &amp; accountability</b></li> </ul>	Implementation of Cadbury <ul style="list-style-type: none"> <li>➤ Combined Code on Corporate Gov.</li> <li>➤ <b>Principles not detail</b></li> </ul>	Clearer reporting on internal control <ul style="list-style-type: none"> <li>➤ Board - <b>systems of internal control &amp; risk management</b></li> </ul>	US corporate failures <ul style="list-style-type: none"> <li>➤ Back <b>'comply or explain' principle</b></li> <li>➤ <b>Annual board &amp; Execs evaluation</b></li> </ul>

2003 SMITH REPORT	2010 STEWARDSHIP CODE	2011 FRC'S GUIDANCE ON BOARD EFFECTIVENESS	2014 UPDATE ON UK CORPORATE GOVERNANCE CODE
Concern auditor independence <ul style="list-style-type: none"> <li>➤ Guidance on <b>role &amp; resp's of audit committee</b></li> <li>➤ <b>Independence of external auditors &amp; non-audit services</b></li> </ul>	Aimed to <b>enhance quality of engagement</b> with investors	Guidance re- <b>leadership &amp; board effectiveness</b>	Dangers of Board <b>'groupthink'</b> ; need to <b>relate risk to long term viability</b>

# Some observations ...



# The nature of the governance evolution

- Reactive
- Ad hoc
- Bad “PR”

# Purposes of governance

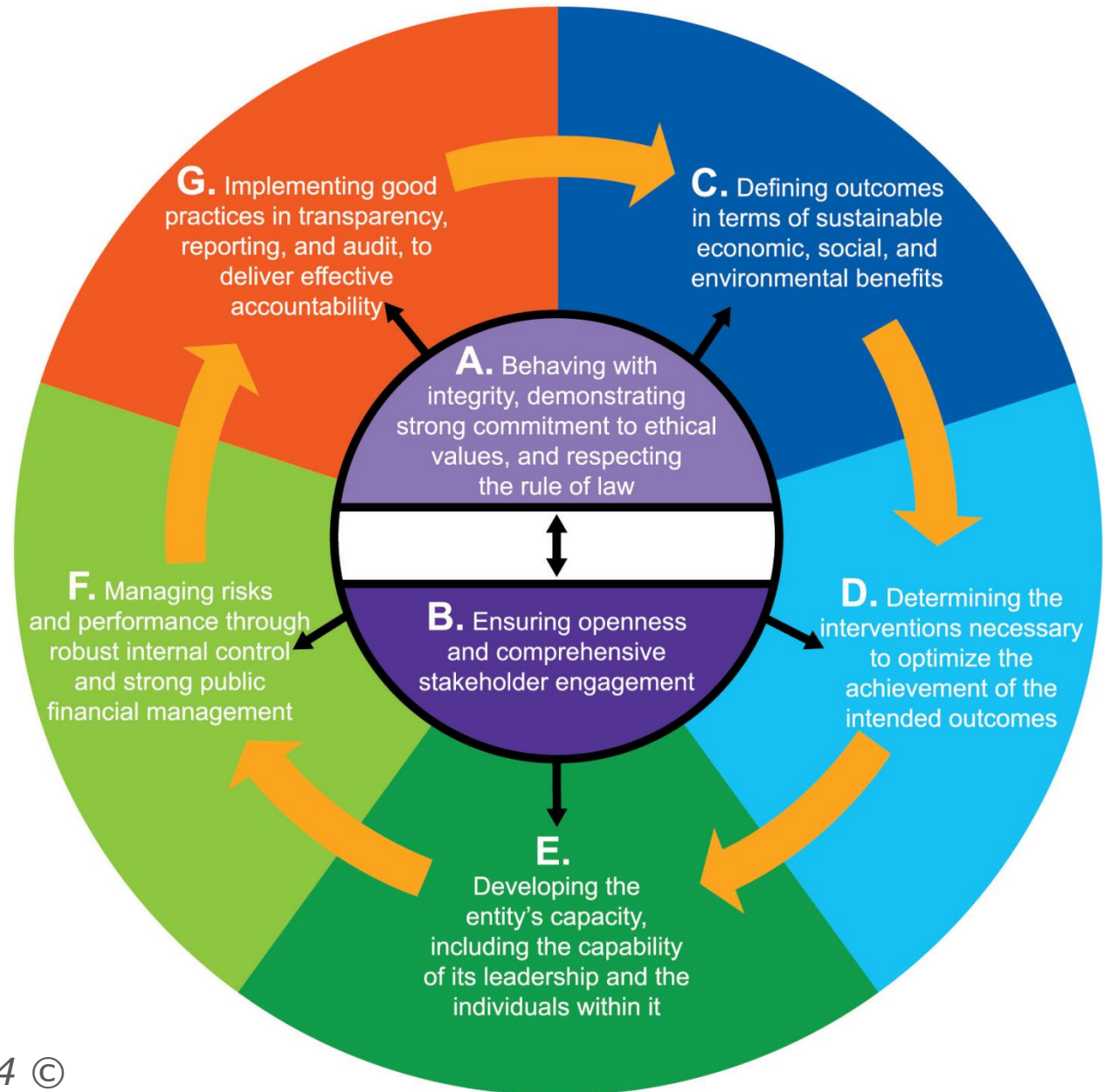
- To plan strategically and constructively challenge
- To protect resources and use them to make planned progress towards defined objectives
- To enable organisations to account for itself – financially as well as performance and compliance

# How about defining “governance”?

- “Management of the management”
- “The way in which an organisation is directed and controlled”
- “The arrangements put in place to ensure that the intended outcomes for stakeholders are defined and achieved”

International  
Framework :  
Good  
Governance in  
the Public  
Sector

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



# Making sense of the international framework

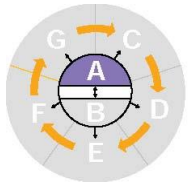
- A good starting point for “those charged with governance”
- Key questions to ask ...

# Dissecting the definition

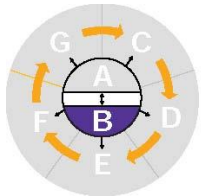
- “Intended outcomes”???
- “Stakeholders”???
- What does “good” look like???
- Issues with planning and delivering public services ...



# Overarching Principles of Good Governance



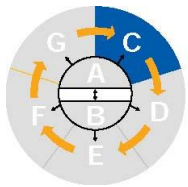
A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law



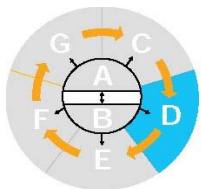
B. Ensuring openness and comprehensive stakeholder engagement

# Principles of Good Governance

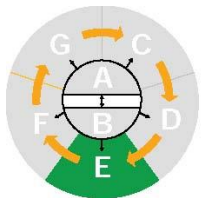
## Effective Arrangements



C. Defining outcomes in terms of sustainable economic, social, and environmental benefits



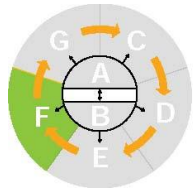
D. Determining the interventions necessary to optimize the achievement of the intended outcomes



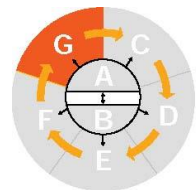
E. Developing the entity's capacity, including the capability of its leadership and the individuals within it

# Principles of Good Governance

## Effective Arrangements



F. Managing risks and performance through robust internal control and strong public financial management



G. Implementing good practices in transparency, reporting, and audit, to deliver effective accountability

# The Framework has given us a few new sound-bites ...

- Inter-generational equity
- Lateral relationships v hierarchical relationships
- Social; relationship and human “capital”

## In the words of Mervyn King ...

“Good governance requires a qualitative approach, not a mindless quantitative one. It requires integrity, objectivity, transparency and accountability, built on intellectual honesty”

# The challenge of good governance

- The “illusion” of effective governance
- The “red flags”?
- Failing to “join the dots”



# Applying the international framework

- Mature debate amongst those charged with governance – trust is earned, not automatically given
- Letting managers manage
- The importance of assurance mapping!



# Some key questions ...

- The “cultural health” of your organisation?
- Reaction to bad news?
- Attitude to risk?
- Relationships within the Board Room – and beyond?
- Effectiveness of key corporate policies?

# Lessons learned ...

- Mid Staffs – a classic case study

## Mid Staffordshire NHS Trust

Figure 2: Distribution of patient numbers by total time in A&E, April-December 2007

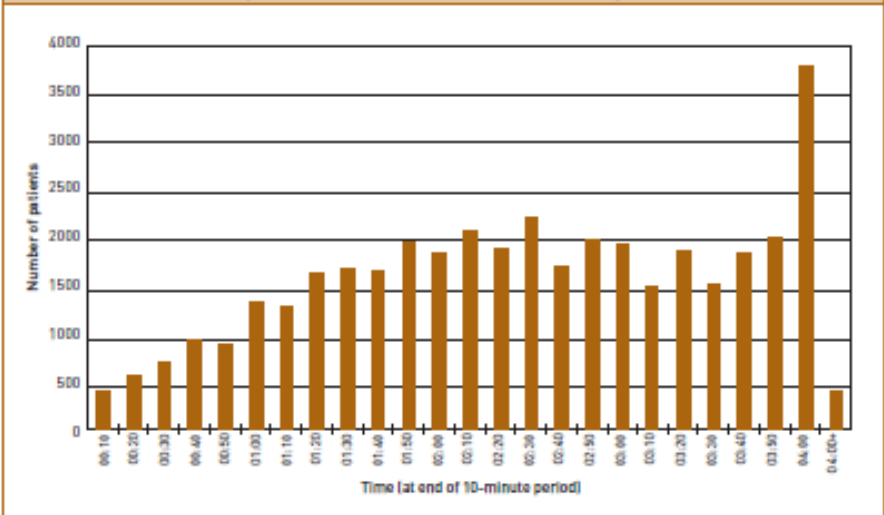


Figure 7: Non-standardised in-hospital mortality rates among emergency admissions aged 18 to 74 (April 2003 to March 2008)

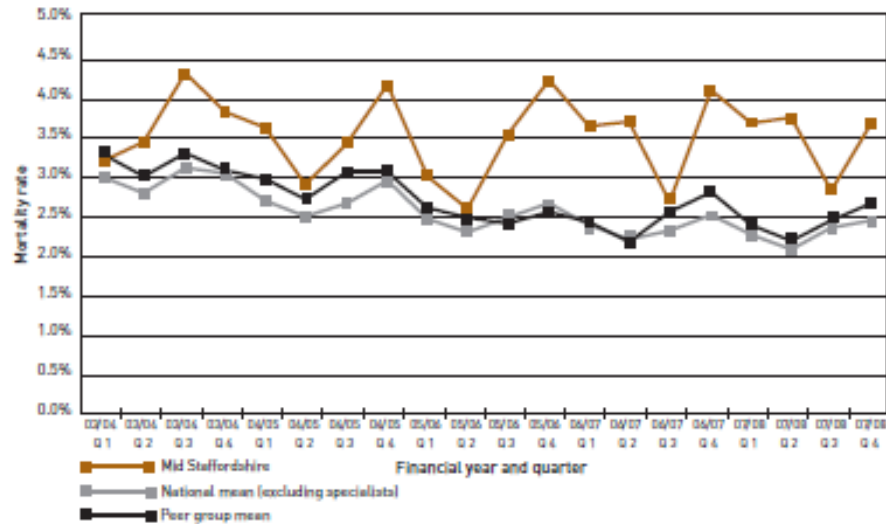
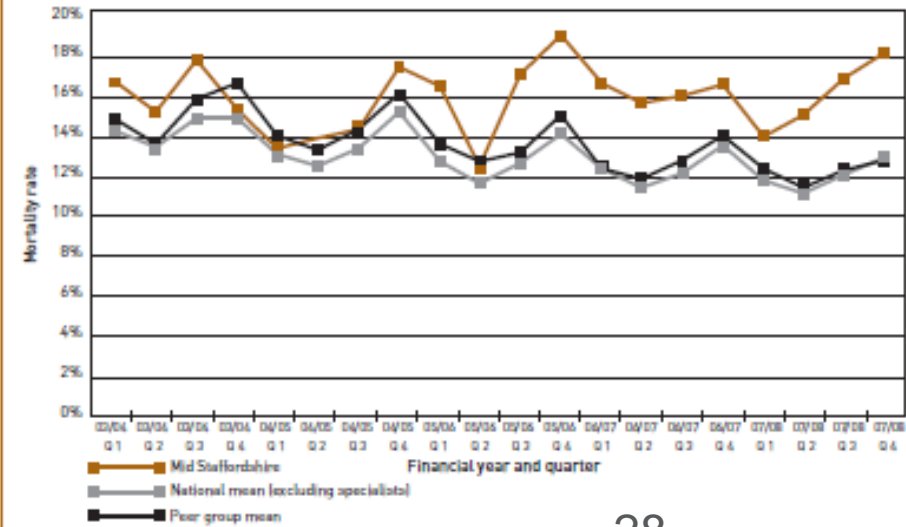


Figure 8: Non-standardised in-hospital mortality rates among emergency admissions aged 75+ (April 2003 to March 2008)



Source: Hospital Episode Statistics  
Note: The vertical line represents the start of the period covered by the investigation

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## Postscript Mid Staffordshire NHS Trust

*25-66% above  
benchmark*

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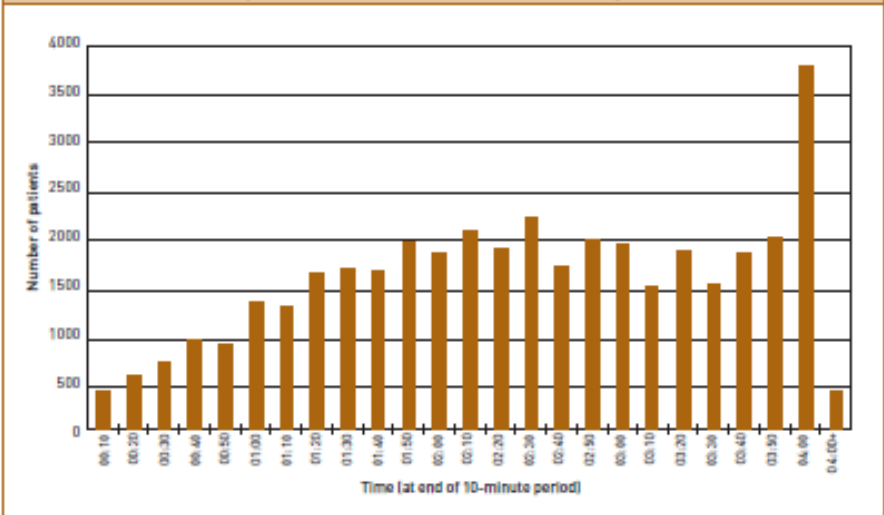


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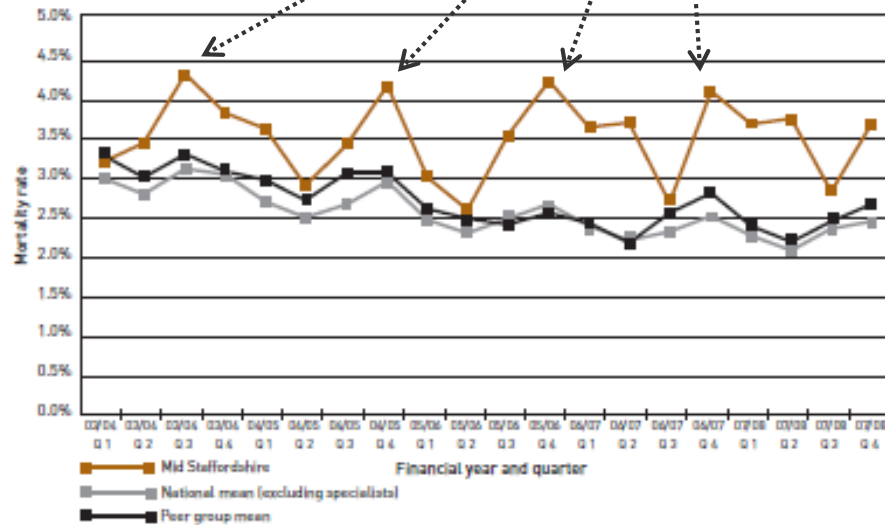
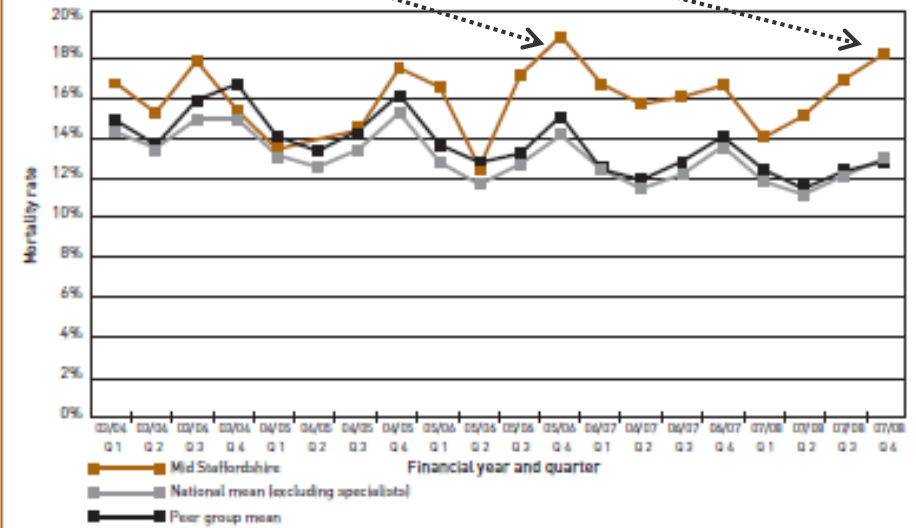


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# Some thoughts

- No alertness to “triggers” that things might be going wrong
- Board was not open to criticism, sought to “explain away” bad news or complaints
- Did not see patients/relatives as key stakeholders – lip service engagement
- Board interpreted outcomes as “operational” and did not get involved

# Some thoughts

- The Board members acted in a complacent way  
-“boxes were being ticked”
- Board failed to take auditors’ concerns seriously  
from as far back as 2006
- Board members did not see themselves in a  
challenge role

# The focus of the Board

- Achieving Foundation status
- Financial balance was number one priority
- Budget cuts were required
- No consideration of impact of cuts to front line services

# The single biggest threat to governance

- Guess!
- Is there a role for a “Contrarian Director”???



So, what makes governance so  
fascinating to me???





## Hopefully you are now able to...

- Understand what “governance” is all about
- Consider how the most recent governance framework may apply to you and your organisation
- Identify today’s key governance issues



# Upcoming webinars...

- Change Management Webinar – 12 November
- Accounting for Grants – 25 November
- IFRS 13: The Implications of Fair Value Accounting – 8 December

# Contact us



CIPFA Business

<http://www.cipfa.org/>

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