



Te Kawa Mataaho

Public Service Commission

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Office of the Auditor-General

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Tēnā koe John

Strengthening statutory Crown entity monitoring

Thank you for the letter of 25 March 2024 outlining the Office of the Auditor-General's planned follow up of the 2022 performance audit *Improving value through better Crown entity monitoring*.

Crown entities account for a significant proportion of government expenditure and are accountable for delivering many of the public services on which New Zealanders rely every day. The performance audit provided important insights to ensure effective Crown entity monitoring is contributing to Crown entity governance and performance.

The 2022 performance audit made recommendations about the opportunity for the Public Service Commission's (the Commission's) system-level leadership role. This included the need to promote examples of good practice and provide more support for, and greater oversight of, the Crown entity monitoring system.

Further information on progress in our response to the performance audit recommendations, including recommendation five, is set out below, along with our broader observations on progress across the Crown entity monitoring system. We have structured our feedback below to respond to the recommendations for the Commission set out in the performance audit.

Appendix A sets out our views on our progress against the performance audit recommendations and our broader observations of the Crown entity monitoring system. Appendix B provides more detail on the specific initiatives we have led to support the governance and performance of Crown entities and monitoring departments.

Overall Commission response

The Commission supported the overall direction and findings of the performance audit, which identified areas for improving the effectiveness and impact of Crown entity monitoring arrangements. The performance audit also provided valuable insights on the opportunities available to lift the impact of governance, capability and performance of Crown entities.

Prior to the performance audit, the Commission had established a work programme to develop better support for Crown entities and monitoring departments. As part of this work, the Commission took a proactive approach to establishing system-wide guidance on good practice to support boards and monitors to support effective Crown entity governance and performance.

The quality of Crown entity governance and performance matters for the services that New Zealanders access and rely on from these entities. A collective focus is required by monitoring departments and Crown entity boards to ensure good governance and effective monitoring drives high quality public services. High trust and high-quality relationships, centred on driving results and performance, is critical to making this happen, and has been a significant focus of our leadership across the Crown entity monitoring system.

I hope this information provides your office with useful context as you consider the progress made against the performance audit findings and recommendations. I look forward to further engagement with you on our continued work in this area.

Ngā mihi nui



Heather Baggott (she/her)
Te Tumu Whakarae mō Te Kawa Mataaho
Acting Public Service Commissioner | Head of Service

Appendix A: Response to recommendations for the Public Service Commission

Promote good practice in monitoring departments and Crown entities

In May 2023, the Commission released *Te Tūāpapa o te Mahi Tika: He Aratohu hei Aroturuki i te Hinonga Karauna, The Foundations of Good Practice: Guidelines for Crown Entity Monitoring* (the Guidelines). These guidelines were developed to provide Crown entity boards and monitoring departments with practical support for establishing high functioning Crown entity monitoring arrangements.

Development of the Guidelines was informed by engagement through communities of practice, including the Monitoring, Appointments and Governance Network (MAGNet), the Crown Entity Chairs' Reference Group established by the Public Service Commissioner, and a group of senior governance and monitoring managers.

Since issuing the Guidelines, the Commission has maintained a system-level focus on monitoring practice based on initiatives outlined by former Public Service Commissioner, Peter Hughes, when he wrote to you in May 2023. Progress on these initiatives is summarised in Appendix B. Many of these initiatives respond to findings raised through the performance audit.

Assist in creating and applying effective monitoring frameworks

The Guidelines now form the basis of our advice to departments on developing effective monitoring arrangements for their Crown entities. Crown entity monitoring practice, however, is a fundamentally relational exercise based on parties having a clear understanding of their roles and responsibilities, and a high level of trust. This approach is central to establishing enduring and effective monitoring relationships that add value to Ministers, Crown entity boards, and monitoring departments.

To supplement the Guidelines, the Commission has worked closely with monitoring departments to understand how they can be applied within their context. Our focus is on enabling monitoring departments to tailor the Guidelines to their context.

Since issuing the Guidelines, the Commission has engaged with a broad range of Crown entity chairs, board members and monitors on their application, with a strong focus on translating the principles and frameworks into practice.

Monitoring staff capability is important to the implementation of good practice monitoring arrangements. In support of this, the Commission has worked closely with Victoria University to establish a tailored professional development programme through the development of a post graduate course for Crown entity monitors. This presents a structured offering for monitoring staff, including those with an interest in the subject as a career pathway. Through this process, we have contributed to the programme design and delivery, drawing on our subject matter experts.

Supporting effective Crown entity governance

Appointing and maintaining an effective board, and in particular, the appointment of a high-quality chair, is one of a responsible Minister's most important responsibilities. While all Crown entity chair appointments are important, some are more significant than others due to factors such as the size of the entity, including its budget, and the importance of the entity in delivering critical services to New Zealand.

The performance audit concluded that while Crown entity board appointment processes are generally well supported by monitors, challenges exist in identifying high-calibre candidates from diverse backgrounds.

In response, the Commission has implemented targeted support for significant chair roles, working with departments leading appointment processes. The Commission's support has included ensuring departments are engaging in robust appointment processes, in line with our Board Appointments and Inductions Guidelines. This has been supported by a refresh of the inductions process we undertake for Crown entity chairs. The Commission has also drawn on its understanding of talent and capability across the system to broaden and diversify candidates for consideration in critical chair roles.

The Commission has also progressed other initiatives to promote good governance on Crown entity boards. This has included working with *Iti Kopara – Public Governance Aotearoa* on the delivery of tailored training for Crown entity board members. The Commission has also led the development of a Crown entity board competency framework, supported by Crown entity board members and monitoring departments, which provides for common attributes critical in guiding the success of Crown entity chairs and board members in their roles. This initiative has received positive feedback from board chairs, members and staff within monitoring departments.

Assessing monitoring effectiveness and providing additional advice and support where required

The performance audit also recommended that the Commission consider how it could assess the effectiveness of monitoring carried out by monitoring departments. Where applicable, the Commission's performance expectations for Public Service Chief Executives include specific expectations relating to the performance of Crown entity monitoring functions.

The Commission has engaged with Public Service Chief Executives on the monitoring and performance of Crown entities within their portfolio. This includes working with these Chief Executives to understand how they are supporting responsible Ministers to drive Crown entity performance.

The Commission has also engaged directly with Ministers responsible for Crown entities when issues have arisen and provided additional support to Ministers and monitoring department chief executives on good practice monitoring arrangements. Maintaining engagement with Public Service Chief Executives on the quality and impact of Crown entity monitoring will continue to be important area of focus.

Impact of our work

You have asked for the Commission's observations about the impact of its work in response to issues identified in the performance audit. In our view, the Commission's work alongside the wider system, has increased the visibility of, and focus on, the importance of good governance, integrity and conduct, and robust monitoring arrangements. This has been significantly supported by the clear insights and opportunities identified through the performance audit.

At this stage, high levels of engagement with departments, boards and practitioners indicate that the Commission is meeting a need for access to guidance and support to inform fit-for-purpose and robust monitoring practices. This was confirmed in a July 2023 Commission survey which reported that around 96 percent of monitoring practitioners were highly satisfied or satisfied with the Commission's support for Crown entity governance and monitoring.

We are confident that initiatives, such as the good practice monitoring guidelines, tailored governance training and professional development pathways, will providing enduring improvements

to lift the quality and impact of Crown entity monitoring in making a contribution to public service delivery.

Further opportunities remain to continue strengthening the Crown entity monitoring system by building on the performance audit findings.

The good practice guidelines provide monitoring departments with the necessary insights to put high quality monitoring arrangements in place. These arrangements should be designed to provide the responsible Minister and boards with a strong basis for enabling good governance and driving the Crown entity performance. The Commission will continue to emphasise this approach through our community of practice engagement at the manager and practitioner level, as well as with monitoring department chief executives.

Broad observations on the monitoring system

You have asked for the Commission's view on the extent to which other recommendations in the performance audit have been addressed, the impact of any improvements and the subsequent challenges faced by Crown entities and monitoring departments.

Since the performance audit, we consider that departments now have increased awareness of the need for good monitoring practice and use of the Guidelines, and to ensure monitoring adds value to both Ministers and Crown entity boards.

We consider that Crown entity boards and monitors have a better understanding of, and benefits from, good practice monitoring. Some departments are making the investment to further strengthen their monitoring approaches. In our view, however, further efforts will be required across monitoring departments to ensure consistency in approach, particularly in relation to the implementation of tailored and robust monitoring frameworks that consistently add value to Ministers, Crown entity boards and monitoring departments.

Ministers need robust independent advice on the levers they have available to get the performance they want from Crown entities. Providing this advice is a significant opportunity for departments to ensure Ministers are well placed to drive the performance of their entities. Since the end of 2023, departments have taken the opportunity to ensure that new Ministers are well supported in this area.

Opportunities also exist for monitoring departments to engage more closely with responsible Ministers on the design and implementation of tailored and fit-for-purpose monitoring arrangements for entities in their portfolio.

Capable and experienced boards remain central to effective monitoring and the work of monitoring departments. The Commission considers more work is required to build a deeper and more capable pool of directors from which candidates for chair roles can be identified for priority boards. Wherever possible, departments should also support responsible Ministers to follow good practice recruitment. This is a matter we have continued to emphasise through our communities of practice with departments.

Appendix B: Public Service Commission initiatives to promote the effective governance and monitoring of Crown entities

- **Provide targeted advice and guidance:** in addition to promoting the Guidelines on good practice monitoring, the Commission has provided advice and support to monitoring agencies to support the development of monitoring frameworks and practices within their portfolios. The Commission has also engaged with Ministers, and their offices, to provide advice in this context.

Regular inductions of board chairs, and tailored inductions to Crown entity boards, have provided the Commission with an opportunity to provide advice on good practice monitoring arrangements.

- **Engagement with senior leaders:** the Commission maintains a regular meeting schedule of meetings with managers responsible for Crown entity monitoring and supporting responsible Ministers making board appointments. Since 2023, we have convened regular meetings of managers across the network to cover a range of monitoring-related topics with a current focus on the Government's priorities. These meetings support discussion on, and the exchange, of best practice on governance and monitoring. They also enable the Commission to work with leaders on system wide issues impacting Crown entities.
- **Expectations on monitoring department chief executives:** the Commission has included a performance expectation of good monitoring practice in performance agreements of departmental heads whose departments have significant statutory Crown entity monitoring responsibilities. Broadly speaking these expectations include:
 - providing advice that meets the responsible Minister's needs on the performance of the agencies that the agency monitors, and on appointments to their boards
 - ensuring trusted engagement with Crown entity board chairs and chief executives, which is essential for an effective monitoring relationship.

In support of these expectations, the Commission has engaged with individual Public Service Chief Executives on good practice governance and monitoring arrangements within their portfolios.

- **Post Graduate qualification:** in 2023, the first cohort of monitoring officials graduated from the Victoria University of Wellington School of Business and Government Post Graduate Certificate in Public Management for Crown entity monitors. In 2024, the programme has been aligned with the Government Regulatory Practice Initiative (G-REG). This will enable candidates to create more bespoke course include 'in work' components where major assignments can be constructed around the candidate department's monitoring function. [Bespoke PGCert in Public Management | Victoria University of Wellington \(wgt.ac.nz\)](#)
- **Tailored training for Crown entity board members** - delivered by experienced public sector directors, with support from the Public Service Commission, [Iti Kōpara](#) has delivered two pilot courses specifically designed for new or aspiring Crown entity board members. In March 2024, the Trust delivered the first of three four-day courses in 2024. The Programme provides tailored training and support to equip current and future board members of Crown entities in providing effective governance.

- **Tailored Chair induction:** all new Crown entity chairs are offered a tailored induction with the Commission that includes a focus on relationships with monitoring departments as well as governance, performance and integrity matters. Over the last 12 months, the Commission has delivered 16 tailored inductions to chairs and to whole boards. As a matter of practice, all new board chairs receive an induction with the Commission.
- **The MAGNet community of practice:** supported by the Commission, MAGNet has hosted events in 2023-24 focused on topics such as regulatory stewardship, investment management, and board appointment practices, boards maintaining political neutrality, and national security screening of potential board members. The Commission continues to support MAGNet as the monitoring, appointments and governance community of practice.
- **Enduring Letter of Expectations 2024:** the Commission (with the Treasury) has prepared a new Enduring Letter of Expectations (ELOE) for the Joint Minister for the Public Service and Minister of Finance to issue to statutory Crown entity board. The ELOE emphasises the importance of a constructive and trusting relationship with the entity's monitoring department as well as what boards need to prioritise. The ELOE also provides monitoring departments with direction on points of focus for monitoring programmes in the context of Government priorities for Crown entities.
- **Enhanced board chair recruitment process:** working at the system level, the Commission has built a data set of potential candidates for Crown entity board chair roles that can be used to support monitoring departments when they are managing appointment processes, particularly for priority Crown entities. The Commission's role in the appointment process is informed by the monitoring department's assessment of the capabilities required for the specific chair role.
- **Board Chair and member qualities and attributes matrix:** based on emerging research on good governance in the public and private sectors, the Commission has published a [personal qualities and attributes matrix](#) to assess those candidates most likely to be good candidates for Crown boards chair roles and as high performing board members.