

## OUR GOVERNANCE FRAMEWORK

“Effective governance is .. essential for building confidence in public sector entities – which is itself necessary if public sector entities are to be effective in meeting their objectives.”

*Governance in the Public Sector: A Governing Body Perspective*, by the International Federation of Accountants (August 2001).

### Introduction

What constitutes good governance is an important question for us, as a statutory body.

Broadly, corporate governance refers to processes, rules and practices by which organisations are directed, controlled and held to account. Underpinning these are the principles of openness, integrity and accountability. In the context of the public sector, governance is about structures and processes for decision-making, accountability, control and behaviour at the highest levels of an organisation.<sup>1</sup>

Our function as a statutory body means that we must have, first and foremost, “institutional integrity”. By “institutional integrity”, we mean sound governance and the highest of internal standards throughout our Corporation.

### Standards of Accountability for a Statutory Body

The work of statutory bodies has a significant impact on the community. There is no specific set of governance and accountability policies applicable to statutory bodies, except broad recommendations and principles on accountability for public sector entities.<sup>2</sup> For companies in the private sector, it is clear what the primary role of the corporate board is, and to whom it is accountable. The Board represents its shareholders, and it is to shareholders that the corporate board is accountable.

For a statutory body, the position is more complex. Our Board’s broad goals are clear from our mandate and the powers conferred on them as set out in the Malaysia Deposit Insurance Corporation Act 2010 (“PIDM Act”). However, our stakeholders are many and their interests are varied. What is more, not all statutory bodies operate within the same legislative framework or have the same business models. Accordingly, the model of governance and accountability framework, while guided by similar principles, would need to address unique features of each such entity.

How then, is PIDM accountable to its stakeholders? The first step lies in articulating our accountability framework. This would then allow our stakeholders to assess the organisation’s level of credibility and integrity and how efficient and effective we are in meeting PIDM’s stated mandate and objectives.

<sup>1</sup> The study on *Governance in the Public Sector: A Governing Body Perspective*, by the International Federation of Accountants (August 2001).

<sup>2</sup> Ibid

## **Our Accountability Framework**

The design of the PIDM Act and our explicit objects clearly contemplate the need for PIDM to operate in a vigorous and enterprising manner. In keeping with the PIDM Act, we are to operate as a separate legal entity, with a wide ranging set of powers. This flexibility and range of powers enable us to achieve our mandate.

Given this flexibility and wide powers, we are keenly aware of the need to operate within a strong framework of effective governance and accountability. The crux of the matter lies in the answer to the following question — *How do we achieve a balance between our flexibility to manage our business and affairs and the legitimate interests of our stakeholders?*

We see the key elements of governance and accountability framework in the following terms. First, our accountability framework defines how we report and answer for our performance to our stakeholders externally. Second, the success of our governance lies in the integrity within our organisation.

### **(i) How We Report and Answer for Our Performance**

As a matter of law, we are independently audited by the Auditor General. Our Annual Report is laid before Parliament for review, and must be submitted to the Minister of Finance within the statutory deadline on 31 March of each year. The Annual Report is thereafter tabled in Parliament.

As part of our accountability framework, we have the following key processes and comply with the following standards:

- we comply with applicable financial reporting standards as required by law to ensure the reliability and consistency of our financial information in our statutory financial statements. The additional financial information under the Financial Review section in our Annual Report provides further analysis of our financial position and performance, and its alignment to the operations as well as the initiatives set out in our Corporate Plan;
- we have a Board Governance Policy, developed from international and domestic principles and standards of best practice. This allows our Board to demonstrate its achievements against these standards, as reported annually in our Statement on Governance that is available on our website;
- we have governance processes to ensure that we have two-way communications with our stakeholders when making guidelines and regulations. Our policies require us to carry out our decision-making in as transparent a manner as possible, within the constraints of our confidentiality provisions under the PIDM Act. This allows us to balance and respond to our constituents' needs and concerns and allows for sound decisions and policies;

- we have implemented a strategic planning process to set and develop effective strategies and clear corporate objectives — which are results-oriented — as well as to monitor and report on performance. We have three year corporate plans, with the strategic direction set by the Board. Each year, we have performance measures against which to report. This helps us manage and track our performance, and to demonstrate that we are both efficient and effective; and
- we make available many of our significant policies, codes and procedures for public reference.

## **(ii) Integrity within the Organisation**

Governance in the public sector is also about control, behaviour and reporting at the highest levels of an organisation. We regard our governance framework as being inextricably intertwined with the conduct and ethics of individuals within the organisation. A statutory body with individuals that exhibit high standards of integrity can better achieve its objectives. This is more so for PIDM, given that one of our statutory objects is to promote and contribute to the stability of the financial system.

Our conduct and ethics framework addresses the behaviour of our employees, as well as our Board members. Our framework is underpinned by the principles of objectivity, impartiality and integrity. We have codes and policies on behaviour and ethics and procedural safeguards, all with a view towards ensuring that we are committed to high standards of behaviour.

The key codes and policies to this end include the Code of Business Conduct and Ethics and the Conflict of Interest Code for employees and Directors respectively, and the Procurement Policy.

We would, however, emphasise that our ethical framework does not — and should not — stop at words. Sound conduct and ethics must be consciously engrained in the day today practices and culture of every individual in the Corporation.

“A Code is useless unless the people it covers first, know it exists and what it says; second, understand how it should affect the way they carry out their duties; and third, actively want to be part of the culture it represents.”

Sir Nigel Wicks, Chair, “Ethics in Public Life”, Committee on Standards in Public Life (Nolan Committee), in his speech to the Institute of Business Ethics, 19 September 2002

We institutionalise integrity in various ways. Training and communication about the codes and ethics-related matters continue on an ongoing basis. We have channels for employees to discuss ethical issues. In addition, there are processes in place to remind employees of their obligations to comply with such codes and policies, and to also help identify wrongdoing and transgressions of ethics, in the form of the Policy for Disclosure of Information Concerning Improper Conduct.

To ensure effectiveness of these codes and policies, we will clearly take prompt action to deal with any transgressions.

Our Compliance Programme is also found [here](#).

As stated in our Board Governance Policy, “Integrity is dependent, among other things, on the personal standards and professionalism of the individuals within the entity.” We firmly believe in practising what we preach. Leadership gives the greatest incentive for others to want to be part of the culture our codes represent. Senior management is thus accountable for upholding — in actions and not by mere statements of intent — the highest standards of integrity that our Codes represent.

### **Conclusion**

Ultimately, we aim to demonstrate that in PIDM, governance will not be relegated to mere theories. Its principles are and will continue to be upheld and practised. This is critical to the achievement of our goals.