



**Te Kawa Mataaho**  
Public Service Commission


**Te Tūāpapa o te Mahi Tika:  
He Aratohu hei Aroturuki  
i te Hinonga Karauna**

**The Foundations of Good  
Practice: Guidelines for  
Crown Entity Monitoring**

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May 2023





Mahi Ngā Kaiaroturuki  
me ngā Poari Kaitiaki -  
te mahi tahi

**Monitors and Boards –  
working together**



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## How to use this guide

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This guide sets out the foundations for good monitoring practice with principles and guidelines for departments that monitor statutory Crown entities.<sup>1</sup> The guide provides guidance and support to help monitors and boards meet the government's expectations for monitoring arrangements when performing their roles under the Crown Entities Act 2004.

Crown entity boards may find the guide useful as it builds off Ministers' expectations of constructive engagement between the entity and monitor, and helps boards to develop constructive engagement with the monitor. Additionally, the section on assessing board performance may be useful guidance for boards undertaking self-evaluation.

The guide is intended to inform the monitoring of statutory Crown entities. It may also be useful for officials monitoring other categories of Crown entity and a range of statutory independent entities.

The guide emphasises the importance of high trust relationships, a 'no surprises' environment and optimising performance levers as a platform for effective monitoring.

The guide should be read in conjunction with:

- *It Takes Three* the Operating Expectations Framework for the three main parties to the Crown entity system – the responsible Minister, the board chair (on behalf of the Crown entity board) and the monitor
- relevant system guidance from Te Kawa Mataaho Public Service Commission (the Commission), the Treasury, and Office of the Auditor-General (OAG).

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<sup>1</sup>Parliament's Standing Orders define a Crown entity as an entity named or described in Schedule 1 or 2 of the Crown Entities Act 2004 (which includes five categories – statutory entities, Crown entity companies, Crown entity subsidiaries, school boards of trustees and tertiary education institutions), and any entities named in Schedule 4A of the Public Finance Act 1989. Schedule 4A companies are non-listed companies in which the Crown is the majority or sole shareholder. The Public Finance Act applies various sections of the Crown Entities Act to these companies, including the reporting requirements (McGhee, D. (2017). Parliamentary Practice in New Zealand) [here](#).





## Introduction

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This section introduces the guide and covers:

- The foundations of good practice
- The monitoring landscape
- *It takes three* operating expectations framework for the responsible Minister, Crown entity board and the Monitor
- Roles and responsibilities of:
  - Crown entity board and good governance
  - Crown entity executive management
  - Monitoring department
- Accountability to Parliament and the public
- Monitor, policy function and entity board working together.

# Introduction

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“Crown entities deliver most of the important government services to New Zealand. As the ‘face of government’ they are responsible for over 35% of government expenditure and employ, by far, the majority of public sector employees. Supporting responsible Ministers to oversee the Crown entity model is a critical role for monitoring departments. At its heart, successful monitoring rests on trusting relationships between monitors and Crown entity boards. Constructive relationships are built on a rich information trade and commitment to a public service ethos. I expect the spirit of service and a shared understanding of outcomes to fuel the Crown entity system and for purposeful monitoring to support the efforts of Crown entities and their boards.”

*-Peter Hughes, Te Tumu Whakarae mō Te Kawa Mataaho | Public Service Commissioner, Head of Service*

## Good practice – the foundations

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Good practice Crown entity monitoring is based on an understanding of arm’s-length government generally, and specifically as expressed through the Crown Entities Act 2004. For the monitoring practitioner, this includes recognising the importance of:

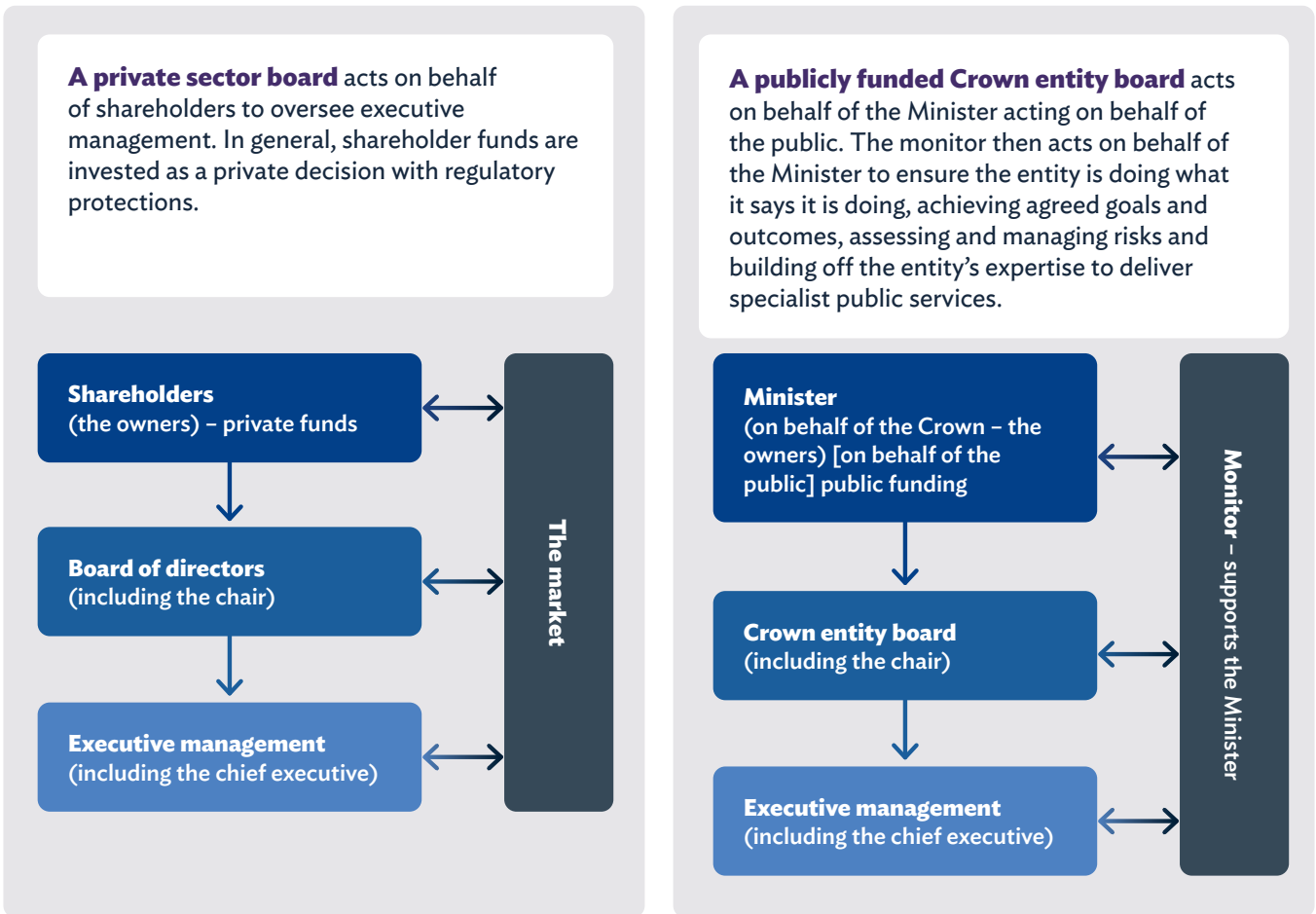
- high levels of trust between the parties
- the Minister-Chair relationship
- the role of the board governing in the public sector
- the need for monitors to exercise good judgement
- the importance of entity effectiveness and its impact on service users
- reviewing Crown entity performance
- supporting the Minister and leveraging the accountability cycle
- assessing governance performance and capability.

At the entity level, good practice monitoring, frameworks, and plans should be proportional and specific to an entity’s:

- legislative purpose and functions
- maturity (life cycle)
- risk profile
- the monitor’s experience and capability.

This guide aims to provide insights to the Crown entity system that emphasise the board’s primary role and meeting the expectations of the responsible Minister. These insights will help monitoring departments (monitors) to develop their own frameworks and plans that best suit their circumstances and help to strengthen the arm’s length government system realised by Crown entities.

**Figure 1: Private and public sector boards - the monitor's role**



## Relationships

Experience tells us that monitoring is fundamentally relational; specifically, the maturity of relationships between the Minister, chair and monitor. The monitor's experience and judgement will form the basis of monitoring arrangements that best serve the Minister's needs.

## Monitor-board perspectives

This guide is a tool for monitors and boards. It brings together perspectives of the monitor (the Minister's agent) and the board (the first monitor of entity performance). The monitor should avoid the risk of replicating the board's work but focus on providing the Minister, as owner, with independent support and advice (Figure 1). The Board's role will always have access to more information than the monitor. This information asymmetry can limit monitoring oversight and should be factored into the monitor's advice. Ministers and boards have a greater chance of success if respective roles and responsibilities are well understood.



## The monitoring landscape

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Crown entities play an important role in supporting the delivery of critical public services. In 2022, Crown entities:

- collectively employed 70% of central Government employees
- held 54% of fixed assets on the Crown's balance sheet
- accounted for more than a third of total government expenditure (about \$90 billion).

Crown entity operating environments have become more complex with greater expectations from Ministers on entities to support more integrated and co-ordinated delivery of services and functions. This requires entities to be more active in making connections and managing relationships within the context of a wider public service. The monitoring department also has the potential to facilitate and support these elements of collaboration and co-operation.

Crown entities are outside the legal Crown but have substantial relationships with it.<sup>2</sup> Governance and accountability arrangements need to be strong and well understood. They need to strike the right balance between Crown entity autonomy and Ministerial control.

Crown entities deliver public services based on policy settings and resource allocations decided by the Government and over which the entity has little control. Crown entities, however, are at the frontline of public service delivery and the public response to those services. Upholding public service principles and values, therefore, underpins trust and confidence in Government and the Public Service.

The performance of Crown entities and the way they are governed matters. The board oversees the Crown's ownership interest in the entity and is accountable to the responsible Minister for driving entity performance. The board is also the primary monitor of the entity, with the responsible Minister expecting regular board reports on entity performance, risks and opportunities. The monitoring department acts as the Minister's agent, with the primary purpose of advising the Minister on entity performance and effectiveness.

Together, Ministers, monitors and boards play important roles in supporting good governance, supporting the board to drive organisational performance, and making a contribution to the wider system in which they operate. Ministers expect constructive working relationships between the entity and monitor when undertaking these roles.

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<sup>2</sup> Section 2 of the Public Finance Act 1999 provides that the "Crown" does not include — (i) an Office of Parliament; or (ii) a Crown entity; or (iii) a State enterprise named in Schedule 1 of the State-Owned Enterprises Act 1986; or (iv) a Schedule 4 organisation; or (v) a Schedule 4A company; or (vi) a mixed ownership model company; or (vii) an entity named or described in Schedule 6<sup>7</sup>.



The Crown Entities Act 2004 (CEA) provides for:

- strengthening the alignment of Crown entities through expanded board duties for statutory Crown entities
- supporting functional leadership by expanding the scope for the use of directions to support a whole of government approach
- formalising the role of the monitor
- powers for the Minister for the Public Service to request information to assess overall public service capability and performance
- streamlining planning and reporting by providing for a minimum four-year Statement of Intent, flexible funding, and meaningful reporting on what is intended to be achieved and what has been achieved
- clarifying the regime applying to Crown entity subsidiaries.

The Commission and the Treasury jointly administer the CEA and provide a range of guidance to support responsible Ministers, Crown entity boards and monitors in carrying out their roles and responsibilities.

The Public Finance Act 1999 makes it clear that departmental secretaries are responsible for advising on the efficiency and effectiveness of non-department spending. The Public Finance Act provides for multi-category appropriations to give more flexibility to align funding with joint programmes across departments and Crown entities.

The Public Service Act 2020 includes the principle of providing Ministers with free and frank advice and places a stewardship responsibility on departmental secretaries. Stewardship includes the department's role as a monitoring agent and its role in administering legislation. The Public Service Act also includes provisions for Government Workforce Policy Statements that can apply to Crown entities. Provisions of the State Sector Act 1988 which applied to Crown entities generally, were carried over to the Public Service Act.<sup>3</sup>

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<sup>3</sup>An information sheet clarifying provisions of the State Sector Act that were carried over to the Public Service Act 2020 can be found [here](#).

# It Takes Three

*It Takes Three* is a principle-based framework that sets out the roles, responsibilities, and operating expectations for all three parties (Ministers, entities and monitoring departments). Effective engagement requires clarity about respective roles and responsibilities and a shared understanding of “how” legislative obligations are put into practice. In short, it takes all three parties working together to effectively deliver the services and outcomes for New Zealanders.

The framework aligns with [s.3](#) of the CEA and clarifies accountability relationships between ‘Crown entities, their board members, and their responsible Ministers on behalf of the Crown.

*It Takes Three* is an end-to-end system tool designed to help three user groups (responsible Ministers, boards and monitors) understand what is expected of each other at any given point in the performance cycle:

- **Ministers and their offices**  
Portfolio private secretaries in Ministers’ offices play an important role in supporting their Ministers and have access to a range of guidance. The *It Takes Three* operating expectations framework can be used by Ministers’ offices in consultation with monitoring departments to assist in the choice of levers. Ministers can use a mix of levers to get desired performance and to establish the limits of Ministerial authority over the entity.
- **Crown entity boards and executive management**  
For an entity to succeed, it needs to understand the nature of the tri-partite relationship between the responsible Minister, entity board and monitor. *It Takes Three* can assist boards with their accountabilities to Parliament and the Minister and executive management in its day-to-day management of engagement with the Minister and monitor.

***It Takes Three* is a tool to assist users to understand their roles and responsibilities within the system. It is not an audit tool or checklist.** Based on systems-thinking, it provides a way to understand the inter-relationships between the three main actors in the Crown entity system. *It Takes Three* can help monitors and boards to better understand the Crown entity system as a whole and relevant interdependencies among the system elements. It is a guide to good practice.

- **Monitoring departments**  
Acting as the Minister’s agent, the monitor has a critical role in supporting relationships between all the parties. The framework can be used to ensure monitors’ advice to Ministers and entities balances good practice with what is required under legislation.
- **Scrutiny of the system**  
Carried out by the Commission and the Treasury both of which provide system guidance. The OAG gives Parliament and the public an independent view of how Crown entities are operating.

Table 1 lists the characteristics of the four main principles underpinning *It Takes Three*. Guidance in this document expands on *Principle Three: effective and efficient monitoring* to provide more in-depth and practical advice to monitoring departments.

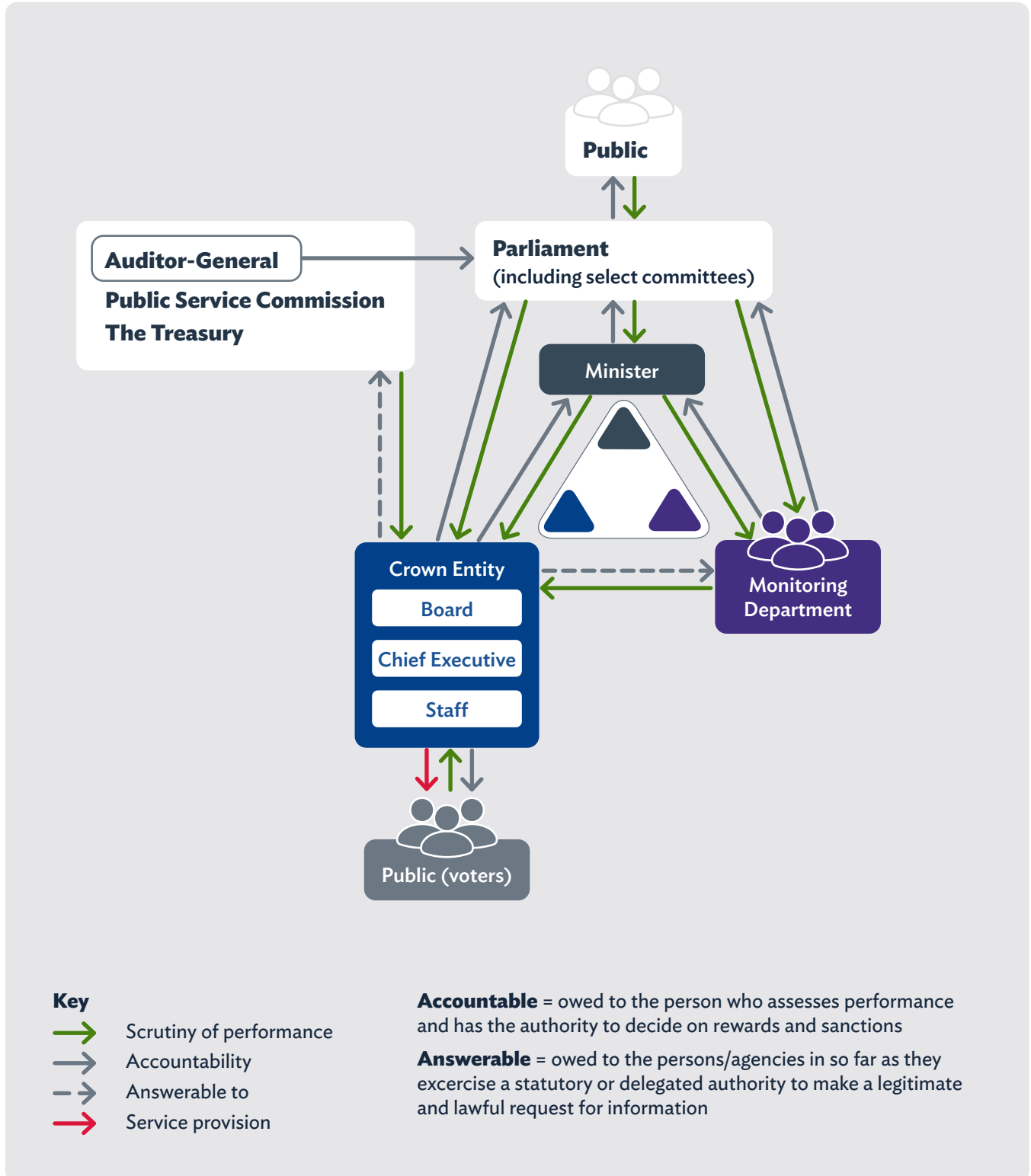
*Table 1: It Takes Three principles and characteristics*

Principle	Characteristics
<p><b>Principle One</b> Clear roles and responsibilities</p>	<p>All parties fulfil their critical roles and responsibilities so that they:</p> <ul style="list-style-type: none"> <li>• have a shared understanding of their roles and responsibilities between the parties, in line with relevant legislation</li> <li>• meet all statutory accountabilities, and</li> <li>• adhere to the “no surprises” convention.</li> </ul>
<p><b>Principle Two</b> Strategic alignment</p>	<p>Policies are strategically aligned so that:</p> <ul style="list-style-type: none"> <li>• relevant agencies are driven by the same principles and contribute toward the same outcomes, and</li> <li>• there is cross-government engagement with Crown entities and other parts of the relevant sector.</li> </ul>
<p><b>Principle Three</b> Efficient and effective monitoring</p>	<p>To enhance entity performance, a customised approach, proportional to the profile of each organisation, is taken to:</p> <ul style="list-style-type: none"> <li>• performance monitoring</li> <li>• data collection</li> <li>• assessing and managing risk, and</li> <li>• resource management.</li> </ul>
<p><b>Principle Four</b> Trusted engagement</p>	<ul style="list-style-type: none"> <li>• The parties commit to good practice to ensure their relationships are trusting and productive.</li> </ul>

## Who are participants in the Crown entity system?

Figure 2 identifies participants with the main responsibilities in the Crown entity system and their relationship with the main beneficiaries of Crown entity services – the public.

Figure 2: Relationships between the main actors with responsibilities and interests relating to individual Crown entities<sup>4</sup>



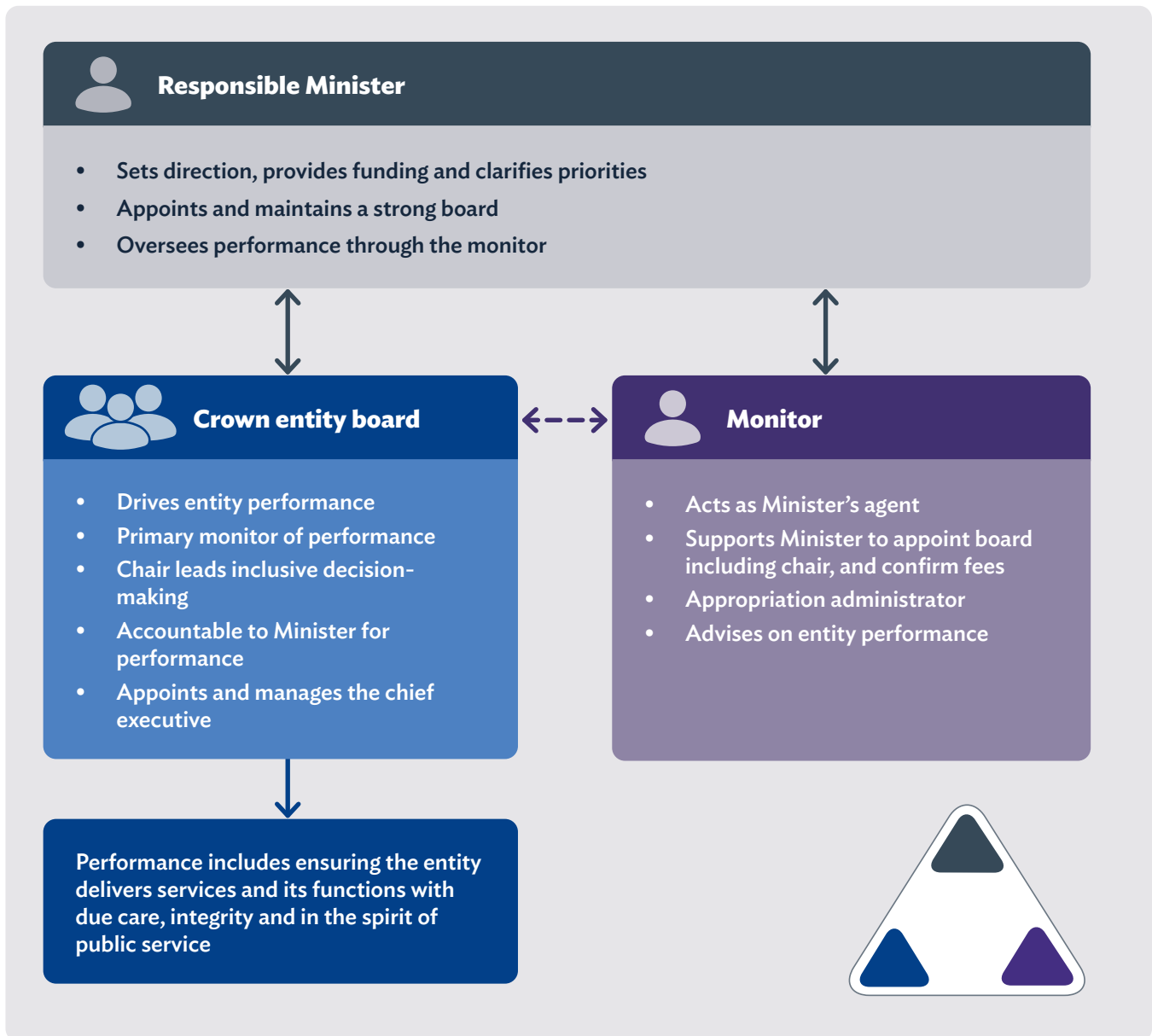
<sup>4</sup> For more information on the central agencies and Office of the Auditor-General go to: The Treasury – [objectives and functions and guidance for entities](#), Te Kawa Mataaho Public Service Commission – [Crown entities](#), and Office of the Auditor-General – [auditing work and performance audits](#).



## Clear roles and responsibilities

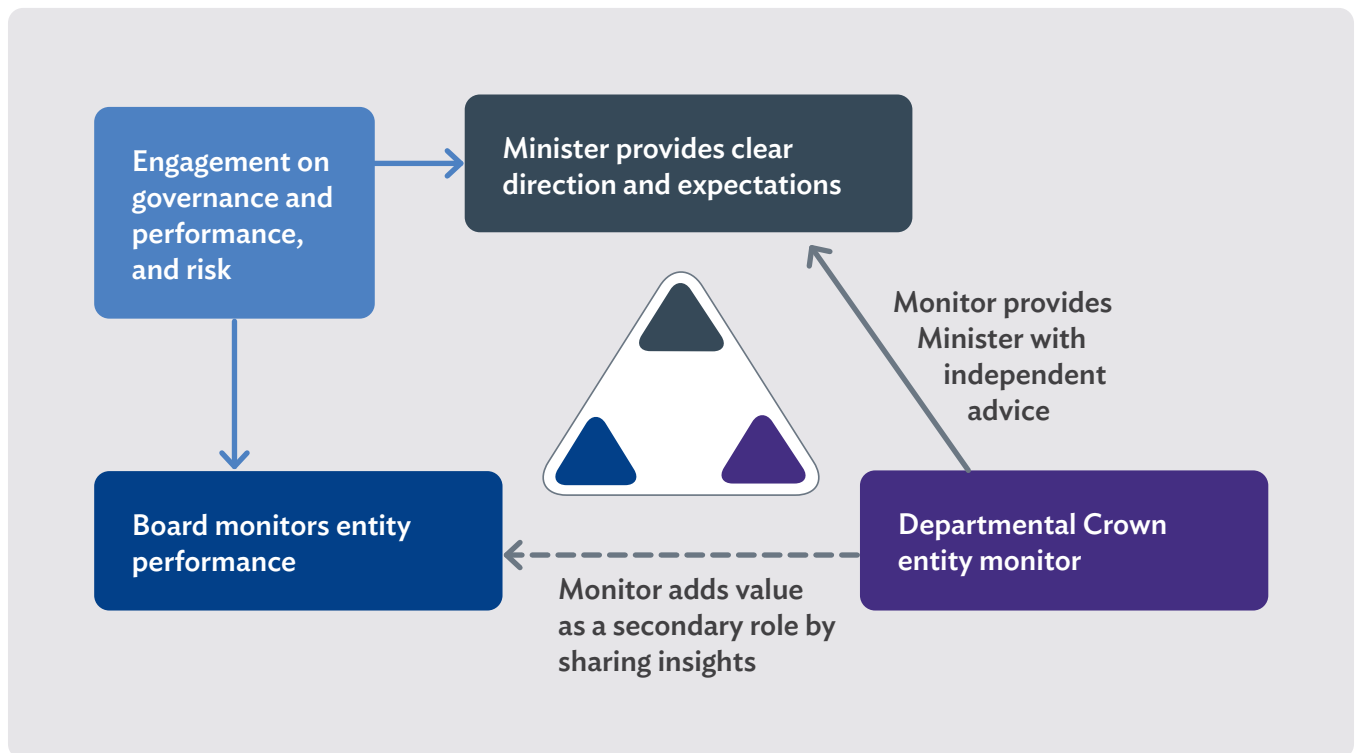
A department's monitoring framework should clearly outline the roles and responsibilities of each party involved in the monitoring relationship. The Crown Entities Act 2004 (CEA) sets out a framework for the Crown entity system, designed around a tripartite relationship between the responsible Minister, the Crown entity board and the monitor (Figure 3).<sup>5</sup>

Figure 3: Crown entity system tripartite relationship



<sup>5</sup>The guide uses the term 'tripartite' to mean 'involving three parties.' Matters of authority and control between the three parties are addressed through their distinct roles and responsibilities.

Figure 4: Roles of each party in the relationship



For the Crown entity system to succeed, all three participants in the relationship must have a clear understanding of their roles and responsibilities, summarised in Figure 4. For the purposes of the guide, this includes understanding that the monitor’s primary role is to support the Minister – i.e. the monitor is the agent of the Minister and therefore part of the exercise and discharging of the Minister’s statutory responsibilities and powers (s27 of the CEA) and their accountability to Parliament and the public. Supporting the entity to succeed is about getting ahead of emerging risks and building constructive relationships. Effective monitors and their entity boards have confidence that each will work constructively towards better outcomes and services for New Zealanders.

### The role of the Crown entity’s board

Ministers appoint boards to act on behalf of the Crown (as the entity’s owner) to govern Crown entities. The board has the authority, in the entity’s name, to exercise the powers and perform the functions of the Crown entity. All decisions relating to the operation of the entity must be made by, or under the authority of, the board in accordance with the CEA and the entity’s establishment legislation.

A Crown entity board has overall accountability for the entity in achieving its objectives, undertaking its functions, and operating in a manner consistent

with the *Statement of Intent (SOI)* and *Statement of Performance Expectations (SPE)*. Statutory Crown entity board members are not subject to Companies Act 1993 requirements of directors.<sup>6</sup> Instead, the CEA sets out the role and accountability of boards and their members including their collective and individual duties. Board members are individually and collectively accountable to the responsible Minister.

A Crown entity board has overall accountability for the entity in achieving its objectives, undertaking its functions, and operating in a manner consistent with the statement of intent and statement of performance expectations. The monitor acts as the Minister’s agent.

Boards exercise their responsibilities by clearly setting out the policy guidelines within which they expect the management to operate. Such guidelines in themselves, however, are not enough to guarantee appropriate behaviour and practices.

<sup>6</sup>Crown companies are a category of Crown entity and subject to provisions of the Companies Act 1993.

Effective Crown entity boards continually monitor their entity’s performance, and report performance and risks to the responsible Minister. The board has access to a wide range of performance and risk information, in real time, and the Minister can expect the chair to inform them directly on emerging issues (the ‘no-surprises’ approach) as well as to provide regular performance reporting.

In response to the Minister’s expectations and the entity’s establishment legislation, the board sets out annual and long-term objectives for the entity in the Statement of Performance Expectations (SPE) and Statement of Intent (SOI) respectively. As strategic documents, the SOI and SPE are also ‘owned’ by the board - executive management is charged with implementation.

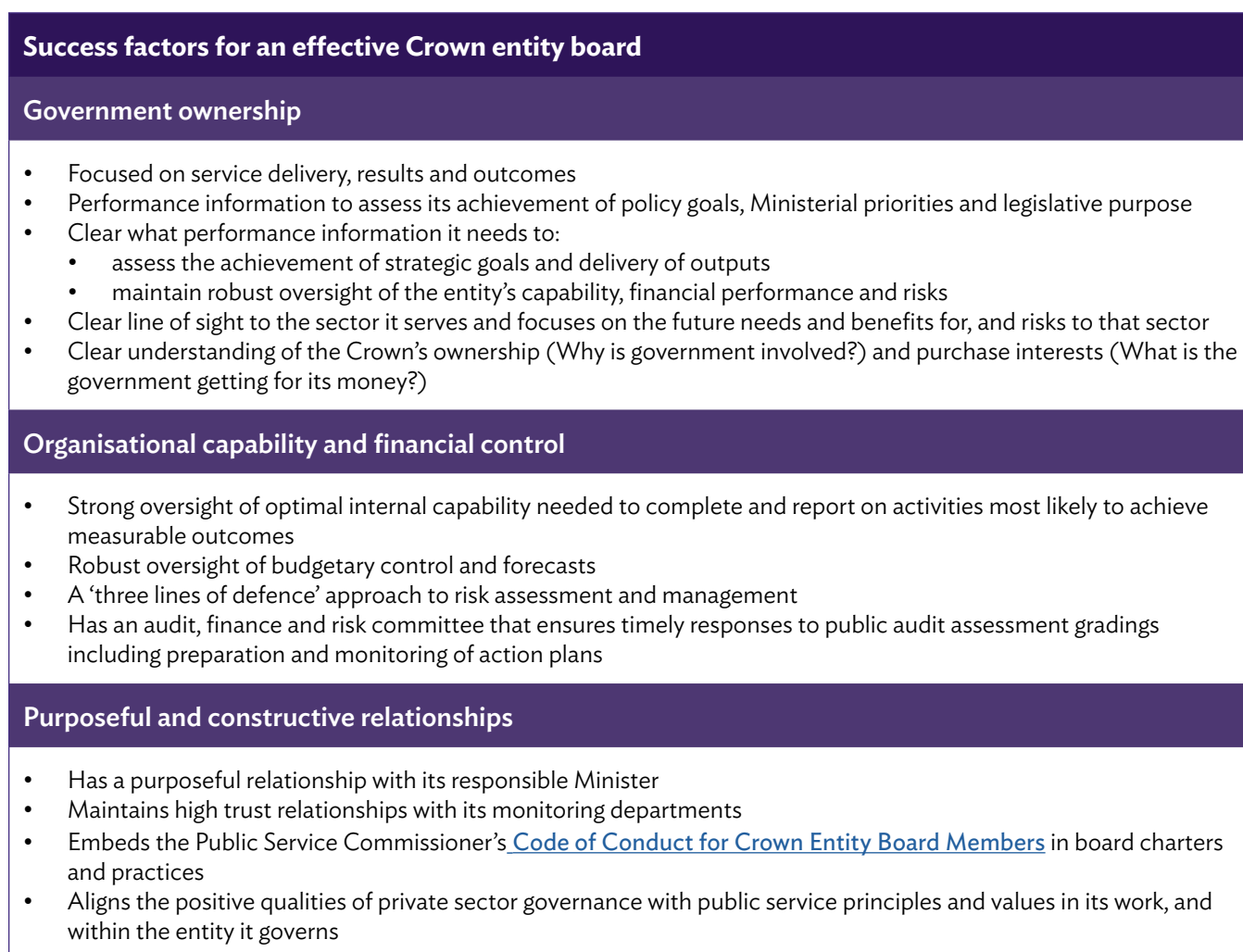
Board should establish systems for ensuring that executive management acts in accordance with these expectations.

Development of a governance manual is an important part of the board’s own work programme. Owned by the board, the governance manual should reflect the board’s way of working, informed by responsibilities under the Crown Entities, Public Finance and Public Service Acts, along with the entity’s establishment legislation. Such manuals should also be informed by Commission guidelines and advice from the monitoring department. Commission guidance to boards on developing their governance manuals that set out policies and systems can be found [here](#).

### What do we know about good governance?

Three groups of factors seem likely to help evaluate public sector board performance (Figure 5).<sup>7</sup>

Figure 5: Success factors for the effective Crown entity board



<sup>7</sup>As a further example, see also the Ministry for Culture and Heritage “Principles of good governance as applied to cultural sector Crown entities” [here](#).

## A Crown entity board is the primary monitor of entity performance

Governance boards carry out management oversight on behalf of owners. They are accountable to and report to Parliament. The board oversees the performance of executive management on behalf of the Crown as owner of the entity. In the case of a public body, the board must ensure the entity is carrying out all its statutory duties and meet Ministerial performance expectations.

The board's legal authority applies to all decisions made in relation to the entity's operation. In collaboration with the Minister, it sets the entity's strategy, culture and business plan in line with the entity's legal purpose and/or regulatory responsibilities.

The Annual Report is a Crown entity board's formal legislative accountability that provides the information necessary to enable an informed assessment to be made of the entity's operations and performance for that financial year. This includes an assessment of the entity's progress in relation to its strategic intentions as set out in the most recent statement of intent.

As part of the board's accountability to the responsible Minister, the Minister can expect regular performance reporting from the board on all aspects of performance. The only statutory reporting requirements, however, relate to the submission of an annual report. The CEA provides that the Minister and monitor can ask for any information at any time. This is an important provision and forms the basis for regular (usually quarterly) performance reporting.

In fulfilling their role, Boards should recognise that publicly funded services and outcomes for New Zealanders, are the Minister's and the government's priority, including the conduct and integrity of how they carry out their business. Ministers require (and have reinforced in the Enduring Letter of Expectations) that Crown entity chairs keep them and their monitors regularly informed of performance and risks.

## Role of the Crown entity's executive management

The Crown entity chief executive is a board employee. The chief executive establishes a management team(s) to develop and implement the board's strategy under the board's oversight to produce sustainable high-quality services that best respond to community needs and achieve outcomes for New Zealand.

Well performing executive management works closely with the board, including the audit and risk committee (ARC) to produce analysis and advice that

fairly represents financial performance, assesses operational and strategic risk, and assists the board to develop its accountability documents. The ARC's role is to provide the board with confidence that the entity is managing its risks, and provides important checks and balances to the board's governance and internal control. An effective ARC helps to build trust and confidence in the board's decision making.<sup>8</sup>

The chief executive must ensure that the entity responds in a timely, open and transparent way to a wide range of requests for information, including but not limited to those from:

- the responsible Minister
- the monitor
- the Ministers of Finance and for the Public Service
- central agencies (the Commission and Treasury)
- select committees
- parliamentary questions
- Official Information Act 1982 requests.

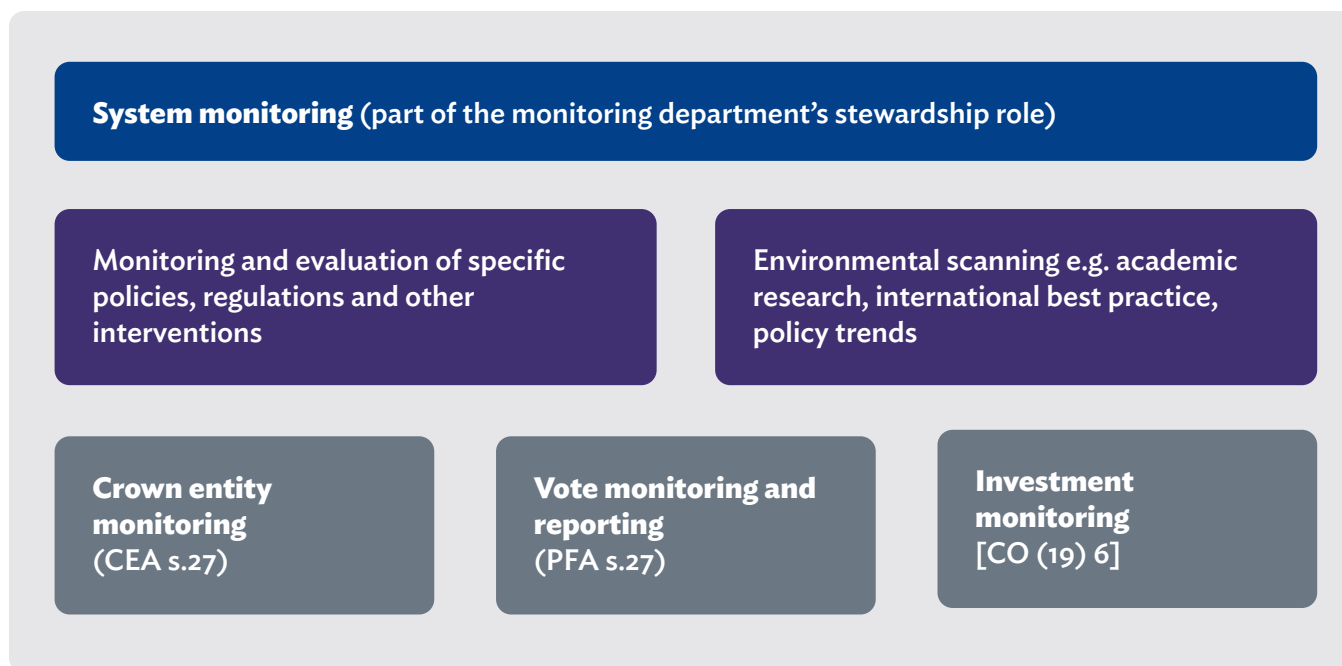
The monitor can also use board induction and other engagement to assist the board and executive management to understand their entity's role in a high performing public sector such as:

- the importance of a public sector that serves wide and future interests, and needs of public
- the importance of the entity managing the political context of the day
- that most of the important government services are provided by Crown entities
- the public's perception that Crown entities are part of the 'government' and the need to operate as a 'unified' Public Service
- working as part of the wider public service to deliver outcomes
- the need for greater openness and transparency
- seizing opportunities from the use of data and digital tools.

The Commission's general induction modules for Crown entity board members can be found [here](#).

<sup>8</sup> Office of the Auditor-General (2022), [Setting up a council's Audit and Risk Committee](#)

Figure 6: The wider departmental monitoring system



## The role of the monitoring department

The monitoring department provides advice to the responsible Minister on the statutory Crown entity's performance (OAG, 2022).

Crown entity monitoring is part of a wider system of monitoring undertaken by the relevant Ministry or department, which has an overall system stewardship role under [section 12](#) of the Public Service Act 2020.

The monitor's primary role, outlined in the CEA ([s.27A](#)), is to assist the responsible Minister to carry out their role. This could include assistance in:

- the appointment and removal of board members
- determining the remuneration of board members
- directing the entity to implement government policy, in the case of Crown agents
- reviewing the operations and performance of the entity
- the process of setting the entity's strategic direction and performance expectations
- monitoring the entity's performance
- administering appropriations

- administering legislation
- tendering advice to Ministers, including on the use of interventions if the Minister is not satisfied with the Crown entity's performance.

Monitoring departments should engage with entities as a 'critical friend' (at times acting as an advisor or system leader).<sup>9</sup> Under the Public Finance Act ([s34\(2\)\(b\)](#) and [s35\(b\)](#)) departmental secretaries are responsible for advising the appropriation Minister on the efficiency and effectiveness of expenditure from appropriations administered by the department.<sup>10</sup>

Ministers should be presented with all requests for increases in funding (including changes to compulsory levies, fees and charges) well ahead of the proposed implementation date. Departments lead the budget bid process and should work with entities to improve requests for levy increases, but also assess them critically. Treasury Guidance for setting charges in the Public Sector can be found [here](#).

<sup>9</sup> The Office of the Auditor-General (2022) [notes](#) "5.4 Monitoring departments will sometimes need to challenge Crown entities while respecting the arm's-length nature of Crown entity governance and maintaining a constructive working relationship. Monitoring departments describe this tension as a 'critical friend' relationship" (p37).

<sup>10</sup> [The responsibilities of an appropriation administrator](#).

Figure 7 summarises the monitoring department’s main monitoring activities. Guidance on board appointments, induction and remuneration can be found on the Commission’s website [here](#).

An effective monitor performs its statutory role in a way that assists and adds value to the Crown entity board, helping it to drive performance. In addition to maintaining a productive relationship with the board, further added value for the responsible Minister is derived from performance reporting that reflects accurate and meaningful information on:

- progress towards goals set out in the SPE
- the Minister’s expectations
- strategic aims set out in the SOI
- the management of operational and strategic risks
- the performance and fitness-for-purpose of any regulatory system(s) in which the Crown entity has a key role
- insights that might inform future expectations.

To achieve this level of value, the monitor must be well-informed about the entity’s business and the regulatory systems within which it operates. It must also be trusted as a first point of contact for the entity when required, for example, by providing the Minister with insights on setting expectations or providing the board with external context and wider government perspectives.

The CEA does not prescribe how monitors should carry out their role. Support for, or assistance to, the board should be considered a means of building trust and providing the board with advice on the Minister’s expectations. Although there is no CEA requirement for the monitor to assist the Crown entity board, a high trust environment means that:

- the board understands the monitor’s statutory role to provide the Minister with independent advice
- the monitor communicates any performance or capability concerns in a timely way to the Chair ahead of advising the Minister the ‘no surprises’ principle’.

*Figure 7: Supporting the responsible Ministers - the monitor’s primary role*



Managing these two outcomes and retaining trust on both sides is challenging and requires a rich information trade between the parties and regular structured engagement. Building and maintaining trust takes time. Consistent application of the ‘no surprises’ principle, capable and well-trained staff, and the practice of ‘doing what you say you’ll do’ are just some of the behaviours that facilitate trust.

Other than requesting information, the monitor has no powers under the CEA to direct the board, or to make decisions on behalf of the Crown entity. The board is accountable for the Crown entity’s performance and is the primary assurance mechanism for the Minister. The monitor can, however, provide insights on factors likely to position the entity for success.

## Monitor, policy function and entity board working together

Effective monitors set out to understand the entity’s wider operating environment. They need the capability and insights to assess the extent to which the delivery or non-delivery of outcomes/targets is attributable to the Crown entity’s actions. The entity must operate within the context and constraints of its regulatory, policy and funding environment which are outside the board’s control.

Almost all statutory Crown entities play important roles within one or more of the many regulatory systems administered and maintained by central government. The monitoring agency will usually also have its own roles within the same regulatory system. Consequently, both the Crown entity and monitoring agency are likely to have joint responsibilities under the government’s expectations for regulatory system stewardship, as set out in Part B of the *Government’s Expectations for Good Regulatory Practice* – available on the Treasury’s website [here](#).

Regulatory stewardship aims to ensure that the different parts of a regulatory system work well together to achieve its goals, and keep the system fit-for-purpose over the long term. Because it has a whole-of-system focus, regulatory stewardship requires active ongoing collaboration and sharing of information between the different agencies involved in each regulatory system. It is important that the monitor can build an effective relationship that does not undermine the between-agency trust and collaboration necessary for effective regulatory stewardship and the ongoing performance of our important regulatory systems. See also the Treasury *Starting out with regulatory stewardship* resource [here](#).

Departmental monitoring and policy functions should ensure each informs the other on their work. Crown entities are the policy delivery arm. Monitors often focus much of their work on the efficiency and effectiveness of policy delivery. Ideally, policy teams should work closely with monitoring teams to leverage off performance information supplied by the monitoring teams and strengthen policy advice.

Where agreed system and/or organisational outcomes are not achieved, constructive engagement between the monitor, Crown entity and Minister should aim to develop a sophisticated understanding of the underlying causes, and a shared commitment to finding and implementing solutions. This requires trust-based engagement between all three parties, and a close working relationship between the system monitoring, Crown entity monitoring and policy arms of the monitoring department.



## Principles of effective monitoring

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This section covers a set of interdependent monitoring principles and their application:

- Five interdependent principles
- The responsible Minister's role
- High trust relationships as a basis for constructive engagement
- The drivers of 'trust-based' relationships.



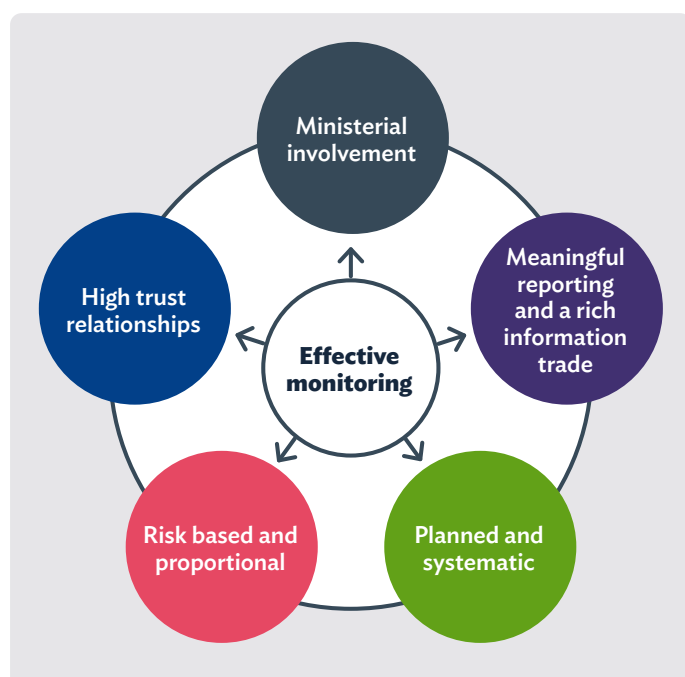
# Principles underpinning effective monitoring arrangements

## Interdependent principles

### Interdependent principles

This guide sets out five main interdependent principles to frame monitoring plans and monitoring practice (Figure 8). The guide expands on these principles and ways in which they interact. In other words, applying one principle may have an impact on the others.

*Figure 8: Five interdependent principles of effective monitoring*



### Ministerial involvement - ‘The responsible Minister’s role’

The responsible Minister manages and oversees the Crown’s interests in the Crown entities that sit within their portfolio and carry out any statutory responsibilities. These interests include the Crown’s ownership, purchase and stewardship interests. The Minister’s role includes:

- appointing and maintaining a strong board, with an experienced and qualified chair to lead the entity
- participating in setting the strategic direction and annual expectations of Crown entities and, in some circumstances, issuing directions and letters of expectation
- agreeing to the levels of funding for reportable outputs
- reviewing entity performance and risks, usually through delegating to the department managing the relevant appropriation
- answering to Parliament on the entity’s performance.

The responsible Minister’s level of powers within these roles depends on the type of the entity, as outlined in Table 2. There are some limits to the Minister’s powers. For example, they cannot give directions to a Crown entity in relation to exercising a statutorily independent function.

The Minister is responsible to the House of Representatives for overseeing and managing the Crown’s interests in, and relationships with, the entity. The Minister is answerable to the public and Parliament on a day-to-day basis in connection with the entity. This can include responding to questions, and participating in debates and reviews. The

*Table 2: Ministerial powers over different types of Crown entities (as outlined in the CEA)*

All references are to the provisions of the CEA	Crown agents	Autonomous Crown entities (ACE)	Independent Crown entities (ICE)
<b>Government policy directions</b>	Must give effect to government policy when directed by the responsible Minister ( <a href="#">s103</a> )	Must have regard to government policy when directed by a responsible Minister ( <a href="#">s104</a> )	Are generally independent of government policy ( <a href="#">s105</a> ), unless specifically provided by an Act
<b>Directions to support a whole of government approach</b>	Must comply with a whole of government direction from the Minister for the Public Service and the Minister of Finance ( <a href="#">s107</a> )	Must comply with a whole of government direction from the Minister for the Public Service and the Minister of Finance ( <a href="#">s107</a> )	Must comply with a whole of government direction from the Minister for the Public Service and the Minister of Finance ( <a href="#">s107</a> )
<b>Appointment of board members</b>	Appointed in most cases by the responsible Minister ( <a href="#">s28</a> )	Appointed in most cases by the responsible Minister ( <a href="#">s28</a> )	Appointed by the Governor-General on the recommendation of the responsible Minister ( <a href="#">s28</a> )
<b>Term of board members</b>	Hold office for 3 years or less ( <a href="#">s32</a> )	Hold office for 3 years or less ( <a href="#">s32</a> )	Hold office for 5 years or less ( <a href="#">s32</a> )
<b>Removal of board members</b>	May be removed by the responsible Minister at their discretion ( <a href="#">s36</a> ); unless an elected member ( <a href="#">s38</a> )	May be removed by the responsible Minister for any reason that in the Minister’s opinion justifies the removal ( <a href="#">s37</a> ); unless an elected member ( <a href="#">s38</a> )	May be removed by the Governor-General for just cause, on the advice of the responsible Minister, given after consultation with the Attorney-General ( <a href="#">s39</a> )
<b>Remuneration</b>	Determined by the responsible Minister in accordance with the <a href="#">Cabinet Fees Framework</a> ( <a href="#">s47</a> )	In most cases determined by the responsible Minister in accordance with the <a href="#">Cabinet Fees Framework</a> ( <a href="#">s47</a> )	Determined by the Remuneration Authority in accordance with the <a href="#">Remuneration Authority Act 1977</a> ( <a href="#">s47</a> )
<b>Re-categorisation of an entity</b>	Crown agent may be re-categorised as an ACE or ICE by Order in Council	ACE may be re-categorised as an ICE by order in Council but not as a Crown agent	ICE may not be re-categorised by Order in Council. Would require legislative change

Minister also tables in the House an entity's Statement of Intent and annual report and appears before select committees where they may be asked to comment on an entity's activities. The entity itself, however, is also accountable to the House of Representatives for its own actions.

Under [s133](#) of the CEA, the Minister has the power to request information:

- the Crown entity board must supply to its responsible Minister any information requested by that Minister relating to the operations and performance of the Crown entity
- the board must supply to the Minister of Finance any information requested by the Minister in connection with the exercise of their powers under [Part 4](#) of the CEA
- the board must supply the Minister for the Public Service any information requested by that Minister, where that information is requested for the purpose of assessing the capability and performance of the public services, and the request is made to a group of at least 3 entities that have in common at least 1 significant characteristic that relates to the information requested.

[Section 133](#) is subject to [s134](#) of the CEA. [Section 134](#) provides certain grounds for refusing to supply information requested by a Minister, for example, to protect the privacy of a person. However, the reason must outweigh the Minister's need to have the information in order for the Minister to discharge ministerial duties.

For more detail on the role of Ministers responsible for Crown entities see [Statutory Crown Entities: A Guide for Ministers](#) which expands on Ministers' roles and responsibilities including their relationships with Crown entities, their role in the appointment and removal of board members, performance levers available to them and how to get useful performance information from an entity.

In line with agreed monitoring protocols, monitors should be thoughtful about requests for information. The priority should be to focus on performance information supplied to the board which provides progress against goals contained in accountability documents and aligns with Ministerial expectations.

The monitor may conclude, however, that board performance reports lack important information. This conclusion should be discussed with the Chair before making the request to explain the reason for different information and to provide the entity with an

opportunity to update its performance information reports.

Most performance information requests will be captured in regular reporting and be consistent with performance information provided to the board. Although the monitor can ask for information at any time, ad hoc information requests should be kept to minimum.

## High trust relationships - 'constructive engagement'

Trusted relationships and engagement underpin effective monitoring arrangements. While trust is not a substitute for monitoring, an absence of trust makes efficient and effective monitoring difficult. The respective stewardship roles of the Crown entity and monitoring department requires co-operation and alignment between the two and a shared perspective on their responsibilities to deliver public services.

Engagements between the monitor and entity are not simply transactional. Monitoring departments and Crown agents must uphold the Public Service [principles](#) and [values](#). Those same principles, values, and [public service ethos](#) should be evident in the work of all categories of Crown entities. Low levels of trust make co-operation difficult and reduce opportunities for timely information exchange.

Effective monitoring is founded on managing relationships in the context of clear roles and responsibilities. In a 2022 review of Crown entity monitoring, the [Auditor-General](#) noted:

*"When roles and responsibilities are not clear, there can be confusion. In practice, we found that monitoring departments and Crown entities rely on relationships to address any ambiguity in roles and responsibilities. Although a strong relationship supports effective monitoring, in our view formalising and documenting expectations helps ensure that they are understood by all parties".*  
(p18)

In an ideal monitoring relationship, the monitor needs knowledge and understanding of how the board oversees executive management. The extent to which access to relevant information is formalised depends on the monitor-board relationship maturity, including the quality and quantity of information flows between the parties. This is discussed later in the Guide.

## The drivers of ‘trust-based relationships

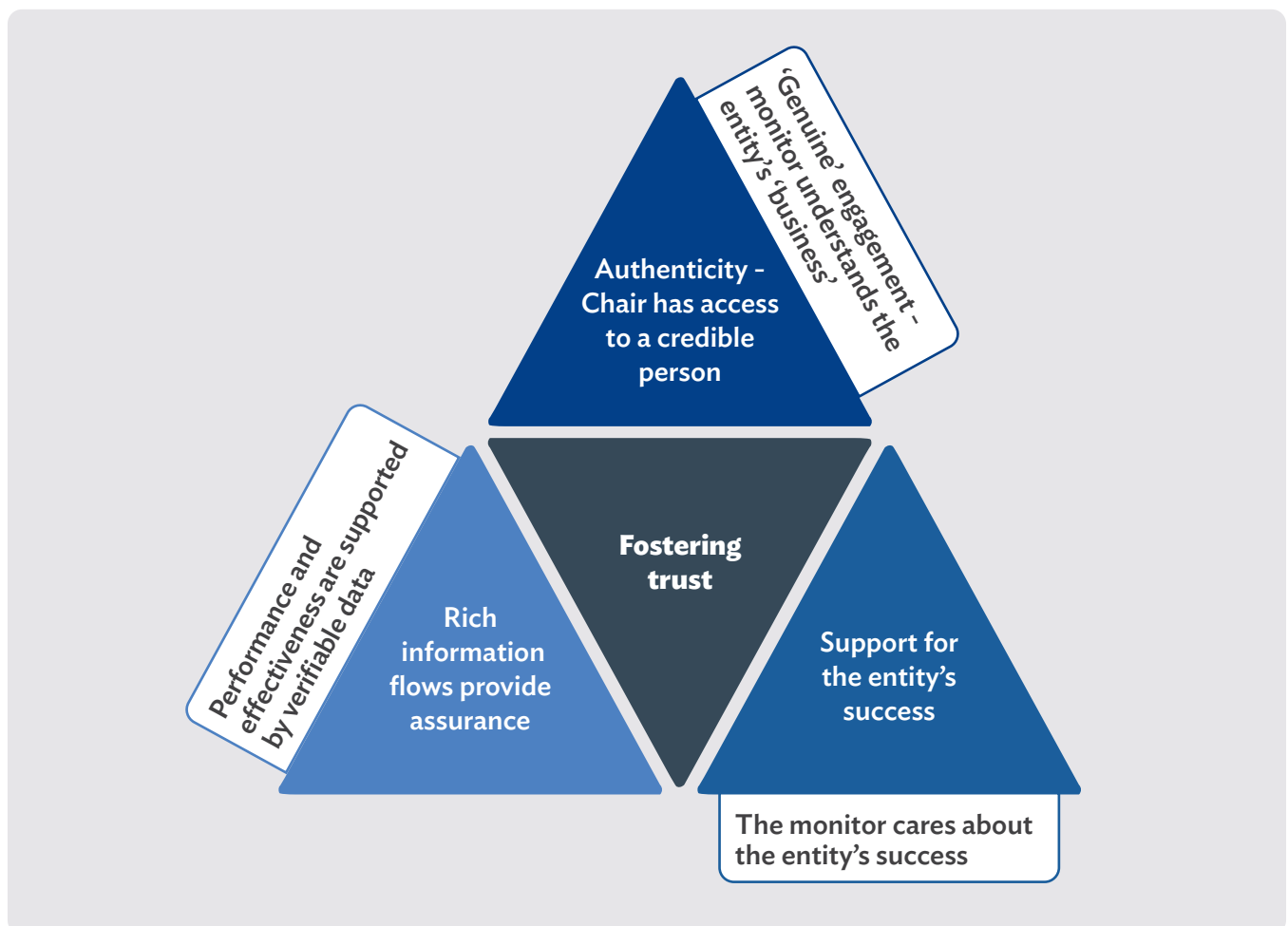
Trust-based monitoring practice can be based on three main interdependent drivers (Figure 9) – authenticity of individuals, behaviours that reflect concern or are for the entity’s success, and promotion of rich information flows that provide assurance.

Taken together, these factors can provide the basis for building and maintaining trust. A perception by participants that one factor is not supported will undermine the other factors. In the dynamic environment of monitoring, the monitor should be sensitive to their own actions and behaviours that might weaken any or all three factors, for example in

meetings with the chair and or Minister. Trust can be strengthened by actions such as:

- being well-prepared to speak about an issue and anticipating important questions
- spending time with the entity to better understand how it does business
- discussing entity or monitor performance as though it is an active part of the system as a whole
- using logical, verifiable data to support your discussion points
- being proactive in keeping the entity informed about wider government issues that may affect the entity’s operating model or activities.

Figure 9: The trust triangle<sup>11</sup>



<sup>11</sup> Adapted from Fei, F & Morris, A. (2020). Begin with Trust. Harvard Business Review. May-June.



## Engagement

This section covers the main sets of engagements that inform effective monitoring:

- Ministerial engagement
- Letters of Expectation
- Monitor – Crown entity chair engagement
- Monitor – Crown entity chief executive engagement
- Engagement with the monitor
- Wider stakeholder engagement
- Monitoring maturity
- The importance of a rich information trade between the parties
- The ‘no surprises’ principle.

# Engagement

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The following sections cover the three main engagements that inform effective monitoring:

- Ministerial engagement
- monitor-Crown entity engagement
- engagement with the Crown entity chief executive.

## Ministerial engagement

Regular engagement between the monitoring department and responsible Minister enables the department to properly understand a Minister's priorities and to better inform the monitor's insights and ministerial reports on entity performance and risks.

The Minister's expectations can be clarified through timely and/or regular engagement with the Crown entity chair. Such engagement also provides the chair with an opportunity to discuss with the Minister aspects of governance, entity performance and risk. In general, such engagement should include a representative of the monitoring department, for the following main reasons:

- the monitor can provide real time advice on the Crown entity's performance
- both the Crown entity chair and monitor will be equally aware of the Minister's expectations
- it ensures that the monitor and Minister receive the same performance and risk assessments raised by the chair
- the monitor can advise the Minister and chair in real time on relevant government processes (e.g. annual budget process) and legislative requirements, and where appropriate, assist in implementation
- the monitor can provide a wider system view, and inform the discussion about policy developments, all-of-government initiatives, and expectations that the Minister and chair may be unaware of
- the monitor can contribute to specific discussions on board appointments, capability, and succession planning, and implement agreed actions.

A responsible Minister's engagement with the chair should focus on board level issues such as:

- the board's views and assessment of the entity's strategic direction and meeting the Minister's expectations

- entity governance such as the contribution of members, skills or knowledge gaps, professional development and evaluation
- succession planning and potential skill and capability gaps in the board membership
- financial management and risk assessment
- organisational capability
- future initiatives and system performance risks (if any).

Generally, concerns about performance information and/or risks are best addressed through the chair rather than directly with the chief executive. The chief executive is employed by, and accountable to, the board. Reporting on all aspects of performance is part of the board's accountability to the responsible Minister. Performance reports to the Minister should be consistent with financial and operational performance information provided to the board by executive management and linked to goals contained in the SPE.

In general, and in line with 'no surprises', timely advice to the Minister is desirable when the monitor has concerns about an entity's performance. Ideally, and in a high trust setting, however, such concerns should be foreshadowed in conversations with the chair. In some cases, the Minister may wish to discuss the concerns directly with the chair.

In a few circumstances, a conversation between the chair and Minister may be appropriate without the monitor present, such as when the chair wishes to discuss personal matters with the Minister, or to provide feedback on the monitor's performance. In most cases, the monitor should be in attendance when the chair and Minister meet. This helps to avoid any misunderstanding of ministerial expectations or of what information was exchanged.

A small number of Crown entities have a statutory role in assessing departmental performance including that of their monitor e.g. Te Aka Whai Ora the Climate Change Commission and Mental Health and Wellbeing Commission. When being assessed by such entities, their monitoring departments should ensure that role clarity informs their response i.e. the response is separate to, and not influenced by the department's monitoring function.

## Letters of Expectation

Responsible ministers “participate in the process of setting and monitoring the entity’s strategic direction and targets” (s27 of the CEA). This is an important way for them to influence the performance of Crown entities. Ministers engage with entities in various ways to achieve this – for instance, through the annual SPE process, and through the development and review of an entity’s SOI. A Letter of Expectations (LOE) is an important good practice lever for Ministers to get the performance they want from entities.

LOEs formalise a responsible Minister’s priorities and performance expectations for a Crown entity. Most commonly, these letters are used annually to inform the board’s planning for its SPE expectations and/or SOI (if required). Importantly, LOEs are primarily a policy matter but should be informed by the monitor. The monitor’s assessment of the entity’s performance reporting and forecast outturns are a critical tool in helping Ministers and policy teams come to conclusions on portfolio priorities.

The Minister, however, can write an LOE at any time on any matter that relates to the statutory entity’s responsibilities given to the Minister, and the entity’s operations and performance. For example, a Minister might write to the chair on concerns expressed in the OAG’s annual audit management report and ask the chair for a progress report on the OAG’s recommendations.

The LOE is not a legal instrument – but informs the development of accountability documents. Ideally, and when provided early, it can form the basis of constructive engagement between the Minister and board on entity priorities.

LOEs can take a range of forms, often influenced by a responsible Minister’s preferred approach and portfolio priorities. It is important, however, that Ministers reinforce the importance of:

- entities remaining focused on the full range of statutory functions for which the entity is responsible
- priorities for the Government of the day
- engaging with other agencies for the achievement of government priorities and the contribution an entity might make to other government agency outcomes
- the gathering, management and use of high-quality data to verify performance
- the current Enduring Letter of Expectations.

## Annual Letter of Expectations

Although usually supplied annually, LOEs can span multiple years either to address a long-term strategic outcome or if the entity’s business is stable and unlikely to vary. Good practice letters focus on a Minister’s and the Government’s priorities. They focus board attention on content of the draft SPE. The monitor’s advice to its Minister on an entity’s draft SPE or SOI should include the extent to which the draft responds to the Minister’s expectations.

Most boards convene their business planning committees for the following financial year in February. With a draft SPE due with the responsible Minister by 30 April, boards need sufficient lead time to ensure they can factor Ministerial expectations into strategic planning documents.

Ministers may also add further expectations that may not be specifically referenced after the SPE is finalised, but are not sufficiently material to have triggered the need for a revised SPE. Monitors and boards should engage closely when assessing the impact of new expectations, notably on financial performance, entity workload and capacity.

## Enduring Letter of Expectations

From time-to-time Ministers issue an [Enduring Letter of Expectations](#) (ELOE) to statutory Crown entities. Although not required under the CEA, the ELOE is a useful lever for reinforcing the Government’s vision and approach for statutory Crown entities ie:

- Crown agents
- autonomous Crown entities (ACEs)
- independent Crown entities (ICEs)

The ELOE can be used to complement or strengthen an individual responsible Minister’s agency specific expectations. The ELOE can also be helpful to the monitor when developing its monitoring programme. The ELOE can be reviewed at any time.

## Relevance of the annual report

Depending on the timing of the annual audit, entities deliver their annual reports from early September to early November. In some cases, the audit and annual report can inform the development of performance expectations for the following year.

An annual report may inform the LOE if poor financial or service delivery performance is reported. However, the monitor should already be aware of such issues through performance reports earlier in the year. Similarly, the Minister should already know whether an entity has stable finances and is delivering good results. In either case, the Minister may wish to act early and provide an LOE without reference to the Annual Report.

**Table 3: Sample annual report and letter of expectation timetable**

September	The entity's September Board meeting is likely to receive a draft annual report and invited to make comments.
	<p>Late September, the entity Audit Committee:</p> <ul style="list-style-type: none"> <li>receives a final audited draft report</li> <li>discusses the audit findings including the draft Audit Opinion with Audit New Zealand (Audit NZ) representatives at the meeting</li> <li>agrees a final version of the Audit Management Letter including entity management comments to Audit NZ recommendations.</li> </ul> <p>Following the Audit Committee meeting, entity provides the monitor with Audit Management Report.</p>
October	The entity provides the Minister and monitor with a draft annual report for comment post the October Board meeting. The annual report is the board's report. Neither the Minister nor monitor should seek to change the content.
	<p>October Board meeting:</p> <ul style="list-style-type: none"> <li>final audited draft annual report approved</li> <li>final management letters agreed</li> <li>board approves draft Audit Opinion.</li> </ul>
October / November	Monitoring department provides Minister with a draft Letter of Expectations – informed or not by the Annual Report.

Understanding the entity's Annual Report timetable will assist the monitor to develop a draft LOE that is or is not informed by the annual report. Table 3 illustrates a typical Crown entity annual report timeframe.

In the case of a new Government following a general election, a new Minister may wish to take some time to decide on and inform the board of their portfolio priorities. This may result in a compressed timeframe for the entity to respond and, in some cases, require a significant rethink by the board of its SPE activities.

The monitor should keep the board updated on the Minister's thinking and any known timeframes throughout such periods.

**Figure 10: Letter of Expectation process - success factors**

### Monitoring department success factors for the Letter of Expectations process

- Regular meaningful engagement with the Minister and to test an understanding of what the Minister wants.
- Focus on the important and strategic matters related to Government priorities.
- Avoid over-reach into the entity's statutorily independent functions.
- Discussing likely emerging issues with the entity chair in regular meetings.
- In general, draft letters are not shared with entities but the issues raised should be of 'no surprise' to the board.
- Assess whether to include important matters raised in the audit management report e.g. performance measurement.
- Give the board sufficient time to respond to the LOE either by letter and/or meetings with the Minister.



## Monitor-Crown entity engagement

Effective monitoring requires high levels of trust between the parties. A trust-based monitoring relationship is characterised by openness and transparency, and a rich information trade.

The monitor’s most important Crown entity relationship is with the chair who, on behalf of the board, is accountable for the Crown entity’s performance and whose primary relationship is with the Minister. The chair and monitoring department should meet regularly to review Crown entity alignment, performance, capability and risks, the make-up and performance of the board, and the conduct of the monitoring programme.

A ‘standing agenda’ may be useful to guide such meetings and prioritise conversations. Importantly, such conversations should focus on topics and

information exchanges that relates to the board’s governance role. Meetings might discuss the implications of, or concerns about, performance information provided by executive management. Figure 11 provides an example of standing agenda for a monthly meeting between a monitor and Crown entity board chair.

A Crown entity Chair’s primary relationship is with the responsible Minister. The monitor is there to support and advise the Minister in carrying out their role. The monitor can also provide the board with important context and insights to the Minister’s and Government expectations.

Figure 11: Example of a standing agenda for regular monitor-board chair catch-up meeting

Meeting date: _____		Venue: _____	
In attendance: (chair)_____		(Monitor)_____	
Standing agenda topic [note that not all items need to be covered at each meeting]	Items for discussion ✓	Agreed action (who will do what and by when)	
<b>Board Governance matters</b> <ul style="list-style-type: none"> <li>• upcoming vacancies</li> <li>• board performance</li> <li>• evaluation</li> </ul>			
<b>Minister’s priorities</b> <ul style="list-style-type: none"> <li>• Letter of Expectations</li> <li>• comments on draft documents</li> <li>• budget bids</li> <li>• feedback from previous meeting</li> </ul>			
<b>Organisational management</b> <ul style="list-style-type: none"> <li>• capability</li> <li>• capacity</li> </ul>			
<b>Financial performance</b>			
<b>Service delivery performance</b>			
<b>Risks</b> <ul style="list-style-type: none"> <li>• strategic</li> <li>• system</li> <li>• governance</li> <li>• delivery and performance</li> </ul>			
<b>Special/strategic projects</b>			
<b>Conflicts of interest</b>			
<b>Public interest matters</b>			
<b>Other issues</b>			



Conversations between the chair and monitor will often be most useful shortly after board meetings, when the chair can brief the monitor on important governance issues and significant performance and risk information the board has recently received. Discussions between the chair and monitor are also particularly useful prior to and, if necessary, following engagements between the Minister and chair.

The monitor may meet regularly with the entity chief executive, and in some cases, engage regularly with senior leaders, risk and assurance staff, and others within the Crown entity. These officials will have access to more detail of the Crown entity's day-to-day operations than the chair. If available to the monitor, this level of engagement provides an opportunity to better understand the entity's operations, business model, context and risks.

These interactions, however, are not a substitute for meaningful engagement between the chair and monitor.

The Minister has a direct interest in the entity's management and capability to deliver results in the short and long term. One of the board's primary purposes is management oversight and to reassure the responsible Minister that executive management

is performing well. A well-functioning monitoring programme ensures such matters are part of structured confidential discussions between the chair and monitor and/or chair and Minister.

### **Engagement with the Crown entity chief executive**

Day-to-day engagement with the entity is usually through the entity's executive management. It may be useful to establish protocols for the level of engagement e.g. first point of contact and how requests for information will be managed.

The monitor should actively foster constructive relationships between the monitor and entity executive management. A rich information trade between the monitor and entity management will strengthen both parties' understanding of each other's roles and responsibilities, and a commitment to an improved understanding of entity performance.

The CEA specifies that the board is accountable to the Minister. Although employed by the board, in some cases, a chief executive may have more frequent contact with the Minister either as a

feature of the entity's business or as part of a specific project or strategic change. The chair should have oversight of these interactions to avoid the potential for misunderstanding of roles and responsibilities. Discussion on strategic direction or entity resourcing that might arise are more properly the chair and the Minister.

## Engagement with the monitoring department

In its monitoring context, a department has two main roles. First, as the Minister's agent i.e. supporting the Minister in discharging their responsibilities (unless directed otherwise). Second, to undertake other functions such as administering appropriations and legislation as required by statute. Ministers may use other agents, including staff from their private offices, for some tasks (including monitoring), but even in these situations, the department will normally have a policy and/or Vote administration role to play. [Section 27A](#) of the CEA explicitly links the monitor and Minister's roles.

Monitoring departments often hold a number of other important functions that influence the strategic direction and performance of the systems they operate within. Examples include policy design and development, legislation and regulation design and administration, system monitoring and performance oversight, and appropriation management.

Crown entities often interact across the different functions of a monitoring department, particularly where there is a policy interface or the entity is responsible for management of aspects of an appropriation. These functions play an important role in delivering ministerial expectations and shaping the performance of the entity's wider operating context.

Monitoring teams should consider establishing regular engagement across relevant functions within their departments to ensure co-ordinated engagement with the entity, alignment between the design of policy systems, and to obtain insights to the entity's delivery settings and implementation. The monitor's entity assessment can also inform policy development and design in addition to how well policy settings are performing.

## Relationships with wider stakeholders

Crown entities serve particular sectors and/or population groups. The extent to which a sector has confidence in and/or trusts the entity is important to the entity and to the Minister. An entity's sector engagement can be for a range of important insights in which the Minister will have an interest, such as:

- the effectiveness of the entity's service delivery or interventions
- sector stakeholder feedback on the entity's performance
- changes in the entity's operating environment that might influence future strategies or interventions
- frontline data and insights (qualitative and/or quantitative) that can inform an assessment of community needs.

Effective monitors will often have access to information on entity performance from a wide range of 'front line' stakeholders that can be balanced against, corroborated or triangulated with the entity's own assessments.

The monitor and entity chair should discuss the monitor's wider sector engagement to clarify the purpose of engagement, and that such engagement forms an important part of the monitoring function and likely the Minister's expectations.

Other agencies and departments can provide perspective and insight to understanding how well an entity and/or sector is performing. These include the Public Service Commission, Treasury, Office of the Auditor-General, and system and functional leads, such as the Ministry of Business, Innovation and Employment (for procurement matters) and the Department of Internal Affairs (Government Chief Digital Officer). Together, these agencies can provide an important system level context that can enrich the monitor's information base for assessing performance and risk. Monitors should plan for regular engagement with these agencies as part of their overall monitoring approach.

## Monitoring maturity

Figure 12 provides a basic monitoring maturity model against which to assess a monitoring department's maturity level. A high performing monitoring team brings a system view to its work and a clear line of sight to policy objectives.

Figure 12: Basic monitoring capability maturity model<sup>12</sup>

Maturity level	Examples of general characteristics
<b>Weak</b>	<ul style="list-style-type: none"> <li>• Reports on entity performance and accountability compliance orientated and lack depth</li> <li>• Monitor and entity engagement is unplanned, sporadic and lacks purpose</li> <li>• Monitor has a poor understanding of what good performance might look like to best represent policy delivery and meet client needs</li> <li>• Monitor has difficulty delivering impartial advice and support to the Minister and becomes an 'advocate' for the entity</li> <li>• Performance information is poorly understood and the Minister receives weak or unhelpful advice</li> <li>• Monitor adopts the entity's performance measurement alone as a basis for the monitoring programme, accepts entity's performance information uncritically, and analysis does not focus on what is important</li> <li>• Monitor has poor understanding of entity risks and context</li> <li>• Monitor assessments of the entity's performance reiterates information provided by the entity</li> <li>• Entity communicates directly with the Minister bypassing the monitor</li> <li>• Entity underperformance not detected or signalled to Minister in a timely way</li> </ul>
<b>Emerging</b>	<ul style="list-style-type: none"> <li>• Monitor has structured engagement with mostly executive management rather than through the board</li> <li>• Minister has few opportunities to influence strategic direction</li> <li>• Senior department manager and official with day-to-day monitoring relationship, advise Minister but roles are not clearly defined</li> <li>• Risk assessments lack continuity and long-term view</li> <li>• The monitor's role as a 'critical friend' is conflated with advocacy</li> <li>• A working relationship exists with the entity, but the monitor's input does not add value to the entity and provides little insight to the department's policy and stewardship role</li> </ul>
<b>Strong</b>	<ul style="list-style-type: none"> <li>• Monitor and chair drive a high-trust relationship informed by a rich information trade</li> <li>• Monitor has a clear monitoring framework consistent with statutory requirements and good practice guidance</li> <li>• Entity reports are provided in a timely way and the monitor has built strong in-house capability over time</li> <li>• Entity informs Minister's Letter(s) of Expectation</li> <li>• Interactions between the entity and monitor positively reflect the monitor's role supporting the Minister to hold the entity to account</li> <li>• Monitoring and departmental policy and finance teams engage to assess entity performance and develop meaningful insights</li> <li>• Good linkages and insights from stakeholder internal monitoring</li> <li>• The monitor and entity both seek to reduce information asymmetry</li> <li>• Monitor has a good assessment of entity risk</li> </ul>
<b>Expert</b>	<ul style="list-style-type: none"> <li>• High trust relationship between chair and monitor drives entity performance and responsiveness ensuring real time priority information exchange</li> <li>• Monitor is focused on a small but critical number of performance factors</li> <li>• Entity draws on monitor's expertise to inform its strategic planning</li> <li>• Entity discloses critical risk information early including mitigations</li> <li>• Entity ensures the monitor is well briefed on plans for new initiatives including internal management changes</li> <li>• Entity and board have shared perspective on risk and risk ownership</li> <li>• Monitor draws on insights and feedback from relevant stakeholders</li> <li>• Monitoring department leverages the entity's expertise to develop policy advice</li> <li>• Monitor and chair maintain a high trust relationship and chair facilitates hand-over arrangements for a new incoming chair</li> <li>• Monitor and entity chair share strategic and relevant operational risks assessment</li> </ul>

<sup>12</sup> Adapted from *Arm's length sponsorship code of good practice guidance*, (2022), London: Cabinet Office [here](#).



## A rich information trade, the ‘no surprises’ principle and meaningful reporting

A rich information trade between the monitor and entity, and a ‘no surprises’ approach, is central to effective monitoring. The board and entity management will always know more about the entity’s performance than the monitor. This information asymmetry limits monitoring oversight and should be factored into the monitor’s advice.

The monitor’s advice to its Ministers will be largely based on the entity’s performance information reports. High quality, meaningful and timely performance information from the Crown entity underpins high quality advice to the Minister. High levels of trust between the entity and monitor make the timely provision of quality performance information more likely. In addition, outlining information expectations in a monitoring framework (further discussed later in the guide) can aid a rich trade of information.

As defined in the [Cabinet Manual](#), the ‘no surprises’ principle is that “Ministers should be informed of matters of significance within their portfolio, particularly where those matters are controversial or may become the subject of public debate” (para 3.22(a)).

## Applying the ‘no surprises’ principle

Whenever possible, the chair should be aware of a monitor’s concern regarding a significant issue before the Minister raises the issue. This provides an opportunity for both the monitor to test the validity of their concerns, and the chair to seek further advice themselves in readiness for the conversation with the Minister. Exceptional circumstances exist, for example, where there are high levels of urgency, or a highly sensitive issue involving a chair. In general, however, before the chair meets with the Minister, the monitor should ensure the chair has a clear sense of the Minister’s thinking.

The constitutional framework for the ‘no surprises’ principle is as follows:

- Ministers are accountable to the House for ensuring that the departments for which they are responsible carry out their functions properly and efficiently
- Secretaries and chief executives are accountable to Ministers (under [s52](#) and [clause 1, schedule 6](#) of the Public Service Act 2020 and [s34](#) of the Public Finance Act 1989)
- Chief executives must be politically neutral: The convention of public service neutrality complements the convention of individual ministerial responsibility. It requires public servants to behave in a politically neutral manner, to give free and frank advice to Ministers and to act in such a way that their agency maintains the confidence of its current Minister and of future Ministers ([Cabinet Manual](#) para 3.51).

Crown entities operate under different statutory frameworks and relationships between their boards, chief executives and responsible Ministers – but the ‘no surprises’ principle still applies:

- boards have authority, but Ministers are ultimately answerable for the actions of their Crown entities to Parliament and the public
- Ministers expect to be informed as fully and as early as possible of any entity issues that may impinge on the Government’s responsibilities, or be potentially contentious
- pro-activity and timeliness in applying the ethos of ‘no surprises’ is essential to the integrity of the relationship, and to mutual trust and confidence
- a ‘no surprises’ way of working is not intended to interfere with entities’ statutorily independent functions, nor with boards’ operational responsibilities
- Crown entities should apply the same ‘no surprises’ principle to their monitoring department relationships.


In some circumstances, the chair may refer the monitor to the entity chief executive to address the monitor’s concerns. This emphasises the importance of a well-managed and purposeful relationship with the chair to ensure significant performance concerns are first raised with the chair. Timely communication of concerns can ensure that the chair has an opportunity to update their chief executive, or to seek further information, or delegate the task of responding to the monitor.

## Balancing confidentiality and the ‘no surprises’ approach

The Cabinet Manual notes that officials are expected to act in such a way that their agency maintains the confidence of its Minister. An important balance must be struck between maintaining confidentiality and independence of advice on the one hand, and, on the other hand, ensuring that advice is well-informed, and that the ‘no-surprises’ approach is followed.

Departmental advice to the Minister is generally provided in confidence until the Minister has considered it, and a decision is made on public release. In the case of monitoring advice, it is normally at the Minister’s discretion if and when to share the advice with the entity. It is not appropriate for a monitor’s advice to be ‘signed off’ by a Crown entity.

High performing monitors ensure that the entity board chair is well briefed on the tenor of the monitor’s assessment, including specific risks or performance matters. These would normally be canvassed in meetings with the chair where the monitor can test concerns, including seeking further information on issues and risks, and what action the board might be taking to address them. This approach is consistent with the ‘no surprises’ principle.



## Performance reporting and advice

This section on performance reporting covers:

- Performance reporting
- Performance levers available to Ministers
- Performance assessment reports to the Minister
- Providing independent advice on entity performance
- Providing high quality advice
- Free and frank advice
- Assessing entity performance.

# Performance reporting

Regular performance reporting usually takes place on a quarterly basis but can vary according to entity size and role. The Minister (through the monitor) should agree sustainable reporting arrangements that reflect the Minister’s priorities contained in the statement of performance expectations.

The monitor will not have ‘line of sight’ to all aspects of entity performance, and must therefore be clear about what performance data will best inform the Minister’s insight to priority expectations and how well the entity achieves these. Working closely with the board, the monitor should be clear about what is important and what matters to the Minister (financial and service performance). This discussion is important to ensure alignment between performance information supplied to the monitor and that supplied to the board (which acts as primary monitor of performance).

The format and extent of a monitor’s performance assessments to its Ministers will be specific to an entity’s category, function, size, scope and risk profile. As a first step, the monitor and entity should form a shared view of what ‘good performance’ looks like and, therefore, what performance information might be required.

Joint guidance on performance reporting from the Office of the Auditor-General, Audit New Zealand and Treasury can be found [here](#).

Four basic framing questions underpin the development of a robust performance reporting regime (Figure 13):

- What matters to the Minister?
- Is the entity achieving its core purpose and making a connection to system outcomes?
- Have we assembled the right data? This includes whether the right information sources are being used to assist in triangulating the monitor’s insights.
- Are we telling the right and fullest story to the widest audience?

Monitors should encourage boards to incorporate answers to these question as a foundation to their performance management framework. The monitor and board together can also use this approach to test whether existing performance reports meet a responsible Minister’s needs and, if not, what alternative approaches might be adopted.

By “performance”, we mean how well public organisations use public money and resources to achieve their performance objectives and deliver better services (that is, outputs) that contribute to improved outcomes for New Zealanders.

Performance includes how economically, efficiently, and effectively public organisations are delivering high-quality services and better outcomes for New Zealanders (OAG, Audit New Zealand and Treasury 2022).

## Performance levers

The monitor has a critical role in advising on the lever or mix of levers available to a Minister to influence entity performance. The monitor must judge on a case-by-case basis when to escalate a performance matter with the Minister.

Ministers have a wide range of levers to influence the operation and performance of Crown entities. Some levers are specifically provided for in legislation, with other non-statutory interventions (good practice or by convention). Detailed information on performance levers can be found on the Commission website [here](#). The resource, [Statutory Crown Entities: a Guide for Ministers](#) provides summaries of the responsible Minister’s levers for:

- appointing and maintain an effective board
- setting strategic direction
- monitoring performance.

These summaries can also be found at Appendix 1 of this guide.

When providing advice to a responsible Minister on the mix of performance levers available to influence Crown entity performance, the monitor should ensure the board is clear about the main success factors for a Minister responsible for a Crown entity (Figure 14).



Figure 13: Responding to the monitor

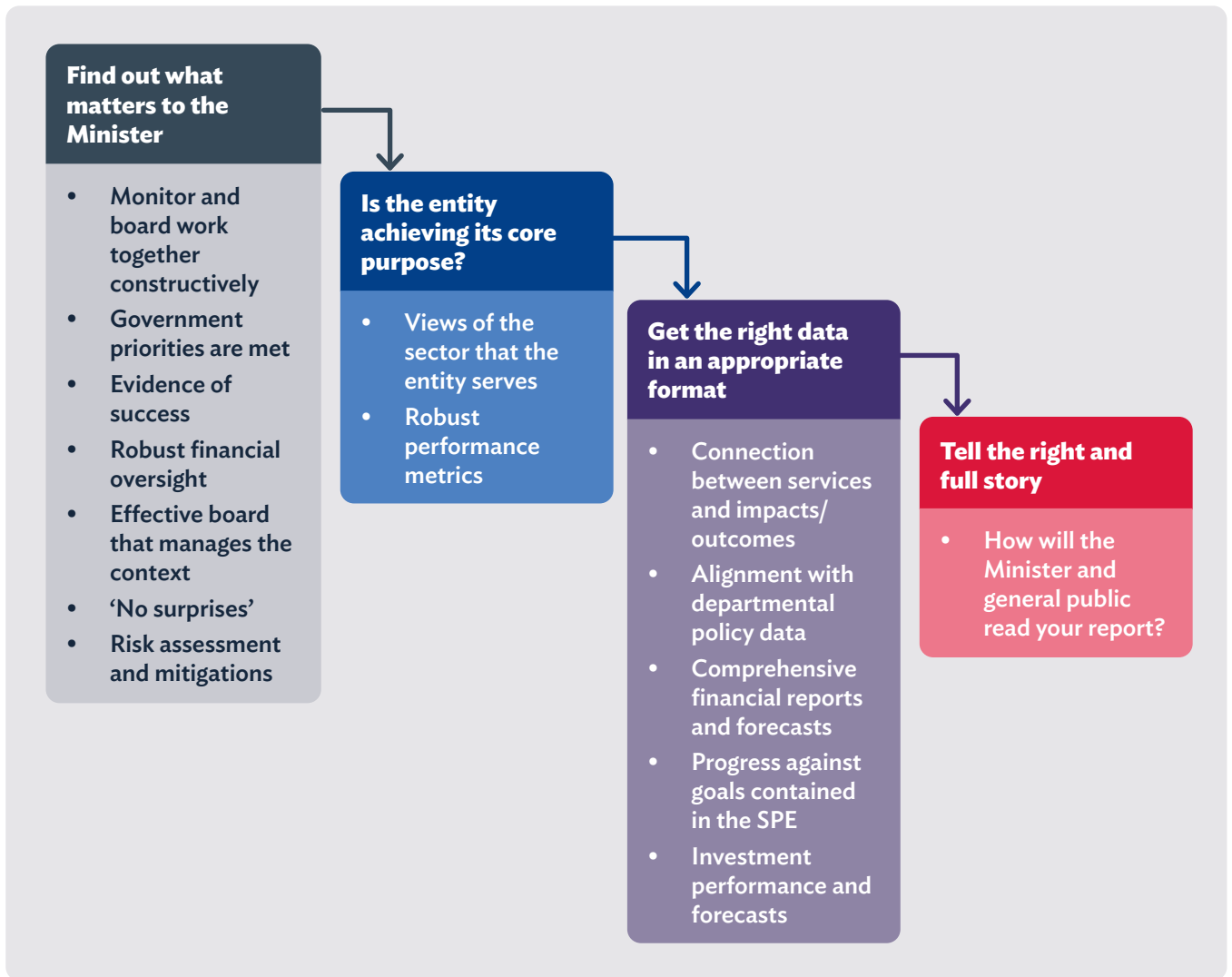


Figure 14: Success factors for a Minister responsible for a Crown entity

Success factors for the Minister
The entity delivers outcomes and services prioritised by government
The entity works proactively with others to achieve outcomes for New Zealanders
Monitor is focused on the Minister’s priorities and maintains constructive high trust relationship with the Chair
Board member recruitment results in diverse field of candidates
Set clear expectations of the Chair, including credible and timely performance measurement, inclusive leadership and decision-making, developing board capability, and working constructively with the Minister and the monitor
Board goes about its work grounded in acting in a spirit of service to everyone in the community and with integrity and care
Optimal use of levers to get the performance wanted by the Minister
High trust relationships between all three parties (Minister, entity and monitor)
Clarity about roles and responsibilities

## Performance assessment reports

The monitor's performance reporting to the Minister should avoid duplicating the entity's own performance report. Instead, the monitor's report might focus on some or all of the following:

- commitments to wider Government priorities
- the board's performance (informed by engagement with the chair)
- the extent to which the entity is achieving what it set out to achieve including meeting the Ministers expectations and legislative purpose
- board performance and capability, including vacancies (if any)
- changes (if any) to the entity's reported operating environment
- financial performance including:
  - Statements of Revenue and Expenses
  - Statement of Financial Position
  - Statement of Cash Flows
  - clear explanations for variance against budget
- the assessment and management of short and long-term risks and opportunities, including agency and system risks
- organisational capability (including but not restricted to culture, changes in FTE staff turnover and organisational change)
- investment performance where applicable (including performance against historical returns, and short and long-term performance forecasts)
- the business case(s) provided by the entity for new initiatives and their delivery.

Taken together, these elements can contribute to understanding performance in a wider system context and establish the basis for robust analysis to monitor performance.

There is no standard format for a monitor's briefings on entity performance reports. It is important however, that a shared understanding exists between the entity and monitor about the monitor's responsibility to support its Minister with comment and/or advice on the entity's performance. Such advice will be specific to the entity and its functions, and proportional to the monitor's risk assessments.

The application of this guidance, and what level of monitoring is proportionate, will vary by entity. Departments will have to make judgements about the nature and depth of engagement and analysis needed to provide the advice required. For example, 'light touch' monitoring may be proportionate where the risk assessment suggests that there are no material causes for concern that are beyond the capacity of the board and management to address.

## Performance effectiveness

Monitoring should include focus on entity effectiveness. This includes the extent to which the entity is achieving prudent financial management and organisational health capability. Ideally, Crown entities should use impact measures to assess the effectiveness of their entity's services. Put simply, this means that service recipients (the public) should have better outcomes than a control group of non-recipients. Treasury guidance includes examples of effectiveness measures [here](#).

## Quality and independent advice

Once policy decisions have been taken, departments are responsible for their effective implementation. The Public Service Act makes explicit in law the principle that free and frank advice is provided to Ministers.<sup>13</sup>

Advice on establishing a potential new Crown entity needs robust organisational analysis to evaluate whether a Crown entity is in fact the most appropriate legal form to undertake a particular function See [Public Service Commission paper on Main Organisational Form Choices](#).

## Providing high quality advice

Figure 15 provides the OAG's summary of good performance reporting with the general public as the main audience. The Minister is the monitor's primary audience, but the OAG approach provides a useful 'first principles' approach to performance reporting. Further information on good practice performance reporting, and its role in maintaining public trust and confidence in the Public Service, can be found on the OAG's website [here](#).

A central feature of a department's monitoring responsibility is to provide Ministers with an independent view of the entity's performance. This includes capability issues that may impede performance, and any emerging risks and issues that may damage the organisation's reputation.

<sup>13</sup> See [Public Service Act 2020 s.12 \(i\) \(b\)](#).

Figure 15: Features of good performance reporting



Effective monitors bring a mix of 'hard' quantitative assessments using metrics agreed with the entity (e.g. number of services delivered, to who and how often). Also helpful are robust qualitative assessments that cover a wide range of indicators ranging from the impact on society to trust and confidence in the entity's service delivery. How public services are delivered and when they are received matters a great deal to the public as service users.

Measuring service quality is challenging. However, Crown entities should work with their monitoring departments to develop service quality metrics - for example - user experience surveys, response times, online feedback, complaint response times, and internal staff engagement surveys. Measures should also inform alignment and connection to system outcomes.

Based on their own assessments, departments will develop new frameworks including, more formal risk assessment tools, approaches to relationship development, structured monitoring plans, periodic reviews (discussed further below) and evaluations undertaken to review policy effectiveness.

Consistent report formats will assist a Minister to form a view over time of the entity's overall performance, achievements and risks. Some departments and entities make use of dashboards, especially where the entity is large and/or delivers complex services to a range of population groups. Most importantly, however, the monitor must test assumptions behind the board's performance story and the factors driving performance (Figure 15).

Characteristics of good performance measurement can assist in the development of ‘lines of inquiry’.

**Table 4: Good practice performance measurement criteria<sup>14</sup>**

A good practice performance measurement regime:
Has clearly defined purposes and uses (relevant)
Focuses on outcomes, not just on inputs and outputs
Employs a limited, cost-effective set of measures
Uses measures which are valid, reliable, consistent, comparable and controllable
Produces information which is relevant, meaningful, balanced, and valued by the leaders/funders of the organisation
Integrated with the planning and budgetary processes
Embedded in the organisation, is stable, and widely understood and supported

### Provision of free and frank advice

Public service principles set out for departmental secretaries and chief executives (including Crown agents) under [s12](#) of the Public Service Act include provision of free and frank advice to Ministers. This underpins the maintenance of political neutrality. Boards of other Crown entity categories (ACEs and ICEs) might wish to ensure the entities they govern also uphold these principles as a matter of good practice. This means providing advice that:

- identifies the nature, scale and significance of the policy issue or opportunity (with supporting evidence)
- is politically neutral while also being aware of relevant political contexts
- recognises the historic, contemporary and potential longer-term dimensions or conditions
- is comprehensive, objective and balanced to cover the range of options that address the issue(s)

- is honest about where the opportunities, benefits, costs, pitfalls and risks of all options are and about the limitations, assumptions and information gaps in analysis
- is clear about any trade-offs involved and which option(s) on balance are recommended
- delivers any ‘hard truths’ in the most constructive way possible
- covers implementation considerations.<sup>15</sup>

Further detail on the Commissioner’s expectations of *Acting in the Spirit of Service: Free and Frank Advice and Policy Stewardship* can be found [here](#).

To this end, the monitor advice may:

- draw on external perspectives from stakeholders and wider system participants
- triangulate information provided by the entity with other sources such as from other agencies working in similar areas, entity stakeholders and international research
- assess trend analysis over time
- provide a system-wide view of performance
- assess any gaps or inconsistencies with the entity’s performance reporting (based on [OAG guidance of performance reporting](#)).

Seeking stakeholder views and triangulating new information creates the risk of confirmation bias. Sector stakeholders will hold a wide variety of views on the entity’s performance. In these stakeholder engagements, monitors should adopt politically impartial, balanced and confidential processes. The need to seek ‘sector stakeholder’ perspectives is an important element in monitoring practice. What these perspectives might add to the Minister’s view should be discussed with the chair to manage the risk of undermining the entity with its own stakeholders.

<sup>14</sup> Thomas, P. (2006). – Performance Measurement, Reporting, Obstacles and Accountability. ANU E Press: Canberra.

<sup>15</sup> Department of Prime Minister and Cabinet [here](#)

## Assessing entity performance

Effective monitors focus on supporting improved outcomes at a system level. Monitoring departments have important stewardship roles over systems in which they operate and clearly articulate the strategic outcomes and priorities they seek to achieve with those systems. For example, ensuring regulatory systems and settings are fit-for-purpose or ensuring the maintenance of organisational functions are undertaken in a way that considers the needs of future users. Crown entities play an important role in implementing policy priorities and settings that drive system outcomes, such as regulating a system (e.g. WorkSafe New Zealand) or enabling investment in service provision (e.g. ACC).

These outcomes and priorities can inform and guide boards in setting entity strategic direction.

In summary, monitors should be able to:

- understand and articulate the design and settings that form systems in which the entity operates
- bring clarity to the board on the strategic vision and outcomes for those systems
- draw a clear linkage between the entity's form and function and the achievement of system outcomes
- bring a perspective on overall system health by establishing a clear and robust understanding of an entity's capability and performance.

Effective monitors need a clear understanding of the different dimensions of organisational performance, while being careful not to influence or duplicate the board's role. The monitor's primary role is to provide strategic insights for Ministers to assess governance effectiveness and how well the board is driving performance. To do this, monitors need to have a sufficient understanding of how well an entity is performing.

The extent of assessment of each dimension of performance and associated monitoring advice will be outlined in the monitoring programme. Assessing entity strategic alignment is further discussed in the previous section, as most of this is done at the setting expectations stage of the monitoring cycle.

'Results' mean the extent to which the Crown entity is delivering outputs and outcomes in line with expectations set out in the SOI and SPE, which should also reflect Ministerial expectations.



## Assessing and managing risk

This section covers:

- Becoming risk aware
- Assessing and managing risk
- Risk categories
- Three Lines of Defence model.

# Risk assessment - becoming 'risk aware'

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## What is risk awareness?

In a risk-aware organisation, all employees and board members are able to frame their work in the context of the potential for risk.

- Risk includes all events that have an impact on performance, either positively or negatively
- Risk should be viewed as essential to the health of the organisation
- Risk must be continuously managed to exploit opportunities and achieve objectives.

A central responsibility of Crown entity boards is to identify, assess and manage risk. The monitor should also scan for entity risk. This requires a free and frank discussion with the Chair to ensure a free flow of material risk information between the entity and monitor.

## Assessing entity risk - identification and management

In general, good monitoring is risk-based to reduce uncertainty and/or to accommodate the information asymmetries that lie at the heart of monitoring arm's-length arrangements.

Risk should be shared between the Minister and the entities. The Board needs to work closely with the responsible Minister to ensure the visibility of material risks and appropriate actions that can be taken by those best able to manage those risks. As the Office of the Auditor-General states "the party best placed to manage the risk should also bear the risk" (Office of the Auditor-General, 2006). Good risk management is a product of good risk awareness by the board and monitor, and recognition that risk ratings are dynamic and will change over time.

Entities face a range of risks. Boards and monitors should have a shared understanding of risk and, in particular, of the need to be risk aware. This includes understanding the entity's strategic and operational risks and their potential impact on the Crown's ownership and purchase interests. Risk awareness is the responsibility of all board members, not just the Risk and Audit Committee.

Each entity should have mechanisms in place that will allow the board and management to identify, assess, and manage the range of risks faced by the entity.

Risk 'likelihood' is a weighted factor based on a subjective analysis of the probability that a given threat is capable of exploiting a given vulnerability or a set of vulnerabilities.<sup>16</sup>

## Risk categories

Contemporary studies on risk management in the public sector now emphasise the importance of taking a holistic view of risk, including the 'hard to quantify' elements such as organisational structure, management frameworks and policies. These can be integrated with standard risk categories such as strategic, financial, IT, legal and compliance risks. Other examples of strategic and operational risk categories include but are not restricted to service delivery, political context, enterprise, environmental and infrastructure. Importantly, many risks will fall under two or more categories.

The monitor will have its own assessment of entity and portfolio risk which will guide its approach to assessing entity performance. The monitor (on behalf of the Minister) must be assured that the board has comprehensively identified and assessed material risks faced by the entity, and has appropriate mitigations in place.

Boards also need to formally set and document their risk appetite i.e. defining levels of risk they are willing to take and their mitigations. This will assist the board to minimise risk outside its appetite settings. Importantly, risk assessment and management is an active process and should form part of the board's ongoing work and performance reporting to the Minister.

In that context, the monitor and board should have a shared understanding of risk and evidence that entity and sector risks are surfaced early enough to be resolved quickly and efficiently.

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<sup>16</sup> Office of the Auditor-General (2006), Considering partnering as a procurement choice, in Achieving public outcomes with private sector partners, 3.6. Author: Wellington See [here](#).

Effective boards track risk over time. Management should provide the Board with an assessment of current risks (usually with some form of weighting), mitigations and any change in the risk assessment since it was previously reported. Board papers often include a risk matrix or ‘heat map’ (Figure 16), and assessment of risks and mitigations since the previous meeting or report.

Figure 16: Sample risk matrix or ‘heat map’

		Consequence				
		Negligible 1	Minor 2	Moderate 3	Major 4	Catastrophic 5
Likelihood	5 Almost certain	Moderate 5	High 10	Extreme 15	Extreme 20	Extreme 25
	4 Likely	Moderate 4	High 8	High 12	Extreme 16	Extreme 20
	3 Possible	Low 3	Moderate 6	High 9	High 12	Extreme 15
	2 Unlikely	Low 2	Moderate 4	Moderate 6	High 8	High 10
	1 Rare	Low 1	Low 2	Low 3	Moderate 4	Moderate 5

Table 5 provides an example of how executive management might build off a ‘heat map’ and report risk to the board:

Table 5: Example of a risk rating report to the board

Date raised (owner)	Risk category	Risk situation	Impact	Likelihood	Mitigations	Change in rating since last report	Future rating projection

### Managing risk: ‘Three lines of defence’

The OAG recommends boards consider adopting a [three lines of defence model](#).

The first line of defence (functions that own and manage risks) is formed by managers and staff responsible for identifying and managing risk as part of their accountability for achieving organisational objectives. Collectively, they should have the necessary knowledge, skills, information, and authority to operate the relevant policies and procedures of risk control. This requires an understanding of the entity, its objectives, the environment in which it operates, and the risks it faces.



The second line of defence (functions that oversee or who specialise in compliance or the management of risk) provides the policies, frameworks, tools, techniques and support to enable risk and compliance to be managed in the first line, conducts monitoring to judge how effectively they are doing it, and helps ensure consistency of definitions and measurement of risk.

The third line of defence (functions that provide independent assurance) is provided by internal audit (Figure 17). Sitting outside the risk management processes of the first two lines of defence, its main roles are to ensure that the first two lines are operating effectively and advise how they could be improved. Tasked by, and reporting to, the board audit committee, it provides an evaluation, through a risk-based approach, on the effectiveness of governance, risk management, and internal control to the organisation's governing body and senior management. It can also give assurance to sector regulators and external auditors that appropriate controls and processes are in place and are operating effectively.

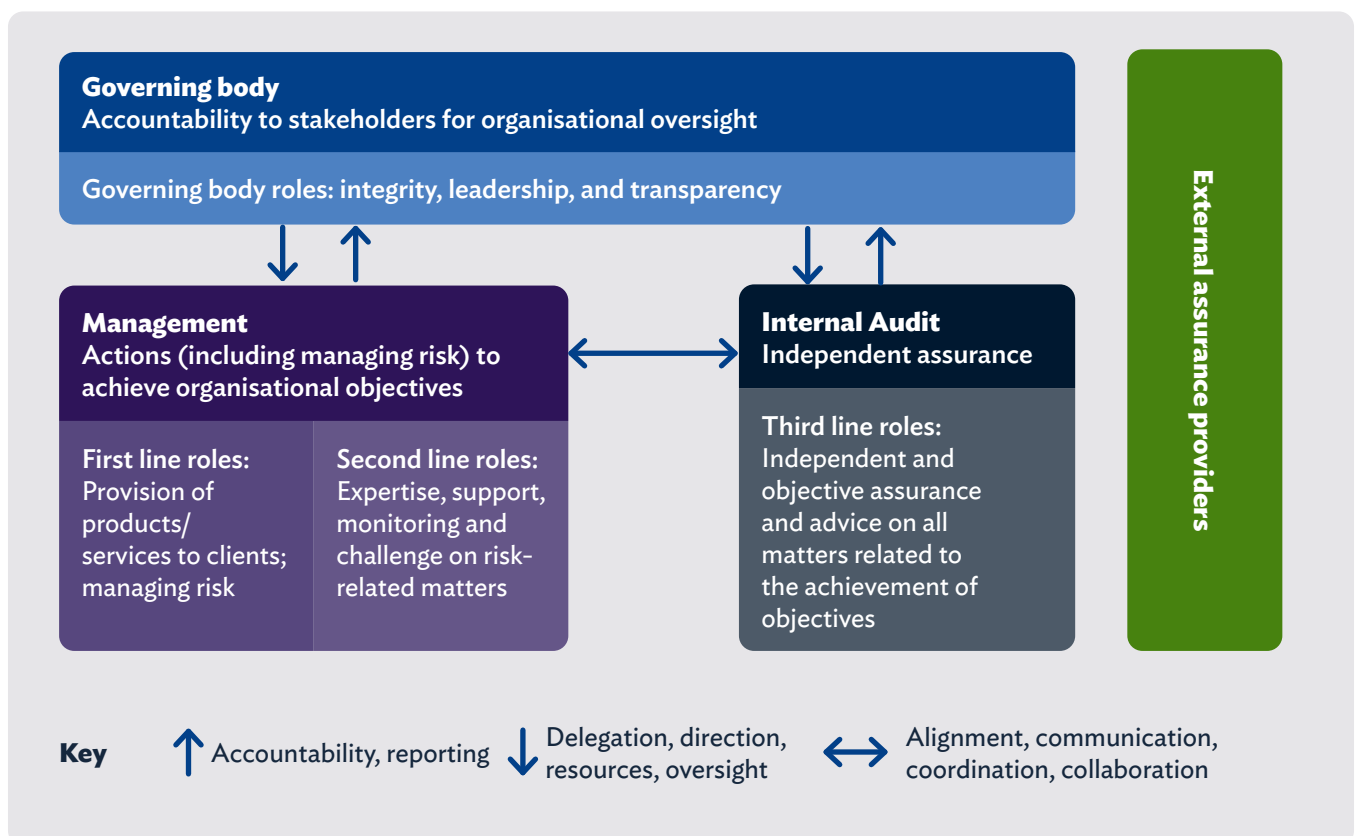
Boards should put effective risk management and assurance practices in place and ensure the monitor receives information on the effectiveness of those practices. The monitor should review the information

it receives about risk issues, the extent to which the issues are effectively managed and reduced over time, and the openness of the board and management to questions about the entity's risk management and assurance practices. This should include:


- whether an effective assurance framework is embedded within the organisation, including a mature and active risk and assurance committee
- whether the entity applies a “three lines of defence” model for managing risk
- whether the entity has effective processes for identifying and managing risk across the agency (including a risk register and a risk matrix or risk ‘heat’ map).

More detailed information on the ‘Three Lines of Defense’ model is published by the Institute of Internal Auditors [here](#). The [OAG](#) also references this model, noting that “this framework can help clarify the conversation. This framework can help oversight functions explain why an issue occurred and, if steps had not been taken, why they weren't.”

Figure 17: Three lines of Defence model (source Institute of Internal Auditors, 2020)<sup>17</sup>



<sup>17</sup> [three-lines-model-updated.pdf \(theiia.org\)](#)



## Planning a monitoring approach, framework and programme

This section covers:

- Establishing a monitoring approach
- Establishing and implementing a monitoring framework
- Establishing a monitoring programme and ‘lines of inquiry’
- Assessing entity performance
- Escalation arrangements
- The Māori Crown Relationship.

# Planning a monitoring approach and framework

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## The monitoring approach

The monitoring approach comprises tacit behaviours of the parties and how they intend to work together to achieve these results. It includes:

- building relationships, and expectations on levels of access to people and information
- protocols on how to maintain trusted engagement while ensuring that all parties remain consistent with their roles
- how non-performance issues and risk are communicated and, if necessary, escalated.

Once a framework and its content are agreed, the most important action for the monitor is to foster a high-trust relationship with the Chair in the first instance and executive management in the second. Constructive high-trust relationships are characterised by parties making their best endeavours to help each other meet their goals including:

- recognition and respect for each other's role
- recognition, of and leveraging off, each other's expertise
- honesty and reliability, 'doing what they say they will do'.

In a constructive system-focused relationship, a successful Crown entity means the Minister has delivered their portfolio outcomes/priorities, the entity has delivered best value services and outcomes, and the monitor has supported the Minister and entity.

Monitoring approaches and frameworks should be proportionate and aligned to the entity and departmental context. This guide does not prescribe a set formula or template for how monitoring documentation should be developed. The guide does note, however, that monitoring departments should have a documented approach that guides how they give effect to their role, in line with the good practice principles set out in this guidance.

## Establishing a monitoring framework

A monitoring framework (the framework) is a formal structure adopted by a department to guide its Crown entity performance oversight function. In broad terms it should explain how monitoring will be carried out, the information required from the board and when and how the monitor and board, will work together.

As the monitor acts on behalf of the responsible Minister, the framework should reflect the Minister's priorities. By clarifying information requirements, the framework provides the basis for the core information requests under [s27A](#) of CEA.

Some departments and entities formalise their frameworks in monitoring documentation and agreements. These should not be confused with the board's statutory accountability documents (SOI, SPE and annual report).

A robust monitoring approach and framework should endure across multiple years. Table 6 sets out the main features in an effective approach to Crown entity monitoring and implementing a framework.

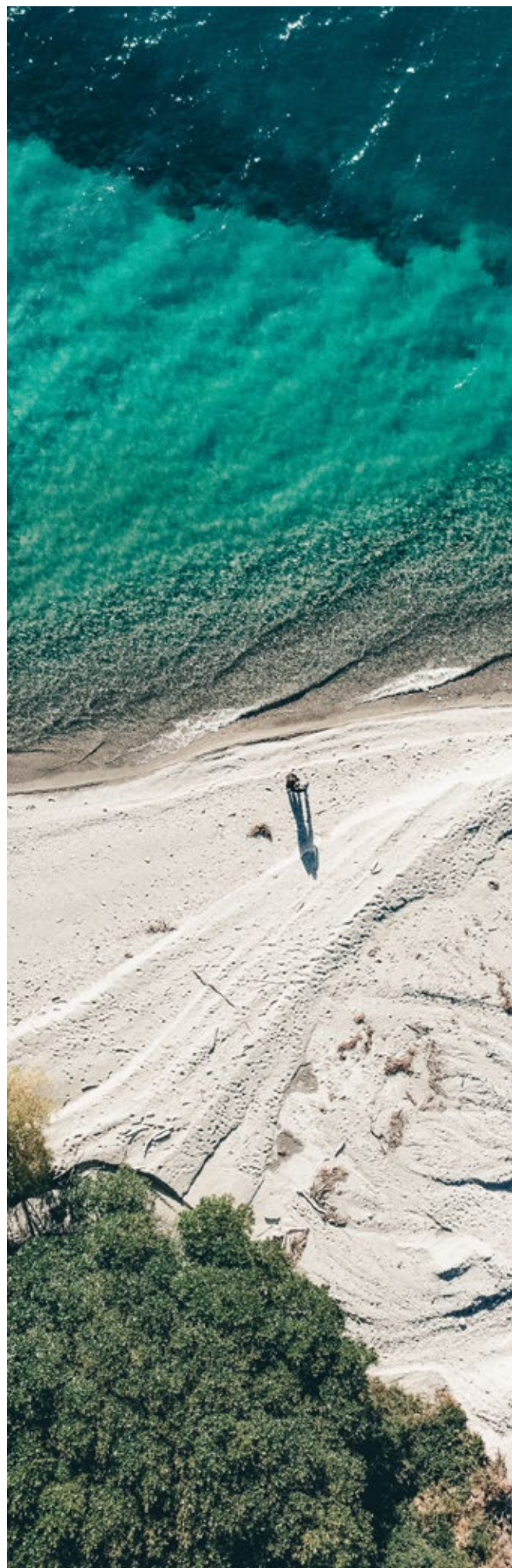
*Table 6: Elements of a Crown monitoring approach*

Element	Guidance
<b>Clear roles and responsibilities</b>	Clear roles and responsibilities underpin all effective monitoring arrangements. Monitors can use the guidance around roles and responsibilities in this document to inform their monitoring approach. Additional entity-specific considerations should be made, for example, where the entity has statutorily independent functions.
<b>Engagement approach with the Minister, board and wider stakeholders</b>	<p>This could include outlining:</p> <ul style="list-style-type: none"> <li>• <b>regular and scheduled engagement between the board chair and Minister</b> – provides Ministers with the opportunity to discuss the chair’s view on entity performance, and monitors should use these to provide strategic insights.</li> <li>• <b>regular and scheduled engagement between the monitor and board</b> – the focus of these should be building an understanding of entity performance and key risks.</li> <li>• <b>induction of board chair and members</b> – the monitor should provide comprehensive induction, covering governance in the public sector, system context, an overview of entity functions, policy settings, Ministerial and central agency priorities, and funding arrangements.</li> <li>• <b>regular engagement with central agencies, system leaders and other stakeholders</b> – provides the monitor with a clear view of the entity’s operating context.</li> <li>• <b>engagement principles</b> – for example, the ‘no surprises’ approach and expectations of the monitor being present for the Minister’s engagement with the chair, and engagement with the sector for a wider view of entity impact.</li> </ul>
<b>Information-gathering process and requirements</b>	<p>Monitors can use the principles within this guide to embed a rich information trade in their monitoring approach. Some specific details that may be included are:</p> <ul style="list-style-type: none"> <li>• regular reporting requirements</li> <li>• timeframes for responses to information requests</li> <li>• channels for requesting and receiving information.</li> </ul>
<b>Escalation process for when governance or performance risks are identified</b>	<p>Unexpected issues and concerns can arise during the monitoring cycle and outlining when and how these are escalated is consistent with the ‘no surprises’ approach. Things to outline could include:</p> <ul style="list-style-type: none"> <li>• the threshold for escalating potential issues and concerns</li> <li>• performance levers available to a Minister and the thresholds for their use</li> <li>• situations where the monitor discusses an issue with the chair and others where the monitor engages directly with the responsible Minister.</li> </ul>

Table 7 sets out some basic elements of a monitoring framework across the areas of governance, performance and effectiveness, and management of public resources.

**Table 7: Monitoring framework basics**

Governance
<ul style="list-style-type: none"> <li>• The entity’s legislative purpose</li> <li>• The chair leadership and inclusivity of board decision-making</li> <li>• Individual and collective board member performance in response to the chair’s expectations</li> <li>• The board’s oversight of executive management including the chief executive’s performance</li> <li>• The entity’s capability to deliver results</li> <li>• The extent to which the entity engages and collaborates with other agencies to achieve wider sector and government priorities</li> <li>• Performance reporting systems that support board decision-making processes</li> </ul>
Performance and effectiveness
<ul style="list-style-type: none"> <li>• The quality of performance reporting to the Minister and Parliament</li> <li>• The performance management framework</li> <li>• The use of quantitative and qualitative data in telling a performance story</li> <li>• Evidence of policy effectiveness</li> <li>• The entity’s use of innovation to improve service deliver</li> <li>• The use of partnerships to achieve the entity’s and wider policy goals</li> <li>• Good-faith and collaborative approach to Māori Crown relationships</li> </ul>
Management of public resources
<ul style="list-style-type: none"> <li>• The quality and timeliness of financial performance reporting including meaningful explanations of budget variances</li> <li>• Audit and risk committee performance</li> <li>• Where relevant – implementation of the <a href="#">Treasury Investment Management System</a></li> <li>• Preparation of the <a href="#">Annual Report and other end-of-year reporting</a></li> <li>• Demonstrating value for money, efficient and cost-effective output delivery with appropriate quality and quantity standards</li> <li>• Risk assessment and management</li> </ul>



## Establishing a monitoring programme

Based on the agreed approach and framework, a monitoring programme should focus on obtaining insights on how the board is performing rather than acting as an ‘auditor’. The monitoring programme is the range of activities that guide how the monitor will perform its role with the following main characteristics:

- linked closely to the entity’s purpose, objectives, and functions
- proportional to an entity’s context, operating environment and risk profile
- take account of Ministerial expectations and priorities
- minimise compliance costs
- when developed with the chair, complement the board’s own ‘first monitor’ performance reporting regime.

Broadly, the programme has two main drivers. First, the Minister’s priorities (most commonly expressed in a letter of expectations), and the annual, planning, implementation, monitoring and reporting cycle (Figure 18). Second, the monitor’s experience, knowledge and judgement.

Before setting out expectations in a letter, meaningful engagement between the Minister and board chair is important. This can set the scene for and enable discussion about expectations and ensure the final letter is ‘not a surprise’. Ideally, the monitoring department official who will have the main responsibility for drafting the LOE should be in that meeting to ensure the letter adequately reflects discussions and the Minister’s objectives.

### ‘Lines of inquiry’

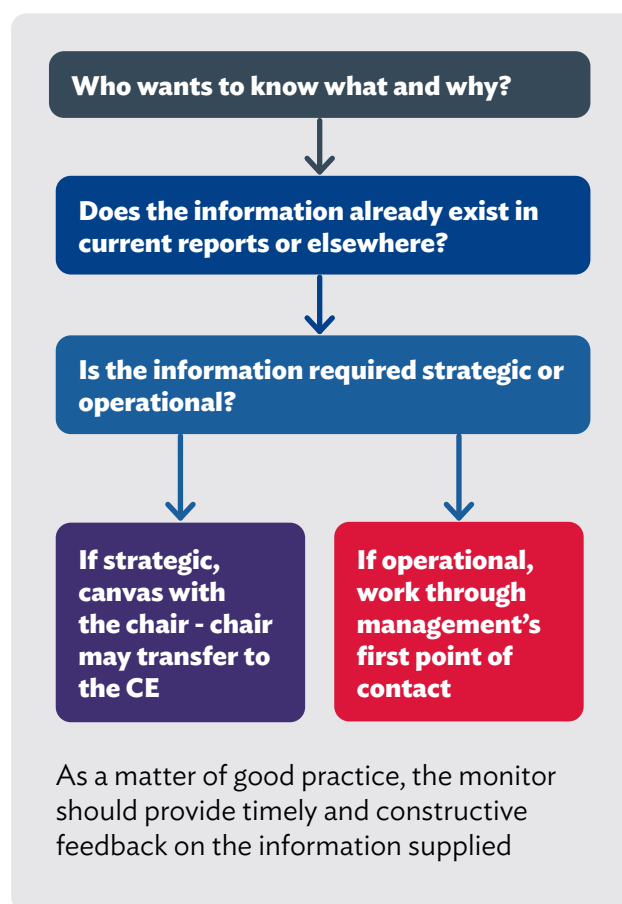
Monitors may find that entity performance reports provide only a partial answer to questions about issues such as policy effectiveness, service delivery and entity capability. The Minister may also seek a more independent assessment or reassurance about an entity’s performance. This may be for a range of reasons, such as concerns about an aspect of the entity’s service delivery or the extent to which services and/or their delivery are achieving intended policy goals.

Seeking additional information in this context is often referred to as a ‘line of inquiry’, and can range from an informal request for further information to a more robust and structured investigation. This can provide structure to guide clear and consistent engagement with an entity on performance.

This means that, from time-to-time, the contents of a monitoring programme may focus on information not already supplied in regular performance reports. To assist the chair to provide an accurate and constructive response, the monitor should make clear what further information is required and how it will assist the Minister to fulfil their statutory responsibilities. Answering these additional requests for information, should add value to the Minister, monitor and the entity.

Before establishing a new ‘line of inquiry’ or seeking performance information not contained in the regular reporting cycle, the monitor can use the following decision tree to guide the request.

Figure 18: Information request decision tree



The FABRIC framework is a useful approach for assessing performance information. Information requested should be:

- **Focused** on entity purpose and functions
- **Appropriate** and useful
- **Balanced** – it enriches the overall performance story
- **Robust** – uses credible and verifiable data that can be used over time
- **Integrated** (where practicable) into business planning and management processes
- **Cost-effective** – the benefits of knowing outweigh the cost of finding out.<sup>18</sup>

Table 8 provides examples of questions that might focus a particular ‘line of inquiry’ into an entity’s results. Not all these questions will apply to all entities. For different entities and sectors, questions will differ depending on the operating context and entity’s core functions. Similarly, the depth of questioning will depend on the depth of monitoring agreed upon in the monitoring framework, proportional to the entity scope, functions, scale, and size.

In line with Figure 18, the monitor should exercise good judgement in seeking additional information and assess the potential compliance cost on the entity. Clarity about ‘what matters’ and what performance information will provide the best information on what has been achieved. This means that the monitor can manage the risk of trying to monitor too much across the whole performance continuum.

**Table 8: The different areas of results**

Results area	Sample range of questions from which to select
<b>Strategic and operational delivery</b>	<ul style="list-style-type: none"> <li>• How is the entity tracking towards its performance expectations outlined in its SPE?</li> <li>• How is the entity ensuring that its processes, systems, and capability are fit-for-purpose in supporting the delivery of its core functions and responsibilities?</li> <li>• Does the entity have a robust framework for assessing its service delivery performance?</li> <li>• How is this information used to inform improved decision-making by the entity?</li> <li>• To what extent is the entity consistently delivering programmes and projects in line with time, cost, and scope parameters?</li> </ul>
<b>Financial management</b>	<ul style="list-style-type: none"> <li>• How effective is the entity in identifying savings and generating efficiencies in operational expenditure across its business?</li> <li>• How does the board get confidence that the entity’s operational expenditure is generating value-for-money?</li> <li>• How effective is the entity in planning its resources to meet current and future demands on the organisation?</li> </ul>
<b>Regulatory management and performance</b> [applicable to entities with regulatory oversight or implementation functions]	<ul style="list-style-type: none"> <li>• Does the entity have effective performance measures, that are regularly updated, to assess the performance and value for money derived from its regulatory fees and charges?</li> <li>• Is there evidence of the entity alerting Ministers and monitoring agencies to organisational capability or resourcing issues, or problems with legislation, that may significantly compromise the entity’s ability to discharge its regulatory responsibilities to a reasonable or expected standard?</li> <li>• Does the entity maintain and publish up-to-date information about their regulatory decision-making processes, including timelines and the information or principles that inform their regulatory decisions?</li> <li>• Does the entity maintain a transparent compliance and enforcement strategy that is evidence-informed, risk-based, responsive, and proportionate to the risks or harms being managed?</li> </ul>
<b>Asset management</b> [applicable to entities with significant asset management functions]	<ul style="list-style-type: none"> <li>• How does the entity ensure that its asset management processes and practices are appropriate, effective, and in line with best practice?</li> <li>• Does the entity understand the expected impact of investment on future asset performance?</li> <li>• How does the entity plan and manage its capital investment (including maintenance planning and procedures) to keep assets in service and meet asset management objectives?</li> <li>• How does the entity determine what the appropriate level of service is for its customers and ensure that asset performance is appropriate to those service levels?</li> </ul>

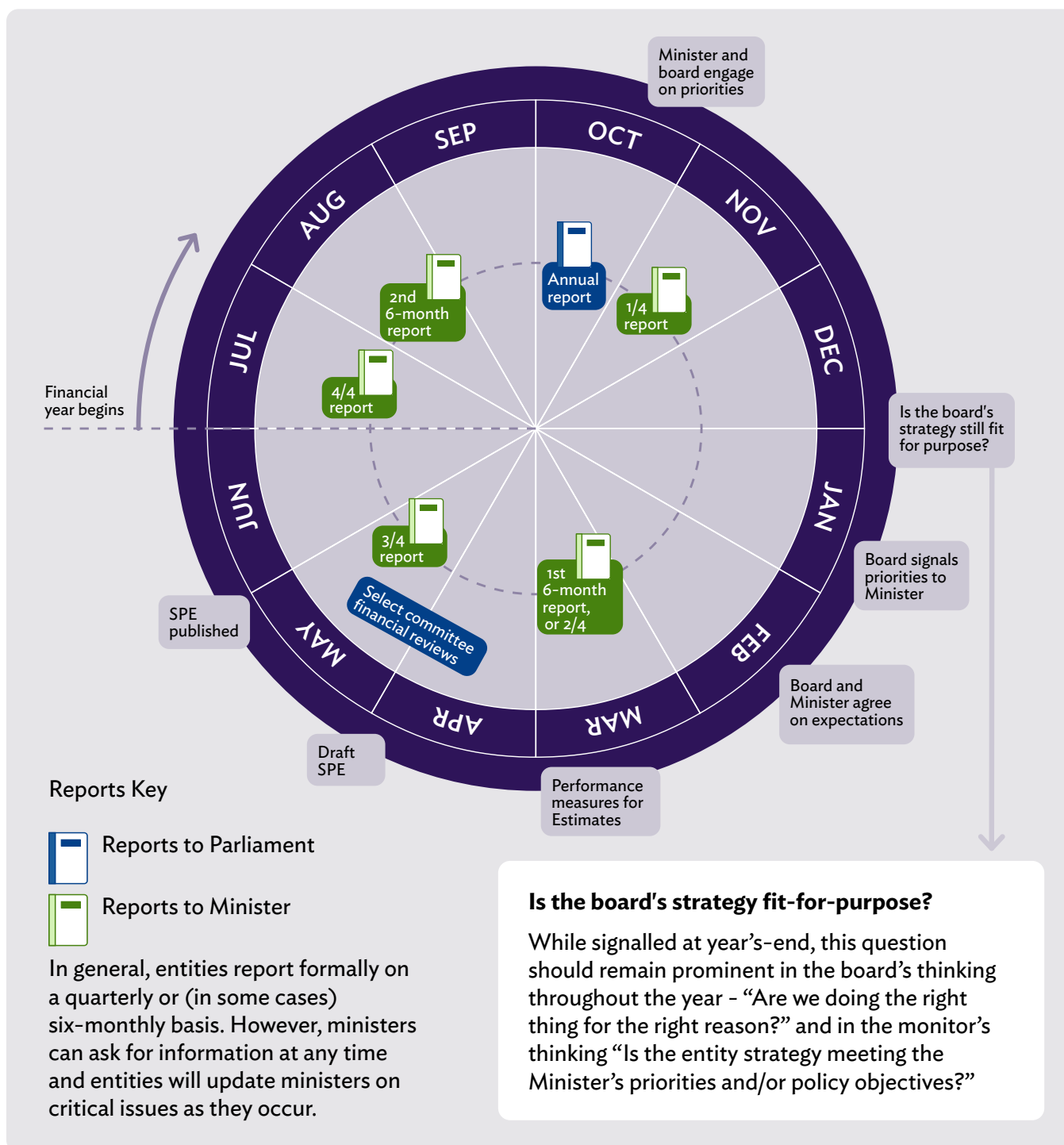
<sup>18</sup> Adapted from National Audit Office (2013). A Framework for Performance Information. Author: London, (p3).

Developing an initial long list (similar to Table 8) can be a useful first step to narrowing down the list to what is most important will provide the richest source of performance information including the entity's demonstration of its effectiveness.

A monitoring programme should provide clarity on the cycle of planned monitoring activity and reporting by both the board and the monitor, as well the circumstances when 'out-of-cycle' requests for information will be needed. This is important to ensure an appropriate focus is maintained on the overall performance of entities core functions.

Although a robust monitoring approach and framework should endure over multiple years with minimal change, we recommend that monitoring programmes are refreshed annually. We also recommend that monitoring approaches are agreed with responsible Ministers through the development of Letters of Expectation. We consider this as the most appropriate time as it provides Ministers with an opportunity to inform the annual monitoring priorities and focus.

Figure 19: Typical annual Planning, implementation, monitoring and reporting cycle





## Determining the extent and priorities of the monitoring programme

This section should be considered in conjunction with the earlier section on risk on page 46.

Information asymmetry means that monitors can never cover all aspects of performance and risk all of the time. Furthermore, resources constraints for both the monitor and Crown entity mean that a monitoring programme needs to be targeted on what matters most. An effective monitor should adopt a programme that focuses on priority performance areas and aspects of effectiveness. These areas will change over time with Ministerial priorities, risk concerns, entity maturity, and changes in the system operating context.

The extent and depth of monitoring should be proportional and risk-related. Consistent and stable performance may mean a less burdensome monitoring regime is appropriate. Historical performance may provide a level of reassurance that more in depth monitoring is not required for what the Minister, advised by the monitor, assesses as ‘low risk’ agencies. Regular core performance reporting, however, and observance of the ‘no surprises’ principle should apply to all agencies.

Table 9 outlines five main entity performance areas and provides guidance on the frequency and possible sources of information.

Other factors to consider when determining the depth and extent of the monitoring programme include:

- the entity’s size in terms of Crown funding and capital expenditure
- the entity’s purpose and objectives, and core statutory functions
- Ministerial and Government priorities
- previous performance in each area, including performance concerns
- which areas pose the most material risk to the entity and the system
- scale of current and future change
- international brand value and reputation risk
- revenue uncertainty
- board visibility over the sector
- the maturity of the entity’s strategy.

*Table 9: Five main dimensions of entity's performance*

Performance area	Key question	Minimum frequency	Possible information sources
<b>Alignment</b>	Is the Crown entity aligned to the priorities, strategic direction and policies of the Minister and government?	Annually	SOI and SPE Annual Report Lines of inquiry
<b>Results</b>	Is the Crown entity delivering outputs and outcomes in accordance with expectations, managing resources effectively, and meeting legal requirements?	Quarterly	Quarterly report Annual report Lines of inquiry
<b>Risk identification and management</b>	Does the Crown entity understand its key risks, and have effective risk identification and management frameworks in place? This includes effective internal assurance processes and a “Three lines of defence” approach.	Quarterly	Quarterly report Annual report Risk reporting Lines of inquiry
<b>Organisational capability</b>	Does the culture of the Crown entity support a healthy, safe, inclusive work environment, and is the agency well placed to have the capacity and skills necessary for success now and in the future?	Annually	Engagement surveys Annual report Capability reviews Lines of inquiry
<b>Governance performance and capability</b>	Is the board working effectively to provide effective Crown entity governance, including holding the executive to account?	Annually	Board assessments and evaluations Chair engagement Appointments



## Assessing organisational capability and performance

Effective boards ensure their entity has the organisational capability and capacity to deliver on the expectations and delivery targets set out in its accountability documents. This includes current capability and capacity, and the ability for the Crown entity to meet likely expectations in the medium term. The Minister has a direct interest in the entity's capability to meet their expectations and deliver services efficiently and effectively.

Organisational culture is an important aspect of capability. Ministers have high expectations that Crown entities will be safe, fair, diverse and inclusive workplaces where employees have the opportunity to achieve their potential. Boards have a critical role in defining culture and setting behavioural expectations. They also need to lead on initiatives to remove pay gaps, and ensure workplaces are safe.

High performing boards understand the resource requirements necessary for the entity to succeed. This includes people, technology and other infrastructure required to perform its role, now and in the future.

Effective monitors work with the chair to understand the board's approach to establishing organisational culture and building capability and capacity, and to advise the Minister accordingly. Issues that the monitor might address include:

- whether the board sets a clear expectation 'from the top' of the entity's culture including upholding a public service ethos

- whether the entity effectively supports worker engagement, participation, and representation across the entity (when setting performance expectations for their chief executives, effective boards factor in feedback from engagement surveys)
- the entity's performance in removing gender and ethnic pay gaps
- whether the entity's internal management functions such as legal, finance, human resources, and procurement, are 'right sized', efficient, and support the agency's strategic direction.

## Escalation

Constructive engagement between the monitor and entity executive management is essential to ensure the monitor receives timely and meaningful performance information either through scheduled reports (e.g. quarterly) or on an ad hoc basis. Any monitoring concerns about engagement with executive management should be escalated through the chair as the chief executive's employer.

The monitoring department's primary monitoring relationship should be with the chair. In practice, however, there will be a mix of relationships to manage that involve executive management. The monitor should have an agreed escalation approach or protocol in place to manage situations where relationships with the entity executive management and/or board chair have broken down. Monitoring plans should include a staged approach to addressing emerging difficulties



in working with the entity. Unforeseen situations, however, may require a more rapid escalation to ensure timely advice to a Minister. More generally the following factors might shape a department's escalation protocols:

- Relevant entity managers and staff meet to discuss emerging issues with the aim of reaching a shared understanding of any disagreement and to agree next steps:
  - Do all parties clearly understand why there is a difference of opinion?
  - Do the different people involved understand what the differences are?
  - What data or events inform the views?
  - Does everyone have access to the same information?
  - What are the specific areas of difference of opinion?
  - Can more and/or better information clarify differences of opinion?

Although Crown entities operate at arm's length from Ministers, the responsible Minister is accountable to Parliament for the entity's performance and has a direct interest in ensuring that it is performing well, managing risks, and aligned to government priorities and expectations.

Whether a potential performance concern rises to the level of advising the Minister is a matter of judgement and triangulating risk, expected and actual performance. Potential issues or concerns may initially emerge through insights from the public or other stakeholders. Information of this nature should be validated before taking further action. When trust between the parties is high, issues and concerns can be canvassed with the chair at an early stage or with executive management if it relates to a day-to-day issue. Low-trust relationships make it difficult to raise concerns or to obtain information that could confirm or validate concerns.

Factors that can influence decisions to escalate an issue include concerns about:

- public trust and confidence in the entity's governance and/or management
- an impact on service delivery or the entity's statutory functions
- financial management
- institutional integrity
- failure to implement the 'no surprises' principle.



## Māori Crown relationship

The 2019 Enduring Letter of Expectations from the Ministers of Finance and for the Public Service clarifies those Ministers' expectations that boards will ensure the entities they govern will embody the Government's good-faith and collaborative approach to Māori Crown relationships by:

- engaging appropriately and often with Māori on relevant issues
- pursuing further opportunities for partnership with Māori entities and businesses
- building staff Māori cultural capability including knowledge of tikanga Māori, te ao Māori, New Zealand history and how to address institutional racism
- improving the Treaty-consistency of policy and practices (for example, considering where whanau-centred policies can be used)
- supporting the Maihi Karauna by promoting and supporting the revitalisation of te reo Māori.

The monitor can assist the board to ensure these expectations are met in planning and accountability documents and included regularly in entity performance reports to the Minister.

Te Arawhiti (Office for Māori Crown Relations) has the role to ensure that public sector engagement with Māori is meaningful. Te Arawhiti sets out [values](#) that should guide engagement with Māori:

- **Partnership** – the Crown and Māori will act reasonably, honourably and in good faith towards each other as Treaty partners
- **Participation** – the Crown will encourage, and make it easier for Māori to more actively participate in the relationship
- **Protection** – the Crown will take active, positive steps to ensure that Māori interests are protected
- **Recognition of cultural values** – the Crown will recognise and provide for Māori perspectives and values
- **Use Mana-enhancing processes** – recognising the process is as important as the end point; the Crown will commit to early engagement and ongoing attention to the relationship.

Te Arawhiti has developed resources to assist agencies such as – [Engagement Framework](#) and [Engagement Guidelines](#).



Crown entities may also refer to Cabinet guidelines for policy makers to consider Te Tiriti o Waitangi | Treaty of Waitangi in policy development and implementation [[CO \(19\) 5 refers](#)].

### What does ‘good’ look like for the monitor?

The scope, scale and focus of a Crown entity’s engagement with Māori will depend on the entity’s legislative purpose and functions, along with relevant government priorities.

The board’s commitment to the Māori Crown relationship could be evidenced in different ways such as establishing a focused workstream as part of its own work programme. Planning and performance reporting documents should provide clear evidence of how the board plans to engage with Māori.

As the employer of its chief executive, a board can build specific performance expectations into performance agreements relating to constructive and meaningful engagement with Māori. Establishment legislation can provide some guidance to boards on the importance of engagement with Māori, for example the purpose of the Education and Training Act 2020 is to “establish and regulate an education system that ....honours Te Tiriti o Waitangi and supports Māori Crown relationships” ([s4](#)).

Board self-evaluation should include the extent to which the board has successfully engaged with and delivered services to Māori. This expectation can be reinforced in the responsible Minister’s letter of expectation that may ask the board to report back on its self-evaluation, and specifically on engagement with and service delivery to Māori.

Constructive engagement with the entity during the development of draft accountability documents (SOI and SPE) provides an opportunity for the monitor and entity to discuss responsiveness to Māori and the Māori Crown relationship, as it relates to the monitoring department’s sector stewardship perspective. This can help the entity in its consideration of appropriate strategies and performance measurement of its engagement with Māori, and success in contributing to outcomes for Māori.



## Focused performance reviews

This section covers:

- Why and how a performance review might be undertaken
- Focused reviews
- Who might lead such reviews
- Monitor's role in reviews.

# Focused performance reviews

## Undertaking a review

As Crown entities operate in a dynamic and changing environment, there is a need to periodically review the policy settings and intervention logic surrounding the entity. This could include a review of the entity’s work on clarity of purpose, the value-add for New Zealand, and strategy to deliver that value. Periodic reviews also need to consider whether the category of statutory Crown entity remains the best choice of organisational form and the policy setting applying to the entity remains valid.

Crown entity reviews are undertaken for a range of reasons, but generally fall into five groups (Figure 20). These range from an internal board-led exercise to an independent Minister-commissioned [s.132](#) CEA review. The choice of review mechanism and format, however, should be driven by the review rationale.

A responsible Minister may review the operations and performance of a Crown entity at any time ([s.132](#) CEA). Before doing so, the Minister must consult the entity on the scope of the review and consider the entity’s submissions on the proposed review. The format and basis for such a review is discussed further on in this guide.

A monitoring department, however, may schedule a review of an entity’s governance and performance

in a monitoring programme. These types of assessments involve a more focused series of questions and evidence gathering by departments to provide insights into a particular aspect of an entity’s governance, capability and performance. Such reviews are often resource intensive and should be signalled well in advance to the entity board as part of the monitoring programme.

A review of any kind must have a clear purpose. Purposeful and effective reviews can add value both to the monitor and entity. They can improve the monitor’s understanding of the entity’s business and the impact of the entity on all or parts of the sector it serves. Assessments can be used to provide increased confidence over a dimension of an entity’s governance and performance, particularly where there are performance issues or known risks that could have significant consequences to an entity’s governance and performance.

The focus area for a review should be based on ministerial priorities and expectations, as well as known performance issues and risks. The decision to initiate or undertake these types of reviews should be made on the basis that confidence in an aspect of an entity’s performance cannot be achieved through existing information.

Figure 20: A spectrum of options for reviews – choice dependent on risk level and Ministerial expectations

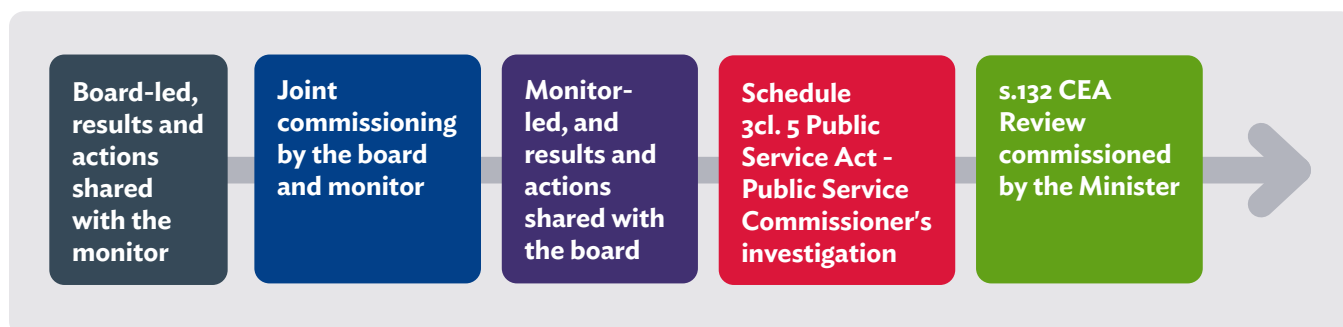
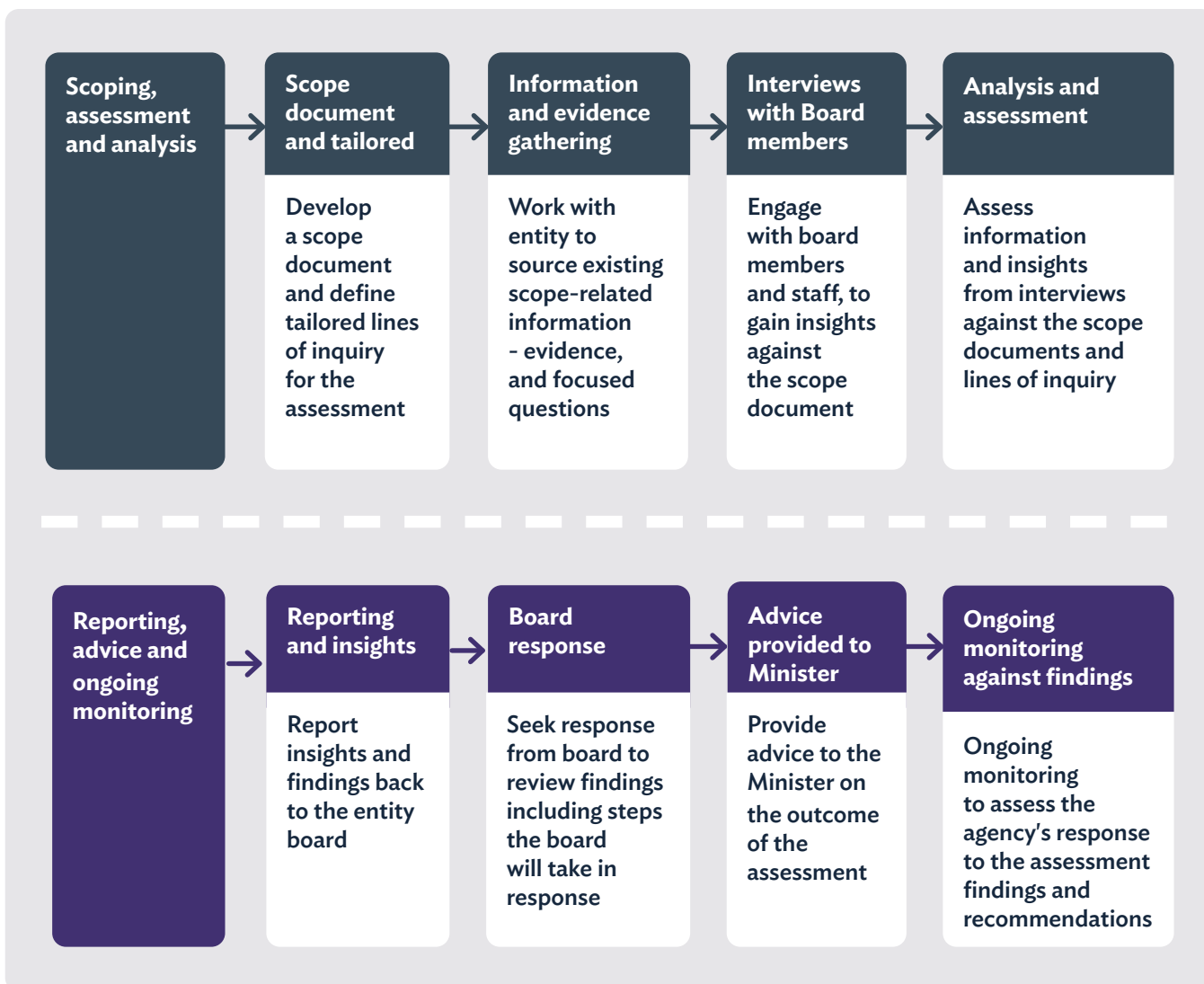


Figure 21: Example of a process for undertaking an in-depth review<sup>19</sup>



Reviews typically draw on a wider and deeper base of information sources. They may also include focused discussions with Ministers, boards, chief executives, staff and stakeholders. The scale and scope of reviews need to be context-specific to the entity's performance, operating environment and risks, and should also draw on established questions on performance that are discussed with Ministers and boards (Figure 21).

### Monitor's role in a review


The monitor's role is to provide an independent, evidence-based view to the Minister. The monitor must, however, allow the board to exercise its monitoring, governance and accountability role. For this reason, there is no one model that works in all circumstances.

If a review is board-led, it is recommended that the board consult the monitor on the terms of reference to obtain feedback on the scope, purpose and review focus areas. Such consultation will contribute to an authoritative and impartial review outcome. Where a review is monitor-led, the board should be consulted to provide an opportunity for the board to provide governance insights to the review.

The process for a Ministerial review under s.132 of the CEA is prescribed in the Act and will always be undertaken by the monitor (or an independent third party), on behalf of the Minister rather than by the board.

<sup>19</sup> Based on Ministry of Transport, Approach to regulatory monitoring assessments (2020) [here](#).





## Leveraging the accountability cycle

This section covers:

- Assisting the Minister in setting expectations
- Statement of Intent
- Statement of Performance Expectations
- Annual Report.

# Assisting the Minister in setting expectations: Leveraging the accountability cycle

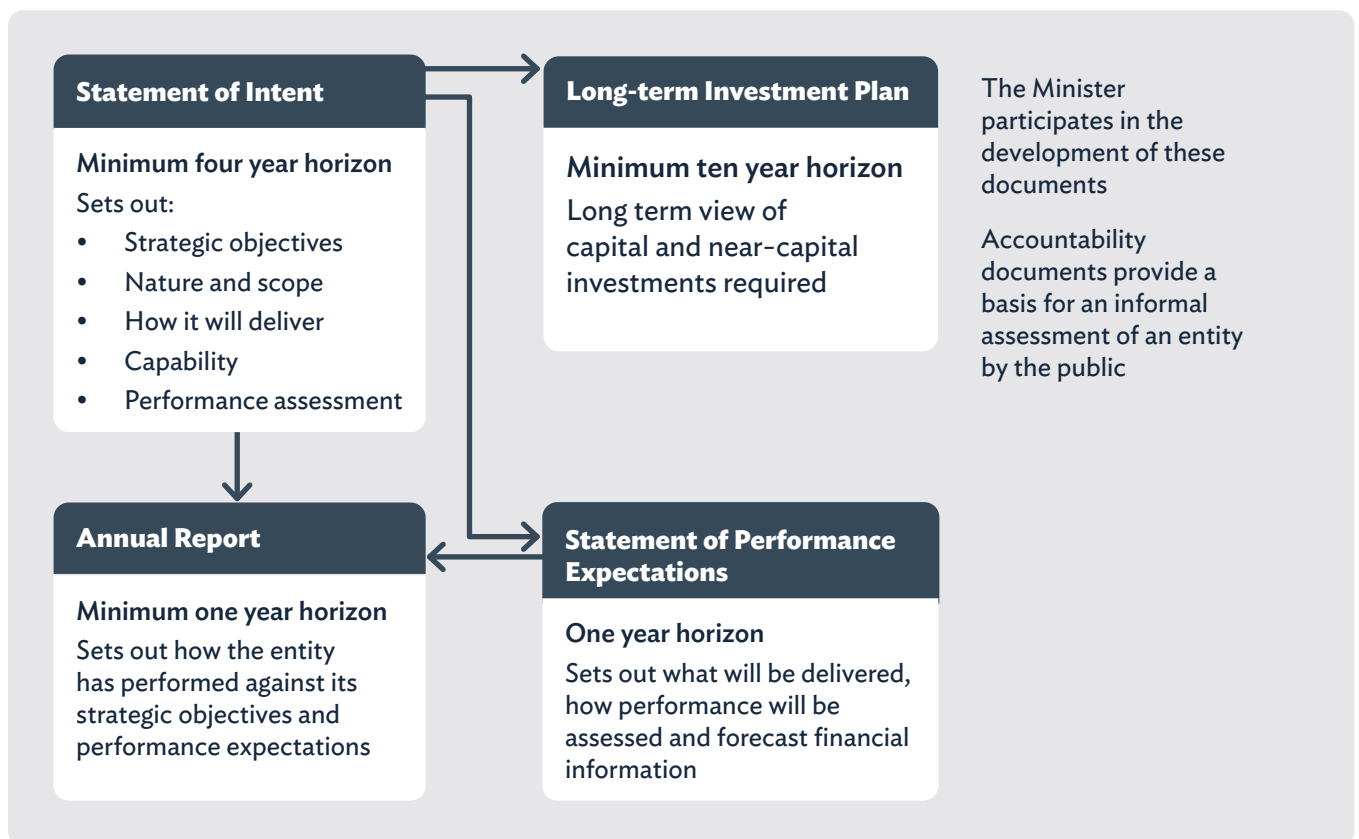
The CEA provides statutory levers to influence Crown entity governance, strategic direction, and performance. The primary levers include the SOI and SPE, where Crown entity boards set strategic priorities and performance expectations providing public accountability.

Monitors play an important role in supporting Ministers to inform the development of these core accountability documents. The Minister has a role in commenting on the draft SOI and SPE. The monitor’s advice can assist in this process. The SOI and SPE, however, are the board’s documents for which they are accountable.

Monitors can add value through providing a sector-wide view in assessing the alignment of the entity’s strategic intentions, expectations and performance framework to Government priorities. Additionally, through the SPE, the monitor can assess the entity’s financial management.

Figure 22 outlines the purpose and relationship of the entity’s accountability documents. The Treasury provides guidance for Crown entities in preparing core accountability documents, including the SOI, SPE and Annual Report.

Figure 22: The Crown entity’s accountability documents<sup>20</sup>



<sup>20</sup> Adapted from Treasury. (2015) [Crown Entities Act: Statement of Intent Guidance](#). (p7)

## Statement of Intent (SOI)

Each Crown entity must provide an SOI at least once every three years, or more often if required by the Minister. The SOI outlines an entity's strategic intentions and medium-term undertakings, covering at least a four-year horizon. In setting strategic intentions, monitors should help provide context and a system perspective that assists Ministers and Crown entity boards in shaping strategic direction and priorities.

The Statement of Intent, taken together with all of the statutory documents, provides the Crown entity's board with a mechanism for publicly setting out the entity's strategic objectives and how it will achieve these

Treasury guidance on developing a SOI can be found [here](#).

A Crown entity's SOI must:

- set out the strategic objectives the Crown entity intends to achieve or contribute to
- explain the nature and scope of the Crown entity's functions and intended operations
- explain how the Crown entity intends to manage its functions and operations to meet its strategic intentions
- explain how the Crown entity proposes to manage its organisational health and capability
- explain how the Crown entity proposes to assess its strategic performance.

When reviewing an entity's SOI, the monitor could take a two-stage approach. First, to undertake a high-level assessment of the entity's performance over time in managing a range of factors including its functions, operations and organisational health and capability.

Second, to consider:

- whether the strategic intentions of the entity align with:
- the Crown entity's role and functions in its establishment legislation
  - the expectations set out by the responsible Minister, including alignment to strategic direction, policy (for Crown agents and autonomous Crown entities) and delivery priorities
  - all-of-government expectations relating to areas such as integrity, Māori Crown relations, workforce policy, carbon emissions reduction and protective security
- whether the entity has clearly articulated the system context it operates within, including the strategic challenges and opportunities the entity will need to respond to over the outlined horizon
- whether the entity has articulated a clear and robust performance framework for assessing the contribution and impact of its functions against medium and long-term impacts for the systems within which it operates. Performance frameworks should be able to demonstrate clear line-of-sight between each of an entity's functions and the impact these functions have on the entity's overall performance and contribution to the delivery of system outcomes.

## Statement of Performance Expectations (SPE)

The SPE identifies what a Crown entity intends to achieve in the upcoming financial year, how achievement will be measured, and how the board intends to assess performance against its strategic intentions. In a high-trust good practice environment, the monitor can provide the entity with feedback on early drafts of the SPE and SOI to ensure the Minister's priorities are appropriately represented. 'High trust' also implies that the monitor maintains ongoing engagement and discussion on performance expectations.

Treasury *Guidance on Creating a Statement of Performance Expectations* can be found [here](#).

The SPE provides a basis for a department to monitor entity performance. At its best, an SPE provides robust performance information and demonstrate stewardship and accountability

SPEs should include:

- information on each reportable class of outputs for the financial year, including:
  - what the class is intended to achieve
  - how performance will be assessed,
  - the expected revenue and proposed expenses for this class.
- the annual forecast financial statements
- any relevant performance information, such as information about activities which support the delivery or output classes, and narratives relating to commitments and initiatives.

Crown entities are required to comply with Public Benefit Entity Financial Service Performance Reporting Standards 48 (PBE FRS 48), which provides principle-based requirements to selecting and presenting service and performance information appropriate and meaningful to users. In particular, the standard states:

*“An entity’s service performance information shall provide users with sufficient contextual information to understand why the entity exists, what it intends to achieve in broad terms over the medium to long term, and how it goes about this.”*

When reviewing an entity's draft SPE, monitors could consider:

- how well the performance information links to broader contextual information on why the agency exists and what it intends to achieve
- how well the entity's performance expectations link to its strategic intentions, as outlined in its SOI
- whether the entity has a clear and comprehensive performance framework to effectively measure and communicate performance against its strategic intentions and outcomes
- how well the entity's performance framework demonstrates a clear line of sight of how it contributes to the delivery of system outcomes
- whether the structure of appropriations and output classes, including supporting performance measures, align to the agency's wider goals and objectives
- whether the annual financial statements forecast represent good financial management and value-for-money, including:
  - a clear framework guiding how the board sets the entity's operational budget
  - whether the entity undertakes benchmarking to ensure costs remain in line with comparable agencies
- the entity's effectiveness in identifying savings and generating efficiencies, including whether the entity has frameworks to effectively prioritise and allocate expenditure against organisational priorities.

When assessing an entity's draft SPE, the monitor should comment on the extent to which the draft document responds to the ELOE.

### Enduring letter of expectations

From time to time, the Ministers of Finance and for the Public Service issue an Enduring Letter of Expectations (ELOE) that sets out their expectations of all Crown entities. The current letter, issued in 2019 can be found [here](#).

When assessing an entity's draft SPE, the monitor should comment on the extent to which the draft document responds to the Enduring Letter of Expectation.

## Annual report

Treasury Guidance for Crown entities on Preparing the Annual Report and other End-of-Year Performance Reporting can be found [here](#). The monitor should use the guidance to prioritise comments to the Minister once the Annual Report has been received.

The guidance notes:

*“An annual report is one of the most important ways Crown entities are accountable to Members of Parliament and the public. The annual report is a key resource for select committees conducting annual reviews of Crown entities. A good annual report can be a powerful way to promote better understanding and debate about how resources and powers were used, and how to improve future performance. End-of-year performance information on appropriations allows comparison between what was intended to be achieved with each appropriation with what was actually achieved.*

*While the annual report covers the operations of the Crown entity during the preceding financial year (usually 1 July to 30 June), Crown entities are encouraged to include comparative (trend) information from earlier years to give a fuller picture of long-term progress. The reporting in the annual report should give a clear picture of the overall performance for the Crown entity. So, in addition to the financial statements, the annual report must report on progress against the strategic intentions detailed in the Statement of Intent, the Statement of Performance Expectations and any other information necessary.”*


Audit New Zealand provides model financial statements for Crown entities [here](#).

The Annual Report must provide the information that is necessary to enable an informed assessment to be made of the entity’s operations and performance for that financial year, including an assessment of the entity’s progress in relation to its strategic intentions as set out in the most recent statement of intent. [CEA s.151(2)]

The primary users of Crown entity annual reports are Ministers, as resource providers, and service recipients and their representatives. Annual reports that successfully communicate a fuller picture of overall performance ensure that the financial reports provide information that is useful to users, for accountability and decision-making. Annual reports should focus on:

- an optimal volume of disclosure
- avoiding immaterial disclosure
- ensure disclosure minimises complexity and is understandable to the lay reader
- avoids duplication of information in notes and accounting policies
- provides clear information on critical areas of board judgement or estimation
- prioritise communication of important information
- progress towards achieving strategic outcomes.<sup>21</sup>

<sup>21</sup> [Audit New Zealand \(2017\)](#).



## Assessing board governance performance and capability

This section covers:

- Assessing board governance and capability
- Access to board papers and attending meetings
- Characteristics of a high performing Crown entity board
- Minister's use of performance levers.

# Assessing governance performance and capability

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The board's culture is set and led by the chair. An effective monitor should have an insight into how the board operates. While it will be difficult to make definitive assessments, monitors should focus on factors such as:

- the extent to which a board culture is inclusive and culturally safe
- whether all board members are encouraged to make a full contribution
- whether differing views can be expressed, and where collective decision-making and accountability are applied.

These characteristics represent good governance practice for all boards (public or private). Board performance should be an agenda item for chair and monitor discussions on overall board performance.

Ministers expect boards to undertake performance self-assessments (usually annually), and independent performance assessments periodically. The board should proactively provide the monitor with reports on these assessments to assist the monitor in providing the Minister with advice on board performance.

Extensive resources exist to support good governance and Ministers expect chairs to apply continuous improvement principles to the boards they lead. Effective chairs facilitate professional development opportunities (including induction) for the board as a whole and for individual board members.

Ministers have a direct interest in board performance. Few opportunities exist for the monitor to directly observe the board in action and the main source of information on the board is the chair. An effective chair will foster a working relationship with the monitor that includes conversations about board performance. A constructive working relationship with the chair will help to keep the monitor close to the entity with a clearer 'line of sight' to the board and its performance.

Appendix 2 provides an example of an approach to assessing board performance around five factors that characterise high performing public sector boards.

Ideally, monitoring of board performance should be undertaken in real time i.e. as issues arise and during the annual performance cycle. Officials undertaking monitoring in this area should have sufficient understanding of governance to provide credible interaction with the chair when gathering information on board performance.

Figure 23: The essential elements of public sector governance (OAG)

Essential Element		Summary features
1	Set a clear purpose and stay focused on it	Board members need to contribute to, and challenge, the strategic planning process, based on an understanding of stakeholder expectations and the wider context in which their organisations operate
2	Have clear roles and responsibilities that separate governance and management	Clear roles and responsibilities make the differing interests transparent and foster effective decision-making
3	Lead by setting a constructive tone	A suitable tone from the top shapes the culture and demonstrates the desired values and ethics of the organisation
4	Involve the right people	An effective board will have members who bring multiple perspectives, who debate issues robustly, and who then speak with unity of voice and message about the decisions made
5	Invest in effective relationships built on trust and respect	Good practice involves preparing formal stakeholder engagement plans or formal relationship protocols with important stakeholders
6	Be clear about accountabilities and transparent about performance against them	Governance structures should include a clear accountability framework that shapes how an organisation's (or project's) financial and operational performance will be monitored and reported
7	Manage risks effectively	Effective risk management by public organisations involves identifying, analysing, mitigating, monitoring, and communicating risks
8	Ensure you have good information systems and controls	The board needs relevant, accurate, and up-to-date information to make good decisions. Assess the design and effectiveness of an organisation's internal systems and controls

The OAG identifies eight essential elements of effective public sector governance (Figure 23).

For more information go to <https://oag.parliament.nz/good-practice/docs/good-governance.pdf>

## Access to board papers and attending meetings

The monitor may wish to review board agendas (and a selection of critical board papers) to understand the nature of the issues the board is focused on, and how it prioritises its time. Access to board papers provides an important but incomplete understanding of the board's work: what it is prioritising, decisions it makes and performance information it receives upon which to base decisions. In a high-trust relationship, the monitor and chair can agree on access to board papers in different ways.

These include:

- a shared agreement on why the monitor may wish to have sight of papers - excluding papers relating to confidential commercial or personnel matters, and any confidential decisions within the board's statutorily independent functions
- agreeing on a protocol for seeing a selection of board papers before or after the board meeting
- reassuring the chair that board papers shared with the monitor will be stored securely in the departmental filing system and with limited access
- providing feedback to the chair on the monitor's observations from reviewing papers





Unless the board has formally invited the monitor to attend a board meeting, the Crown entity model assumes that monitors do not attend board meetings. This avoids any role confusions and specifically separates the board from monitor as the Minister's (owner's) agent (see Figure 1). A small number of entities have establishment legislation which contain a provision for the monitoring department's chief executive to attend board meetings as a special advisor on a specific topic, such as policy information. Such attendance should be clearly ring-fenced around the topic and clarified with the board chair ahead of meetings.

Boards should be aware that the Official Information Act applies to Crown entities, and board minutes are among the documents that can be requested under this legislation. The general expectation, as expressed by the Chief Ombudsman for instance, is for official information to be released (either pro-actively or in response to a request), unless there are clear grounds to withhold it under the Official Information Act.



## Appendices

The guide includes the following appendices

- Appendix 1 – Summaries of performance levers available to Ministers to get the performance they want:
  - for appointing and maintaining an effective board
  - for setting strategic direction
  - for monitoring performance.
- Appendix 2– Assessing effective public sector boards.

## Appendix 1: Summaries of the Minister's performance levers

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### *Levers for appointing and maintaining an effective board*

**Set remuneration** Decide who will undertake board member recruitment, the scope of the process, and the skills required for the board

**Consult colleagues** Consult ministerial colleagues via the Cabinet Appointments and Honours Committee (APH)

**Set remuneration** Set the remuneration for board members of Crown agents and autonomous Crown entities (ACEs). The Remuneration Authority sets the fees for independent Crown entities (ICEs)

**Appoint** Following referral to APH, make board appointments for Crown agents and ACEs and recommend board appointments ICEs to the Governor-General

**Send appointment letters** Send a clear, concise appointment letter stating what is wanted from each appointee

**Expect induction** Expect an induction for new appointees to occur and consider attending and participating or directing the monitor to provide the induction

**Expect self-review** May set an expectation that the board undertake an annual self-review, resulting in any key issues being raised with the minister

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**Reappoint** Must either reappoint or not reappoint board members

**Remove members** May remove board members for Crown agents and ACEs and recommend removals for ICEs to the Governor-General

**Court order** May obtain a court order requiring or restraining a board/member in relation to the CEA or entity's enabling act

Lever in legislation

Good practice convention

## Levers for setting strategic direction

### Set expectations

Engage regularly with the chair/board on expectations for entity performance and may write a letter of expectations

### Require SOI

May require a new Statement of Intent (SOI) at any time. An SOI may last up to 3 years, and must cover 4 years

### Extend or waive SOI

In certain circumstances, may grant an extension of time, or waive, the requirement for an entity to provide an SOI

### Amend SOI

May comment on an entity's draft SOI and may require amendments to some parts of the final SOI

### Amend SPE

May comment on draft annual Statement of Performance Expectations (SPE), and may require amendments to a final SPE, excluding the forecast financial statements

### Adjust funding

May, subject to Cabinet consideration, adjust funding provided for the entity by the Crown (e.g. via appropriations, fees, levies, grants etc)

### Agree reporting

Agree to interim reporting requirements with the board to ensure useful performance information is received

### Give policy direction

May give a direction on government policy relating to an entity's functions and objectives. Crown agents must give effect to the direction. ACEs must have regard to that direction

### Policy direction (ICE)

May only give a policy direction to an ICE if specifically provided for in an Act

Lever in legislation

Good practice convention

## Levers for monitoring performance

### Choose a monitor

Decide whether to have a monitor and, if so, who that monitor is (the role of a monitor is in the CEA and is usually undertaken by a monitoring department)

### Engage with board and monitor

Engage regularly with the chair and/or board, receive analysis and advice from the monitor, and clarify your monitoring expectations of the monitor and entity

### Request information

Request information on the entity's operations and performance at any time. May delegate the power to request information to the monitoring department (you may wish to ensure the board understands its responsibility to provide clear and useful performance information)

### Review performance

May review a Crown entity's performance and operations at any time

### Central agency requests

May ask central agencies to undertake specified work, via the central agency ministers

### Public Service Commissioner actions

May ask the Public Service Commissioner to act on a range of issues, under the Public Service Act

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### "No surprises"

Have a "no surprises" policy in place with the entity

Lever in legislation

Good practice convention

## Appendix 2: Effective public sector boards

Performance area	High performing Crown entity boards:
<b>Preparedness to act</b>	<p>Ensure management appropriately engages with board members to formulate strategy. They ensure that the opportunity exists to work with management at an early stage of strategy development, and:</p> <ul style="list-style-type: none"> <li>engage with the responsible Minister and monitor to ensure clarity about performance expectations and government priorities</li> <li>ensure that management shares the thinking around strategic options (including what was discarded and why)</li> <li>engage in scenario testing (especially around new demands on the entity such as sector environmental change, disruptive technologies and government policy priorities)</li> <li>undertake long term strategic thinking (as well as short and medium term)</li> <li>develop a good process for the board to review and monitor whether strategy(ies) is/are gaining traction.</li> </ul>
<b>Values, trust and confidence</b>	<p>Chairs ensure the entity the board governs upholds high ethical standards and a commitment to the spirit of public service. This includes:</p> <ul style="list-style-type: none"> <li>acting in the Spirit of Service</li> <li>upholding the Code of Conduct for Crown Entity Board Members</li> <li>ensuring alignment with, and support for, government expectations for Crown entities and the public sector</li> </ul>
<b>Performance expectations</b>	<p>Chairs engage board members in setting and agreeing high standards of board member performance including:</p> <ul style="list-style-type: none"> <li>meeting attendance and participation (note that the chair has a responsibility to ensure all 'voices are heard' around the table)</li> <li>ensuring that questions and the comments are insightful and add value to management</li> <li>succession planning</li> <li>setting performance expectations for individual board members as well as the board as a whole</li> <li>annual reviews of individual board member performance</li> <li>facilitating professional development plans for the board as a whole and for individual members</li> </ul>
<b>Chief executive performance</b>	<ul style="list-style-type: none"> <li>have chairs that facilitate regular discussions on chief executive performance (have we got the right person given our strategy and business cycle?)</li> <li>engage with the Public Service Commission to coordinate a timely performance review of the chief executive, aligned with the Public Service Commissioner's remuneration guidance</li> <li>ensure effective talent management and succession planning processes exist throughout the organisation.</li> </ul>
<b>Understanding the business</b>	<ul style="list-style-type: none"> <li>invest time in understanding the business</li> <li>pay close attention to board member development and induction</li> <li>ensure all board members attend the monitoring department's induction and consider the need for refreshing that induction</li> <li>map the linkages between strategic aims and policy delivery programmes to help board members understand -relationships between critical delivery variables</li> <li>plan in detail, flexibly and well in advance – board calendar, site visits, strategy sessions etc, so that all board members can attend</li> <li>have an appetite for investment decision making/risk through robust processes not just leaving it up to management.</li> </ul>





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New Zealand Government

