

# Chapter 4: Governance



GUIDE

Cover photo: CRS partner agencies in the Philippines meet to sketch out their roles in implementing the CRS Peace Governance project. The country has seen much conflict between ethnic and religious groups since the late 1960's. Photo by David Snyder for CRS.

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## ACRONYMS

<b>CRS</b>	Catholic Relief Services
<b>GAAPs</b>	Generally Accepted Accounting Principles
<b>TOR</b>	Terms of Reference
<b>HR</b>	Human Resources
<b>ICT</b>	Information and Communication Technology
<b>IFAC</b>	International Institute of Accountants
<b>OECD</b>	Organization of Economic Cooperation and Development

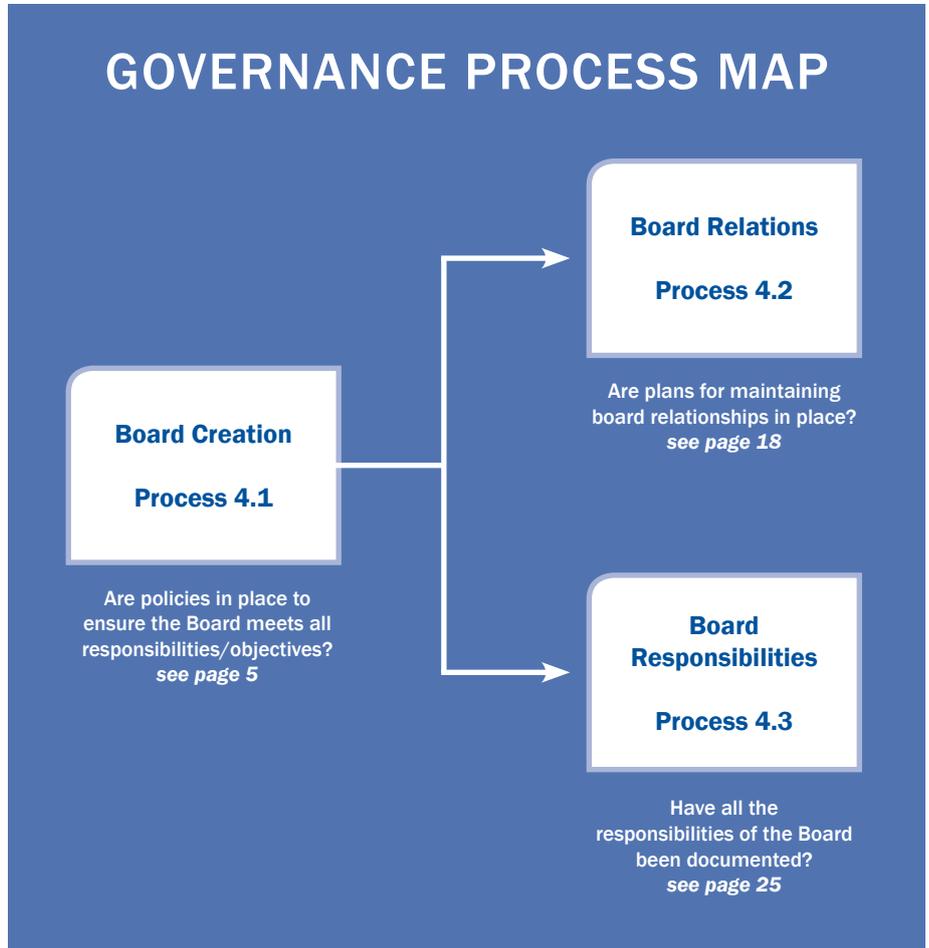
# CHAPTER 4: GOVERNANCE



DAVID SINDER FOR CRS

In Addis Ababa, Ethiopia, Two young ladies take part in an HIV awareness training presented through CRS partner agency the Medical Missionaries of Mary.

## GOVERNANCE PROCESS MAP



## PURPOSE OF THIS GUIDE

Institutional governance is the process through which institutions and organizations are directed, controlled, and held accountable. It is concerned with effective systems and structures that facilitate proper decision making, accountability, control, and efficiency in the organization. These systems and structures seek to promote leadership and operational guidance that is honest, trustworthy, reliable, credible, transparent, accountable, responsible, and has a focused intelligence. Catholic Relief Services (CRS) recognizes that good institutional governance and management are essential to achieving efficiency and sustainability of its local partner organizations and are vital ingredients in the maintenance of a dynamic balance between the need for order and equality in society, the efficient production and delivery of goods and services, and accountability in the use of power.

## WHAT FUNCTION DOES GOVERNANCE SERVE?

The board shall frame their operations within the terms of the governing body constitution, bylaws, and any other legal instrument related to its formation and functioning.

The board shall fulfill the following functions:

- Provide leadership, fostering integrity and transparency in its relation to internal and external stakeholders
- Define clear roles and responsibilities of the executive and non-executive board members, such as the roles of the board chairperson and the Executive Director
- Define and provide terms of reference to all standing and ad hoc committees
- Ensure that the board has a good mix of professional skills among the membership, adding value to the board operation
- Define the core business of the organization and develop and execute the strategic plan; monitor and evaluate the organization's operation and business plans, ensuring that the organization remains competitive and viable
- Provide oversight of operations and ensure that the organization complies fully with country laws, local regulations, and the organization's code of conduct
- Evaluate board operations assuring that value is added to its core business and institutional impact is reflected in the community it serves
- Communicate frequently and effectively with stakeholders, authorities, and the donor community in order to seize new opportunities, adapt to changes in the business environment, and enhance interest in order to achieve technical, organizational, and financial sustainability

## SUMMARY OF THIS GUIDE

Simply put, *governance* refers to a frame defined by legal, economic, institutional culture, and practices that allows organizations to function effectively in an organized, responsible, and accountable business environment.

## KEY PRINCIPLES OF THE GOVERNANCE FUNCTION

The purpose of governance is to ensure that the organization's decision power and core business are managed with integrity, transparency, and accountability to the governing body of the owning organization and, internal and external stakeholders. Governance operates within the framework of laws, regulations, and organizational practices (formal and informal) in the context of the organization's vision, mission, and guiding principles. It maintains a clear balance of power that fosters relationships and fairness in the decision-making process.

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The purpose of governance is to ensure that the organization's decision power and core business are managed with integrity, transparency, and accountability.

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Governance seeks to create an effective process that, through the board operation, ensures the following:

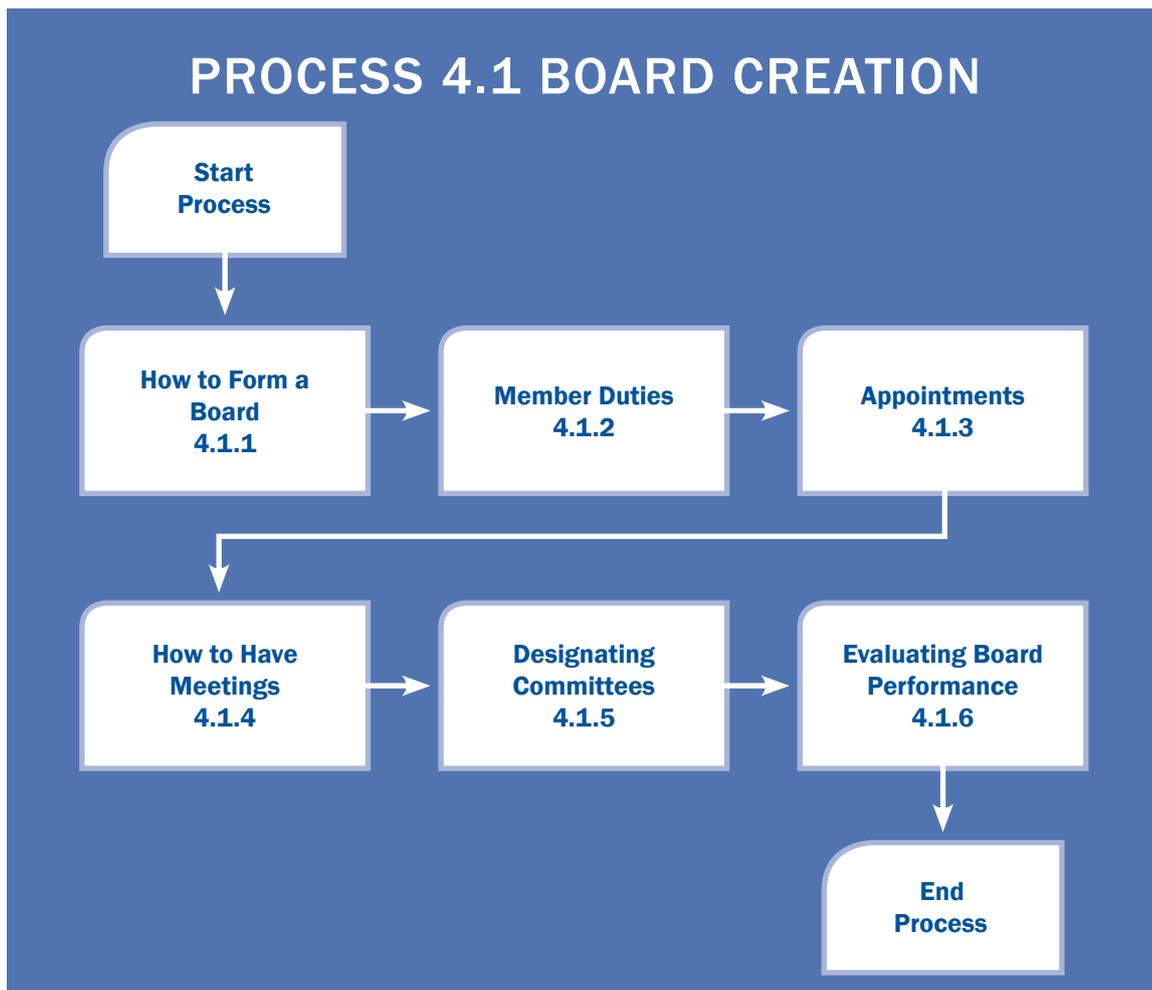
- There is strategic thinking
- Balance of power and institutional control is shared within the limits of the board bylaws
- There is a democratic process to select board members, elect the chairman, form board committees, and select and hire members of the senior management team
- Systems and structures are in place to promote efficient operation that is effective in achieving the strategic goals set by the board
- There is an oversight structure in place to ensure integrity and accountability to stakeholders and organization owners
- There is a formal board oversight function to ensure that the organization complies with local laws and regulations and governing body regulatory instruments to promote efficiency, credibility, competitiveness, viability, and sustainability
- Governance practices are appropriate, effective, and are adhered to with a view to promote a viable, accountable, and sustainable operation
- The organizational culture promotes continuous learning and innovations

# ICT BUSINESS PROCESS 4.1 – BOARD CREATION

## PROCESS DESCRIPTION

The formation and structure of the organization’s board of management shall be based on a policy that provides for an appropriate mix of skills to provide the necessary breadth and depth of knowledge and experience to meet the board’s responsibilities and objectives. Pertinent issues that must be considered in the formation and structure of the board are summarized below as policy recommendations.

## PROCESS FLOW



## STEP 4.1.1 – HOW TO FORM A BOARD

STEP NAME	HOW TO FORM A BOARD
<b>Step Number</b>	4.1.1
<b>Organizational Role</b>	Governing body
<b>Inputs</b>	N/A
<b>Outputs</b>	N/A
<b>Integration Points</b>	N/A
<b>Summary</b>	The board shall consist of members, appointed by the governing body, who meet all of the necessary prerequisites/criteria.

### **Appointment of Board Members:**

- Members of the board shall be appointed by a mandated committee of the governing body.<sup>1</sup>
- The appointment shall be preceded by a nomination process based on criteria set by the mandated committee.
- All prospective candidates shall be required to submit their CVs to the mandated committee for perusal.
- The mandated committee shall conduct an interview of all prospective candidates to confirm their qualifications, availability, and willingness to serve as members of the board.

### **Qualification of Board Members:**

All members of the board shall meet the following qualifications:

- Interest in supporting the common cause or concern of the board
- Represent a common social group who by virtue of their positions get nominated on board
- Be people of moral integrity, based on their past record of performance and commitment
- Meet the prescribed minimum level of education, with an exception to the minimum level of education allowed in areas of the country where literacy levels are low
- Meet a prescribed level of skill needed for that position

<sup>1</sup> *Governing body* refers to an institution that owns or governs the organization. In some cases, this also could refer to the Church or, in other cases, the founders of the organization.

- Meet a prescribed level of experience within the organization

**Board Orientation and Development:**

- It is highly recommended that all newly appointed board members must be properly oriented on their expected duties and responsibilities. In addition, there should be continuous board capacity building to ensure that board members acquire the necessary skills and competencies to perform their tasks. Below are the critical aspects to be considered.

*Appointment Letters:*

- All board members shall be issued with an appointment letter clearly stipulating their duties and responsibilities while serving on the board.
- The governing body or the appointing authority mandated by the governing body shall be responsible for the issuance of these letters.

*Acceptance by Board Members:*

- All newly appointed board members shall sign and return a copy of the letter of appointment to indicate their acceptance or rejection of the appointment.
- A copy of each appointed member's acceptance/rejection shall be submitted to the appointing authority for further action.

*Orientation:*

- After inauguration, all newly appointed board members shall be inducted into the board.
- Thereafter, the outgoing board members shall provide hand-over notes by or during the second meeting of the new board.
- The appointing authority shall conduct the orientation of all newly appointed members, preferably before the election of the board chairperson and other office bearers.

*Board Training:*

- All newly appointed board members shall be trained on basic information and communication technology (ICT), strategic planning, and governance issues as well as on current trends and developments in the related program sectors.
- This training shall also equip the members with skills on how to effectively carry out their roles and responsibilities.

*Composition of the Board:*

- The board shall be balanced, taking into account factors such as age, gender, profession, and stakeholder representation.

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All newly appointed board members must be properly oriented on their expected duties and responsibilities.

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- The board shall be balanced to ensure representation of diverse professions related to the core programs of the organization such as agriculturists, engineers, medical/nursing professionals, clergy, management, accountants, lawyers, provincial administration, local authorities, and community leaders.
- The recommended minimum and maximum age for board members shall be 25 and 65 years respectively, taking into account each individual's physical and mental abilities.
- Notwithstanding the above, the competence of each individual shall be a key consideration for the selection of all board members.
- As a key stakeholder, the governing body shall be represented in the board as considered necessary.
- The government ministry/department responsible for the program sector may be represented in the board by an ex-officio member.

*Size of the Board:*

- The size of the board shall be between three and seven members with voting power. The size of the ex-officio membership will be as needed.
- At the minimum, the board composition must consist of a chairperson, vice chairperson, secretary, treasurer, and members.
- Maintaining an odd number is highly recommended for the purpose of breaking deadlocks when voting.

## STEP 4.1.2 – MEMBER DUTIES

STEP NAME	MEMBER DUTIES
<b>Step Number</b>	4.1.2
<b>Organizational Role</b>	Board members
<b>Inputs</b>	N/A
<b>Outputs</b>	N/A
<b>Integration Points</b>	N/A
<b>Summary</b>	For members of the board, there are numerous obligations to be fulfilled and rules to be followed.

### Board Member Duties:

- Attend all meetings
- Give technical support to the board
- Contribute professional input during deliberations
- Participate in the board committees where appropriate
- Voice the felt need of the people that the organization serves

### Tenure of Board Members:

- Members of the board shall serve for three year terms, with a maximum of two terms.
- Members who are appointed by virtue of their office, including ex-officio members, shall continue to serve on the board for as long as they are in office.

### Termination of Membership to the Board:

- There shall be a provision for termination of membership to the board.
- Any unexplained absence from the board for more than three consecutive meetings shall lead to an enquiry to facilitate a decision on termination of membership.
- Membership may be terminated before the end of a member's term in cases in which he or she is guilty of misconduct or violates any of the regulations of the board of trustees and/or the organization.
- Termination of membership shall be phased in such a way that at no time shall the board be composed solely of new members.
- A board member may resign from his or her membership provided that he or she submits adequate notice as outlined the board's bylaws.



SARA A. FAJARDO/OCRS

Residents of Mao, Dominican Republic, recently launched a campaign to help resolve conflicts in their community. Since they formed their group the incidence of violent attacks has fallen drastically.

**Re-appointment of Board Members:**

- Effort should be taken to ensure that rotation and/or phased renewal arrangements are made according to the board's bylaws.
- The governing body shall ensure that some members of the board are re-appointed for purposes of continuity.

**Compensation for Board Members:**

- Members of the board shall serve on a voluntary basis as a contribution to their community.
- The organization shall arrange for refreshments during all meetings where appropriate.
- Where feasible, transportation expenses for reasonably incurred travelling expenses shall be reimbursed to the members.

**Integrity of Board Members:**

- Each member of the board shall observe moral integrity and professionalism at all times during his or her term in office.
- Members shall serve in the best interest of the organization at all times while in office and shall avoid making any decisions that amount to a conflict of interest.

**Mandate of the Board:**

- The mandate of the board shall be clearly stipulated in the organization's constitution, strategic plans, and all other relevant internal policy documents.

### STEP 4.1.3 – APPOINTMENTS

STEP NAME	APPOINTMENTS
<b>Step Number</b>	4.1.3
<b>Organizational Role</b>	Board members
<b>Inputs</b>	N/A
<b>Outputs</b>	N/A
<b>Integration Points</b>	N/A
<b>Summary</b>	In addition to the responsibilities of all board members, those chosen to serve in a distinguished position will be subject to further obligations and standards.

#### **Duties of the Chairperson of the Board:**

- Convene and chair all meetings of the board (in the event of his or her absence, the vice chairperson shall succeed him or her)
- Provide positive and proactive leadership and direction
- Serve as spokesperson for the organization
- Provide feedback and accountability to the organization’s board of trustees
- Be a signatory to the organization’s designated bank account
- Approve attendance and records of deliberations on behalf of the board

#### **Qualifications of the Board Chairperson:**

The governing body shall appoint the chairperson from among the members of the board. The qualifications of the board chairperson shall include the following:

- Be a person of moral integrity based on his/her past record of performance and commitment
- Meet a prescribed minimum level of education or its equivalent
- Meet a certain level of experience in a top management position in an organization or exhibit proven ability in management
- Have good inter-personal skills and an ability to work with people of diverse backgrounds

**Duties of the Vice Chairperson of the Board:**

- The vice chairperson shall be the deputy of the chairperson and shall perform the duties of the chairperson in his or her absence. The vice chairperson shall be elected from among the board members at the first meeting when the board is established.

**Duties of the Secretary of the Board:**

The organization's executive director shall serve as the secretary to the board and as a non-voting member of the board. As the secretary, the executive director extends his or her services in an honorary capacity. His or her duties and responsibilities shall include the following:

- Convene and prepare the agenda for board meetings in consultation with the chairperson
- Send to the board members the meeting invitation along with the agenda and other documents for the meeting and follow up for confirmation
- Take minutes during all board meetings, distribute draft minutes for board approval, and document the final approved minutes of the meetings
- Maintain all records of the board's deliberations and decisions
- Ensure proper implementation of the decisions of the board
- Prepare reports for presentation to the board

**Duties of the Treasurer of the Board:**

The treasurer must have a background in finance, accounting, and/or management.

The responsibilities of the treasurer shall include the following:

- Receive all financial reports pertaining to the organization and present the same to the board
- Chair the finance and audit committee of the board
- Advise the board on financial matters
- Scrutinize the organization's accounts in advance and clarify financial issues, especially those relating to capital expenditure, to the board
- Where the organization has a substantive Finance department, the role of the treasurer shall be to receive and present annual financial reports to the board for approval

## STEP 4.1.4 – BOARD MEETING AGENDA

STEP NAME	BOARD MEETING AGENDA
<b>Step Number</b>	4.1.4
<b>Organizational Role</b>	Board members
<b>Inputs</b>	N/A
<b>Outputs</b>	N/A
<b>Integration Points</b>	N/A
<b>Summary</b>	Regularly scheduled board meetings will follow a set agenda to ensure all issues are discussed and/or completed.

### Convening:

- The chairperson shall convene all board meetings through the secretary.
- In the absence of the chairperson, the vice chairperson may convene the meeting.
- The schedule of all board meetings shall be set annually or at the beginning of the fiscal or calendar year.
- After consultation with the chairperson, the secretary shall send formal meeting invitations to all board members at least 14 days in advance of the meeting.
- If both the chairperson and the vice chairperson are not able to attend the meeting, the meeting shall be postponed.

### Frequency:

- All board meetings shall be convened at least on a quarterly basis or when necessary between scheduled times.
- The quorum for all meetings shall be at least 50% + 1 including the chairperson, vice chairperson, or another member designated to chair the meeting and excluding any persons in attendance who are not members of the board.<sup>2</sup>
- Special meetings may be called to address urgent matters provided that at least two days' notice is given to all members.

<sup>2</sup> At meetings, board members are usually considered *present*, while non-members are considered *in attendance*.

Every board meeting shall have a structured agenda that may contain some or all of the following information:

- Rollcall of members
- Reading and confirmation of previous meeting minutes
- Matters arising from previous meeting minutes
- Reports on the organization's operation as requested
- Substantive agenda for deliberation
- Any other business

It is recommended that the board begin the meeting by deliberating on any new business to allow adequate attention to new business while ensuring short and productive meetings.

**Documents:**

- All documents pertaining to a given board meeting shall be sent to all board members at least two weeks prior to the date of the meeting.
- The secretary shall ensure that all board members have received the documents within good time by conducting the necessary follow-up.

**Confidentiality:**

- The secretary shall ensure that all deliberations during all board meetings are kept strictly confidential.
- All board members shall be expected to observe confidentiality at all times.

**Duration:**

- Generally, all board meetings should not go beyond three hours unless it is extremely necessary.
- Any special board meetings are exempted from this general rule.

Board members shall endeavour to evaluate their conduct of their meetings as per *Appendix A: Board Meeting Evaluation Tool*.

## STEP 4.1.5 – DESIGNATING COMMITTEES

STEP NAME	DESIGNATING COMMITTEES
<b>Step Number</b>	4.1.5
<b>Organizational Role</b>	Board members
<b>Inputs</b>	N/A
<b>Outputs</b>	N/A
<b>Integration Points</b>	N/A
<b>Summary</b>	It will sometimes be necessary to appoint within the board sub-groups called <i>committees</i> to handle specific tasks.

In some country programs, the size of the local partner organization is quite small and its structures consist only of a governing body or board of founders, board of management, and the executive team. However, in many other country programs, the local partner organization’s structure is so robust that its board of management has several committees, for example executive, program, finance and audit, and human resource committees. In such cases, the following structures and functions of board committees are recommended:

Membership in committees of the board shall be based on the qualifications, experience, and skills required.

### **Reporting Relationships:**

- All board committees shall deliberate on issues concerning their specializations and report to the board for the necessary approval before implementation of any decisions.
- The board shall deliberate on reports submitted by all committees and approve or suggest necessary amendments before implementation.
- Exceptions to the above shall be limited to decisions that committees are mandated to make and implement as stipulated in their terms of reference.

### **Potential Committees and Descriptions:**

- Executive Committee
  - Shall have no fewer than three members and no greater than five members, who shall include the chairperson, secretary, treasurer/ chairperson of the finance committee, and executive director
  - Exercises the authority of the board subject to approval by the full



Locals in the village of Kravica, walk past a home built by CRS. The process of returning people displaced by the war in Bosnia-Herzegovina has been complicated and thousands still live in collective centers.

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board. Acts on behalf of the board in emergency and interim periods between regularly scheduled board meetings.

- Program Committee
  - Ensures that the core business of the organization is carried out efficiently and effectively
  - Composed of two board members and selected heads of the various departments of the organization
- Finance Committee
  - Sets comprehensive categories of costs and revenue items for planning and budgeting
  - Develops an investment plan
  - Reviews and ensures that the organization's regular financial reports are accurate and timely
  - Develops financial policies and guidelines in line with generally acceptable accounting principles (GAAPs)
  - Screens, qualifies, and recommends to the board the appointment of external auditors
- Human Resource Committee
  - Establishes a staffing structure and human resource management plan and offers advice on how best to manage human resources in the organization
- Ad Hoc Committees
  - Where necessary, ad hoc committees may be created to address issues that do not fall within the purview of the other board committees
  - The terms of reference (TOR) for each committee so formed shall be clearly defined and stipulated, and made readily accessible to all concerned
  - Once an ad hoc committee has completed its task as mandated by the board, it shall cease to exist

## STEP 4.1.6 – BOARD PERFORMANCE EVALUATION

STEP NAME	BOARD PERFORMANCE EVALUATION
<b>Step Number</b>	4.1.6
<b>Organizational Role</b>	Governing body
<b>Inputs</b>	N/A
<b>Outputs</b>	N/A
<b>Integration Points</b>	N/A
<b>Summary</b>	The board and its members shall be subject to performance review.

### **Overall Board Performance:**

- The governing body or the appointing authority shall conduct an annual evaluation of the board’s performance.
- Whenever possible or necessary, such an evaluation should be conducted by an external consultant hired by the governing body or appointing authority.
- This evaluation shall be based on a well-developed performance appraisal tool that institutions use such as tools currently used by the government. See *Appendix B: Board Evaluation Tool*.

### **Evaluation of Board Members:**

- All board members shall be evaluated on the basis of a performance appraisal tool, which shall incorporate performance criteria.

### **Evaluation of the Chairperson:**

- The chairperson shall be evaluated by the committee of the governing body.
- The evaluation shall also be based on an agreed performance appraisal tool.

### **Disclosure of Institutional Governance Achievements:**

- The executive committee shall disclose organizational governance achievements to the board quarterly and to the stakeholders annually by way of an annual report.
- The board shall present the organization’s annual report to the governing body, during the governing body’s annual meeting.
- The annual report shall include a section on governance and board performance.

# ICT BUSINESS PROCESS 4.2 – BOARD RELATIONS

## PROCESS DESCRIPTION

It is important that the board maintain relationships with all key stakeholders of the business. These include the governing body, organizational management, local government, and others. Meeting obligations and performing the duties required to maintain these relationships is vital to the organization's health.

## PROCESS FLOW



### STEP 4.2.1 – GOVERNING BODY RELATIONS

STEP NAME	GOVERNING BODY RELATIONS
<b>Step Number</b>	4.2.1
<b>Organizational Role</b>	Board members
<b>Inputs</b>	N/A
<b>Outputs</b>	N/A
<b>Integration Points</b>	N/A
<b>Summary</b>	The board must meet obligations in order to maintain relations with the governing body.

It is important that there exist healthy communication and a working relationship between the board and the governing body. This relationship must be respected and maintained at all times. Key aspects that must be considered and policy recommendations are as follows:

**Appointment:**

- The governing body shall be fully responsible for the appointment of members of the board. It may delegate this function to a representative of the governing body.

**Development:**

- The governing body shall have direct involvement in the orientation and development of all board members through training and other means.
- Relevant organs of the governing body shall be put in place to enhance the governing body’s direct involvement in the orientation and development of the members of the board as well as to ensure general oversight of its decisions and activities and to ensure ownership.

**Compensation:**

- The board shall create a reasonable compensation scheme (for all positions in the organization, including the executive director), which shall be approved by the relevant organ of the governing body.

**Senior Staff Appointments:**

- The board shall identify and appoint the executive director in consultation with the governing body.
- The board shall appoint senior organization management staff in consultation with the executive director.

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The board must meet obligations in order to maintain relations with the governing body.

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**Discipline of the Executive Director:**

- The executive director shall answer to the board.
- The board shall be responsible for disciplining the executive director and shall inform the governing body of all decisions made.
- The governing body shall channel all issues pertaining to the executive director to the board for necessary action.

**Remuneration and Continuous Development of the Executive Director:**

- The board shall set reasonable remuneration for the executive director, taking into account his or her qualifications and experience and availability of resources.
- The board shall also conduct a joint training needs assessment with the executive director and jointly develop a training program for the executive director to ensure his or her continual development.

**Public Relations:**

- The board shall be responsible, in consultation with the board of trustees, for all public relations pertaining to the organization.

**Social Responsibility:**

- The board shall be responsible, in consultation with the governing body, for overseeing activities pertaining to social responsibility.
- The organization's management shall dedicate and plan for, with approval from the board, all activities pertaining to social responsibility.

The relationship between the governing body and the board shall be clearly defined and stipulated, and details of the same shall be made readily accessible to all concerned. The definition shall specify the following:

- Reference guidelines on the respective duties and responsibilities of the board and the governing body
- Structure of and relationships between the two
- Conflict resolution mechanisms
- Reporting relationship between the board and the governing body and vice versa
- Nature, scope, and content of all reports and/or issues to be submitted/consulted by the governing body

## STEP 4.2.2 – ORGANIZATION MANAGEMENT RELATIONS

STEP NAME	ORGANIZATION MANAGEMENT RELATIONS
<b>Step Number</b>	4.2.2
<b>Organizational Role</b>	Board members
<b>Inputs</b>	N/A
<b>Outputs</b>	N/A
<b>Integration Points</b>	N/A
<b>Summary</b>	The board must meet obligations in order to maintain relations with the organization's management.

### Clarity of Roles:

- The duties and responsibilities of the board and the management of the organization shall be clearly defined and readily accessible to all concerned.
- The management of the organization shall develop, in consultation with the board, all strategic plans for the organization.

### Policy Formulation and Implementation:

- The board shall be responsible for policy formulation.
- Management of the organization shall be responsible for policy implementation.

### Working Relationships:

- Management of the organization shall ensure that it seeks the necessary approval from the board and keeps the board informed on the implementation of its decisions.

### Communication:

- There shall be constant communication between the board and management of the organization.
- The channels of communication shall be clearly defined, left open, and appropriately utilized.
- Communication shall normally be conducted between the board chairperson and the executive director unless otherwise delegated.
- The governing body shall channel all its communication to management through the board chairperson.

**Performance Evaluation of the Executive Director:**

- In coordination with the human resource committee, the board shall create performance indicators against which the performance of the executive director shall be evaluated.

**Board of Management – Management of the Organization:**

- The duties and responsibilities of the board and management of the organization shall be clearly defined and made accessible to all concerned.
- The board and management of the organization shall at all times adhere to their defined duties and responsibilities.
- Where lack of clarity exists the governing body may be called upon to facilitate interpretation for better understanding.
- If the mechanism referred to in the point above did not work, the board and management of the organization will bring in external resources to assist in resolving the difference.

### STEP 4.2.3 – KEY STAKEHOLDER RELATIONS

STEP NAME	KEY STAKEHOLDER RELATIONS
<b>Step Number</b>	4.2.3
<b>Organizational Role</b>	Board members
<b>Inputs</b>	N/A
<b>Outputs</b>	N/A
<b>Integration Points</b>	N/A
<b>Summary</b>	The board must meet obligations in order to maintain relations with government ministries.

Government ministries and other key stakeholders shall be represented in the board as ex-officio members. The organization shall do the following:

- Ensure regular reporting to the related government ministries.
- Adhere at all times to national policies, regulations, and standards set by the government.
- Actively participate in government activities including annual development planning and program sector forum.

There shall be regular and timely communication between the board and the government ministries to facilitate proper planning and implementation of the organization’s activities.

The governing body may need to be involved in operational issues regarding legal status and engagement with external stakeholders.



DAVID SNYDER FOR CRS

CRS beneficiaries walk back from a meeting in the village of Ajo in southern Ethiopia. Through a CRS-supported project, these women are now able to save money by pooling their efforts and resources to sell milk in a distant city.

#### STEP 4.2.4 – CONFLICT RESOLUTION

STEP NAME	CONFLICT RESOLUTION
<b>Step Number</b>	4.2.4
<b>Organizational Role</b>	Board members
<b>Inputs</b>	N/A
<b>Outputs</b>	N/A
<b>Integration Points</b>	N/A
<b>Summary</b>	All conflicts of interest must be disclosed immediately and handled according to established guidelines.

#### Disclosure of Conflicts of Interest:

- Any board member who has a direct and/or indirect interest in any contract and/or proposed contract with the organization shall disclose the nature of his/her interest to the board.
- Any member who discloses such an interest shall not be entitled to participate in any deliberation or vote on any issue pertaining to the said contract. When he or she does vote, his or her vote shall be null and void.
- The board shall develop guidelines clarifying how board members and management of the organization are to disclose any existing conflicts of interest.

The board shall ensure that it maintains good public relations with the relevant regulatory agencies.

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All conflicts of interest must be disclosed immediately and handled according to established guidelines.

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# ICT BUSINESS PROCESS 4.3 – BOARD RESPONSIBILITIES

## PROCESS DESCRIPTION

The myriad responsibilities of the board to an organization ensure that the organization is on the right track and continues on that track. These responsibilities include determining the status and strategy of an organization and overseeing certain key functional areas like finance, human resources, and compliance.

## PROCESS FLOW



### STEP 4.3.1 – ORGANIZATION STATUS

STEP NAME	ORGANIZATION STATUS
<b>Step Number</b>	4.3.1
<b>Organizational Role</b>	Board members
<b>Inputs</b>	N/A
<b>Outputs</b>	N/A
<b>Integration Points</b>	N/A
<b>Summary</b>	The board shall be responsible for determining the status of the organization concerning matters such as core business, legal status, and organizational structure.

#### **Determination of Core Business:**

- The board shall determine the core business of the organization and approve any new areas of program expansion/development.
- Core business shall be defined as clearly as possible to avoid any possible digression to non-core business that may give rise to regulatory issues with bodies such as the National Revenue Authority.

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All organizations must have clear legal entity status.

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#### **Core Business Versus Other Priorities:**

- There shall be no conflict whatsoever between the core business and any other businesses with which the organization may be involved, e.g., establishing and managing income generating activities as an additional source of income.

#### **Legal Status:**

- All organization must have clear legal entity status.
- It is recommended that legal instruments pertaining to ownership are drafted to safeguard the autonomy and identity of the organization. This may create avenues for financial support from the government and other funding agencies.

#### **Ownership and Autonomy:**

- Unless expressly stated otherwise, the governing body shall at all times continue to be the owner of the organization.
- The nature and extent of any existing relationship with the government must be carefully negotiated and expressly stipulated.

- The core business of the organization shall be clearly defined to reflect the relationship between the organization and its governing body.
- The governing body shall develop its capacity to properly manage and account for any financial support received by the organization from the government and other funding agencies.

**Organizational Structure:**

- The organization must have a clear organizational structure that reflects clear linkages and relationship between the board and the governing body. A sample of a robust organization is included in *Appendix C: Sample Organizational Chart*.

### STEP 4.3.2 – STRATEGY AND OPERATIONAL CONTROL

STEP NAME	STRATEGY AND OPERATIONAL CONTROL
<b>Step Number</b>	4.3.2
<b>Organizational Role</b>	Board members
<b>Inputs</b>	N/A
<b>Outputs</b>	N/A
<b>Integration Points</b>	N/A
<b>Summary</b>	The board has a responsibility to oversee the strategy of an organization, even going so far as to appoint the executive director.

#### **Appointment of the Executive Director:**

- The board shall, in consultation with the governing body, appoint the executive director of the organization.
- Where possible, an external professional recruiting consultant may be engaged to assist in the recruitment of an executive director. He or she shall be sourced by the board through a competitive tendering process.
- The board shall, in consultation with the relevant board of trustees, develop the qualifications and job description of the executive director.
- The executive director shall represent the organization in all technical meetings.
- The executive director shall ensure compliance with existing government regulations, standards, and guidelines.

#### **Vision, Mission, and Strategic Objectives:**

- The board shall be fully involved in developing the organization's strategic plan as well as in shaping its vision, mission, and core values. The governing body shall be consulted in determining the vision to ensure consistency with the board of trustees' vision.
- Management of the organization shall develop the organization's strategic plan through a participatory process involving input from all departments and sections.
- Management of the organization shall present to the board the formulated strategy for its approval.

- All strategic plans shall have a clear execution plan articulated in annual operational plans or the annual plan of activity.

**Management Performance Evaluation:**

- The board shall conduct a performance evaluation of management of the organization.
- It shall create clear guidelines detailing under which circumstances the governing body shall be involved in this process.

**Performance Reports:**

- There shall be clear guidelines on the nature and contents of all reports to be prepared by management of the organization and presented to the board.
- Management of the organization shall be responsible for submitting to the board regular, accurate, and timely reports on the performance of the organization.
- The board shall evaluate all submitted reports and assess the risks inherent in said reports.

**Risk Management:**

- Management of the organization shall be responsible for managing the organization's risks.
- The board shall provide necessary leadership in the identification, analysis, evaluation, and management of potential risks for the organization.

### STEP 4.3.3 – HUMAN RESOURCES RESPONSIBILITIES

STEP NAME	HUMAN RESOURCES RESPONSIBILITIES
<b>Step Number</b>	4.3.3
<b>Organizational Role</b>	Board members
<b>Inputs</b>	N/A
<b>Outputs</b>	N/A
<b>Integration Points</b>	N/A
<b>Summary</b>	The board shall ensure that fair human resources (HR) policies are enacted and may need to form an HR committee to handle more menial details.

The following general responsibilities of the board in regard to human resources shall apply to all organizations regardless of the size and the structure of the organization:

- The board is responsible for setting and ensuring compliance with national law and organizational standards. The by-laws adopted by the board must conform to applicable national and local labor and occupational health and safety law.
- The board commits to conducting at least one audit each year to assess safety and security of all operations. Should it be required, the board will engage an occupational health and safety specialist to conduct the audit.
- At each board meeting, the board will receive and review a safety and security report from the executive director of the organization.
- The board further commits to allocate sufficient financial, human, and material resources to the health and safety function of the organization.

A Human Resources committee will be established by the Board to carry out further responsibilities.

In relation to staff policies, the Human Resources committee will be responsible for the following:

- Implementing and ensuring organizational commitment to staff safety and security
- Establishing a staffing structure and human resource management plan that offers advice on how best to manage human resources in the organization and reviewing it every year to ensure optimum staffing levels to carry out the core functions of the organization

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The board is responsible for setting and ensuring compliance with national law.

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- Approving the negotiation parameters and contents of the organization's employment contract, including the establishment of remuneration guidelines and the review of the reasonableness of proposed staff pay rates and the equity and fairness of the remuneration setting process
- Defining the performance indicators for all positions in the organization
- Reviewing and recommending annual human resource development plan
- Ensuring that all non-national staff comply with the laws of the country
- Reviewing all existing staff appraisal tools to ensure that they are up-to-date and reliable

Management of the organization shall conduct staff appraisals on all staff annually.

In relation to the executive director, the Human Resources committee will be responsible for the following:

- Recruiting and screening all candidates for the position of executive director and forwarding the same to the board for appointment
- Annually reviewing, in consultation with the board, the executive director's and management's remuneration packages
- Reviewing and approving the recommendations made in consultation with the executive director in relation to the performance and remuneration of staff
- Defining the executive director's duties and responsibilities in consultation with the board (The board may competitively source the services of an external consultant who will assist in the development of duties and responsibilities of the executive director as well as assist in developing and negotiating performance contracts.)

In relation to key positions in the organization, the Human Resources committee will be responsible for the following:

- Interviewing candidates for senior management and technical positions and recommending to the board for appointment (All key positions in the organization shall have proper job descriptions to ensure that their appointment by the relevant authority is properly done.)
- Ensuring the implementation of the process relating to the review of directors' and committee members' allowances
- Developing a human resource policy for the organization and approving delegation of authority and other key human resource management procedures

- Providing advice and guidance to the executive director on resolving human resource management issues of substance, such as staff development and discipline
- Considering important human resource management issues such as management succession planning and knowledge management
- Setting policies aimed at promoting continuity within management of the organization, including a succession plan that shall detail how key positions in the organization shall be managed when they fall vacant

In relation to compensation, the Human Resources committee will be responsible for the following:

- Setting policy on fair remuneration to promote staff retention and motivation
- Developing a comprehensive guideline for the levels of compensation/reward, based on resource and income generation capacity as well as the existing local market
- Defining a minimum salary scale for each level of staff
- Developing strategies to motivate employees through other financial and non-financial benefits and bonuses that are not tied to salary/compensation
- Conducting periodic review of the salary structure and compensation system

## STEP 4.3.4 – FISCAL RESPONSIBILITIES

STEP NAME	FISCAL RESPONSIBILITIES
<b>Step Number</b>	4.3.4
<b>Organizational Role</b>	Board members
<b>Inputs</b>	N/A
<b>Outputs</b>	N/A
<b>Integration Points</b>	N/A
<b>Summary</b>	The board shall serve as a high-level approver of finances for the organization and will schedule regular audits to ensure compliance.

Every organization should have a fully functional finance and audit committee, which shall set comprehensive categories of costs and revenue items for planning and budgeting. Its responsibilities will include the following:

- Reviewing, monitoring, and recommend improvements to internal control and financial reporting processes
- Overseeing the organization’s internal and external audit processes
- Providing independent advice to the board on matters pertaining to the organization’s accountability and financial responsibility
  - Sourcing and proposing to the full board external auditors for appointment
  - Negotiating audit fee and recommending to the board
  - Reviewing budget proposals
  - Monitoring implementation of the organization’s procurement policy
  - Meeting at least four times each year

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Every organization should have a fully functional finance and audit committee.

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### Resource Mobilization:

- The organization shall endeavor to develop a resource mobilization plan in consultation with the board and mobilize resources from the government, the private sector, development partners, and other donors.

### Investment Plans:

- It is highly recommended that the organization develop a clear investment plan under the leadership of its board.

**Financial Reports:**

- Management of the organization shall ensure that the organization regularly submits accurate and timely financial reports.
- All financial reports shall meet the set criteria of acceptable standards.

As it pertains to financial control, the responsibilities of the board shall include the following:

- Supporting the development of financial policies and guidelines in line with generally acceptable accounting principles (GAAPs), which are well documented and widely known by all users
- Spearheading trainings in integrity and leadership
- Creating a clear structure on separation of duties and responsibilities to promote financial accountability and transparency
- Regularly reviewing and evaluating implementation of financial policies and guidelines

**Financial Audits**

- The board shall set clear guidelines to clarify the separation of the financial audit function from the broader management function.
- An internal auditor will be responsible for continuous review and strengthening of internal control systems and procedures.
- The internal auditor shall report the day-to-day financial operations as necessary and as requested by the finance and audit committee.
- The organization shall conduct comprehensive (i.e., on all systems in the organization other than the financial systems) audits.
- The books of accounts shall be maintained and externally audited annually by an external auditor appointed by the board.
- The external auditor shall present its report to the board and/or the mandated committee of the governing body.

## STEP 4.3.5 – COMPLIANCE WITH POLICIES AND REGULATIONS

STEP NAME	COMPLIANCE WITH POLICIES AND REGULATIONS
<b>Step Number</b>	4.3.5
<b>Organizational Role</b>	Board members
<b>Inputs</b>	N/A
<b>Outputs</b>	N/A
<b>Integration Points</b>	N/A
<b>Summary</b>	The board shall ensure that management of the organization adheres to all existing internal policies and procedures.

### **Constitution:**

- The organization shall have a legalized constitution and ensure that it adheres to their existing governing body's bylaws and to local laws and regulations.
- Any requests for exemption(s) from the terms of the constitution shall be in writing and subject to the written approval of the board.
- The organization shall create a code of conduct, which shall be developed in consultation with the board and employees at all levels and shall be consistent with the constitution of the board of trustees.

### **Compliance With Internal Policies:**

- The board shall ensure that management of the organization adheres to all existing internal policies and procedures.
- A systems audit may be conducted annually or when necessary to ensure compliance.

### **Professional Bodies:**

- Management of the organization shall ensure that all professional staff members of the organization are registered with the relevant regulatory agencies.

### **Statutory Requirements:**

- Management of the organization shall ensure that the organization complies with all existing and relevant statutory requirements such as operating licenses, the national social security fund, the national revenue authority, the pensions fund regulatory authority, etc.



Caritas Haiti staff members conduct site visits in a town where 40 families received building materials to help rehabilitate their homes following three hurricanes in 2008.

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- Dialogue with the relevant regulatory agencies shall be initiated and encouraged at different levels by the organization, depending on the nature of issues to be addressed.

Trade Unions:

**The board and management of the organization shall do the following:**

- Ensure cordial and respectful relationship with all relevant trade unions
- Recognize the rights of all employees to join a trade union of their choice where relevant
- Facilitate an enabling environment for dialogue and negotiations to promote harmonious industrial relations

**Relevant Government Agencies:**

- Management of the organization shall ensure that the organization complies with all existing national policies, standards, guidelines, and regulations set by the relevant government agencies.
- To ensure that the organization submits all its reports regularly to the government ministries, management shall specify the time and date on which all such reports shall be submitted by the relevant departments.

**International Conventions:**

- Management of the organization shall ensure that the organization observes all international conventions and treaties pertaining to various program sectors and to which their country is a signatory.
- The board and management shall be fully sensitized on the contents and importance of these international conventions.

**Agreements with Development Partners:**

- The board and management of the organization shall ensure that the terms and conditions of all contracts, memoranda of understanding (MOU), and any other agreements with development partners, including funding agencies, are carefully negotiated and scrutinized through a review by the agency's legal department before they are signed.
- The board and management of the organization shall ensure that the organization duly complies with the terms and conditions of any such agreement.

## STEP 4.3.6 – POLICY IMPLEMENTATION AND REVIEW

STEP NAME	POLICY IMPLEMENTATION REVIEW
<b>Step Number</b>	4.3.6
<b>Organizational Role</b>	Board members
<b>Inputs</b>	N/A
<b>Outputs</b>	N/A
<b>Integration Points</b>	N/A
<b>Summary</b>	The board shall oversee the process of creating new policies and amendments by following pre-existing guidelines.

### Management Responsibility:

- The board may seek technical support in the dissemination, adoption, and implementation of these policy guidelines.
- Management of the organization shall be responsible for coordinating the implementation of these policy guidelines in their respective facilities.

### Policy Implementation and Dissemination:

- These policy guidelines shall be implemented in consultation with the board of trustees and other relevant stakeholders.
- These policy guidelines shall be disseminated to management, the board of trustees, and other relevant stakeholders using the full range of information and communication system available to each facility.

### Monitoring and Evaluation:

- The organization, in consultation with the board, shall develop a monitoring and evaluation (M&E) system to monitor the effective implementation of these policy guidelines.

### Policy Guidelines Review:

- These policy guidelines shall be reviewed periodically as the need arises, and revised where necessary, in consultation with the governing body.

### Amendments:

- Where an organization adopts these policy guidelines, any additions, alterations, or amendments to its governance policy shall be in writing and subject to the approval of its board in consultation with its governing body.

**Approval for Dissemination and Adoption:**

- The dissemination, adoption, and implementation of these generic policy guidelines by the organization are contingent upon approval of the organization's board.

# COMPLIANCE CHECKLIST FOR GOVERNANCE

The Organization of Economic Cooperation and Development (OECD) defines *corporate governance* as “the system by which business corporations are directed and governed. The governance structure specifies the distribution of rights and responsibilities among different participants in the corporation, such as the board, managers, shareholders, and other stakeholders, and spells out the rules and procedures for making decisions on corporate affairs. By doing so, it also provides the structure through which the company objectives are set, and the means of attaining those objectives and monitoring performance.”

- The key to corporate governance is the distribution of rights and responsibilities across the entire business. Critical to good governance are the systems below the board and the distribution of rights and responsibilities that ensure the tone, objectives, and expectations cascade throughout the organization and down to every individual.<sup>3</sup>
- The persons charged with governance in an organization are often referred to as the board of directors. The role of the board is to develop and execute strategy; therefore a governing body must have the right mix, the right skills, and the right attitudes.<sup>4</sup>

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The key to corporate governance is the distribution of rights and responsibilities across the entire business.

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Issues of governance, risk management, and compliance have to be addressed at the highest level of the organization, and should be integrated as part of the business processes.

Various governance authorities and best practices across countries and across contexts identify the following as key pillars in institutional governance:

- Laying a solid foundation for management and oversight
- Structuring the board of directors to add value to the organization
  - Recognition and protection of the rights and obligations of all stakeholders
  - Strategy and values
  - Institutional performance, viability, and financial sustainability

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<sup>3</sup> OCEG. (2010). *Measurement and Metrics Guide*. Retrieved from <http://www.oceg.org/view/MMG>. Available only to premium members.

<sup>4</sup> Adapted from International Federation of Accountants. (2010). *Handbook of International Quality Control, Auditing, Review, Other Assurance, and Related Services*. New York, NY: International Federation of Accountants. Retrieved from <http://web.ifac.org/publications/international-auditing-and-assurance-standards-board/handbooks>.

- Timely and balanced disclosures
- Remunerating fairly and responsibly
- Strengthening internal control procedures
- Assessment of performance of the board and management
- Recognition and management of institutional risk
- Social and environmental responsibility
- Institutional compliance with laws and regulations
- Institutional communication

The following are the objectives of the compliance reviews of governance:

- To determine that there are appropriate persons in the organization with the responsibility to oversee the strategic direction of the entity
- To establish if the entity has established missions and goals that are shared with and understood by employees
- To establish if there is effective planning to accomplish stated goals
- To establish that there are effective controls to monitor the performance of the entity
- To establish if there are controls to monitor progress towards the achievements of goals
- To establish if the entity complies with legal and regulatory requirements<sup>5</sup>

## **CORPORATE GOVERNANCE CHECKLISTS**

Determine/assess that appointment of board of directors of the organization is in line with the guidelines stated in the bylaws/constitution of the entity. Evaluate the appointment process of the board and ascertain if it meets the minimum basic requirements of good governance. Obtain responses to the following:

- Does the organization have a board of directors? If so, ascertain the names of the members and their qualifications.
- Does the board report to another board or other bodies? If so, establish the independence of those charged with governance of the board of directors.
- How are the members of the board appointed?
- Does the organization have regulations or rules for the appointment?
- Who is responsible for the selection of the board members? Is there a search or nominations committee?

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<sup>5</sup> Ibid.

- How does the organization evaluate the appointment process to ensure that all board members are appointed following due process?
- Are there established tenures or periods of appointment? If so are there policies and procedures for reappointments?

Review to ascertain how the organization ensures that only individuals with the right skills and experience are appointed to the board. Obtain responses to the following questions:

- Does the organization have basic qualification academic and non-academic requirements that are used to evaluate candidates for board membership?
- Are there established criteria for the appointment of a board member?

Evaluate the composition of the board of directors and ascertain its suitability for the management of the organization. Obtain responses to the following questions:

- What is the composition of the board? Does the board have the right mix of executive and non-executive members?
- What is the size of the board? How many members are executive and non-executive?
- How does the organization ensure that the governing body is not too large or small for the organization concerned?<sup>6</sup>

Review to establish if the board has clear duties and responsibilities for carrying out their business. Obtain responses to the following questions:

- Are the responsibilities of the board members well defined? Do board members understand their responsibilities? Are the duties of the chairman and secretary well defined and clearly communicated?
- Are the roles of those charged with governance or members of the board well defined and clearly communicated?
- Is there a transparent and clear structure of responsibility differentiating between what the board can do and what managers and employees can do?
- Are those charged with governance given clearly defined terms of reference?
- Are members of the board trained and inducted in their responsibilities?
- Is there any training provided for those members? How regular is the training?

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<sup>6</sup> Council on Quality and Leadership. (2003). Guide to Developing and Supporting a Board of Directors. Retrieved from <http://www.thecouncil.org/tools.aspx>

Review and assess the conduct, process, documentations, and effectiveness of board meetings in the organization. Obtain responses to the following questions:

- How do the persons charged with governance or the board of directors conduct their business in the organization? Does the board conduct its business through meetings? If not, specify ways in which it conducts business.
- Are there established procedures for the organization of meetings? If so, documents all procedures and ascertain the process and practices.
- If the procedures for conducting meetings are laid out, do they cover the development of the agenda, frequency of the meeting, notification process for the meeting, documentation of the meeting (minutes), and confidentiality matters?
- Does the board chairman convene meetings through the secretary? If so, is the frequency of meetings adequate?
- Are meeting agendas circulated in time?
- Are resolutions of the board recorded and implemented?
- *(Adapted from IFAC Handbook of International Quality Control, Auditing, Review, Other Assurance, and Related Services.)*

Review to establish the organization's role in fighting bad governance. Obtain responses to the following questions:

- Does the organization have a separate fraud, corruption, and whistle-blowing policy? If so are the policies made known to all the members charged with governance as well as employees of the organization?
- Do the persons charged with governance procedures monitor frauds and bad governance practices in the organization? If so how are they monitored?
- Does the board have any ethical guidelines for its operations? If so how are these guidelines implemented?
- Does the board review the ethical guidelines regularly? If so, how often and who is responsible for its review?

Review to establish if the performance of the board is monitored and the monitoring mechanisms are adequate. Obtain responses to the following questions:

- Are the performance of the board and its committees reviewed? If so, does the organization have procedures or guidelines for reviewing governance performance?
- Does the organization have performance indicators set for those in charge of its governance?

- Are reports produced detailing the board's and subcommittees' objectives for the year and progress against these objectives?
- Who handles appraisals of governance in the organization?
- How often are appraisals of governance done?
- Does the organization have external and internal reviewers such as external auditors, internal auditors, and an audit review committee? Do they produce reports regularly and on time?
- Does the organization undertake a review to ensure that board members have not become ineffective?
- Review the process of monitoring the performance of the board and its effectiveness.

Review and assess the effectiveness of governance practices for the development of organizational policies. Obtain responses to the following questions:

- Does the organization have a mission statement?
- Is the mission stated clearly and concisely?
- Is the mission consistent with laws, regulations, and the organization's values?
- Has management set operational goals for the organization?
- Do these operational goals support the mission?
- Are these operational goals stated in measurable terms?
- Are the goals further divided into sub-goals for operating units?

Review to establish the board's role in the implementation of these policies.

Obtain responses to the following questions:

- Does the organization have compliance officers or internal auditors? If so, do they report their findings to the audit committee?
- Are the recommendations of the compliance officer, internal auditors, external auditors, and/or the audit committee implemented? Does the audit committee take responsibility for ensuring implementation of audit recommendations?
- Does the board assume a risk management role or assign the role to another body, for example a subcommittee in charge of risk management?<sup>7</sup>

<sup>7</sup> Ray, Kastuv. (2003). Corporate Governance Internal Control Questionnaires." Retrieved from [www.auditnet.org/docs/ICQs/CorporateGovernance.doc](http://www.auditnet.org/docs/ICQs/CorporateGovernance.doc)

## **LEGAL ENVIRONMENT COMPLIANCE**

Governing laws and regulations constitute the legal and regulatory framework for the organization. These laws and regulations include the NGO statutes, Companies Act, and any other statutory regulations. Non-compliance with laws and regulations may result in fines, litigation, or other consequences for the organization.

The persons charged with governance of an organization have the responsibility to ensure that the organization operates in accordance with the provisions of laws and regulations.

The following are the objectives for this review:

- To obtain sufficient appropriate review evidence regarding compliance with the provisions of those laws and regulations generally recognized to have a direct effect on the operation of the organization
- To perform specified compliance reviews to help identify instances of non-compliance with laws and regulations
- To test prompt response to non-compliance or suspected non-compliance with laws and regulations

## **LEGAL REVIEW CHECKLIST**

The review should provide general understanding of the entity and its environment in accordance to the following:

Review to establish legal registration:

- Establish the organization's legal registration. Does the organization have a registration certificate?
- Obtain copies of all legal certifications, licenses, and permits of operations and examine the legal status.
- Establish other legal registration requirements such as the operating license, certifications from the statutory authorities, and others.
- Obtain copies of the certificates of registration and ascertain if the entity meets all registration requirements.

Reviews to establish non-compliance with laws and regulations:

- Check if there are investigations by regulatory organizations or government departments. This may be sign of non-compliance.
- Check for payments for unspecified services and any unusual payments to any regulatory bodies. This may be proof of fines for non-compliance.

- Check for any adverse media comments on the organization. This may indicate non-compliance.

Review to establish the existence of internal laws and regulations such as the articles and memorandum of association, constitution, club rules and regulations, and all other regulations that govern operations:

- Obtain copies of the internal laws and regulations and note if all are sufficient to function as internal regulations.
- Establish the entity's reporting requirements such as statutory returns, reports, and others periodic requirements.
- Examine all reporting requirements to ascertain the organization's compliance with reporting requirements.

Review the organization's legal situation:

- Does the organization have any legal cases to answer? If so, establish the liabilities that may arise?
- Does the organization have attorneys or lawyers to handle legal matters?

Review to obtain evidence of the board's role in maintaining compliance with laws and regulations:

- Check for evidence of monitoring of legal requirements and ensuring that the operating procedures are designed to meet the requirements.
- Check for the operation of the appropriate internal control system established to ensure compliance with laws and regulations.
- Check for the development of internal laws and regulations for proper conduct and ethics in the organization.
- Check if employees are trained and are aware of the internal regulations and laws.
- Check for the monitoring of the internal laws and regulations.
- Check if the organization engages the services of a legal advisor.
- (Adapted from IFAC *Handbook of International Quality Control, Auditing, Review, Other Assurance, and Related Services.* )



HILDA M. PEREZ FOR CRS

In Mexico, indigenous communities struggle as their land rights are questioned, their forest depleted by logging, and they face increased malnutrition and scarcity of food.

# GLOSSARY

Below is a glossary of terms that have been used in this document. The users of these guidelines may modify the interpretations given to these terms to suit their respective needs, provided that they do not distort their meaning as used in the document.

## **Accountability**

The acknowledgement and assumption of responsibility for actions, decisions, and policies within the scope of an individual's duties and responsibilities and encompassing the obligation to report, explain, and be answerable for the resulting consequences of his or her actions.

## **Authority**

A claim of legitimacy, justification, and right to exercise power that an individual has by virtue of his or her duties and responsibilities. It includes the power to make decisions and to command or require another to do certain things.

## **Beliefs and values**

The underlying principles of what an institution believes to be moral, ethical, and right. They form the foundation of an institution and guide the behavior of its employees and the nature of activities in which it engages.

## **Board**

The governance body charged with operations oversight, such as the board of management or board of directors.

## **Board member**

A member of the board of management or board of directors.

## **Board members**

The chair and any other individuals who have been appointed by the relevant appointing authority to be members of the board for a specified term.

## **Code of conduct**

A standard of moral and ethical behavior that is expected or prescribed by the board.

## **Conflict of interest**

A situation in which a person in a position of trust has competing professional or personal interests that directly or indirectly compromise his or her ability to fulfill his or her duties impartially and in the best interests of his or her employer. A conflict of interest exists even if no unethical or improper act results from it.

**Disclosure**

The giving out of timely and accurate information and accountability reports, either voluntarily or in compliance with legal regulations or workplace rules. These reports include management circulars as well as annual and interim financial statements.

**Diversity**

Disagreements and opposing points of view of members of the board when deliberating on issues.

**Duty of care**

The duty of board members to adhere to a reasonable standard of care expected of others in a similar position while exercising their powers and discharging their duties and responsibilities. This means that they must at all times act in good faith and in the best interests of the organization by exercising the due care and diligence that a reasonably prudent person would exercise in comparable circumstances.

**Empower**

Developing the capacity of individuals with necessary skills and information and delegating duties and responsibilities to enable them to act.

**Evaluation**

The process of measuring the performance of an organization and its employees against established and desired benchmarks that are based on the organization's values, standards, goals, and objectives.

**Executive relationship**

The relationship between the board of directors, the chairperson, and the board of trustees.

**Governance**

A structure and process to direct and monitor decisions pertaining to the management of the affairs of an institution.

**Governing Body**

The owner of the institution, e.g., dioceses, congregation, Episcopal conference, etc.

**Intellectual property**

Intangible creations of the mind such as musical, literary, and artistic works; inventions; and symbols, names, images, and designs used in commerce, including copyrights, trademarks, patents, and related rights.

**Mission**

The underlying reason for the existence of an institution or corporation.

**Policy**

A deliberate plan of action by the board to guide decisions and achieve rational outcomes. While law can compel or prohibit behavior, a policy merely guides actions toward those that are most likely to achieve a desired outcome.

**Proactive**

The ability of an individual to anticipate and see a situation as an opportunity, regardless of how threatening it appears and to influence the system constructively instead of merely reacting to it.

**Procedure**

A set of guidelines developed by an organization determining how internal policies are to be interpreted, executed, and implemented to ensure that the most desirable results are obtained irrespective of the circumstances.

**Protocol**

The terms of reference and set criteria for conducting specific activities in an institution.

**Prudence**

The caution exercised in the manner in which an individual conducts him- or herself as it pertains to organizational and individual performance.

**Strategic leadership**

How an institution intends to realize its goals and objectives when taking advantage of opportunities and addressing challenges that arise.

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## APPENDIX A: BOARD MEETING EVALUATION TOOL

BOARD MEETINGS EVALUATION TOOL			
	OK	NEEDS IMPROVEMENT	SUGGESTIONS FOR IMPROVEMENT
1. The agenda was clear, supported by the necessary documents, and circulated prior to the meeting.			
2. All board members were prepared to discuss materials sent in advance.			
3. Reports were clear and contained needed information.			
4. We avoided getting into administrative/ management details.			
5. A diversity of opinions was expressed and issues were dealt with in a respectful manner.			
6. The chair guided the meeting effectively.			
7. Members participated responsibly.			
9. Next steps were identified and responsibilities assigned.			
9. All board members were present.			
10. The meeting began and ended in time.			
11. The meeting venue was conducive to work.			
12. We enjoyed being together.			

## APPENDIX B: BOARD EVALUATION TOOL

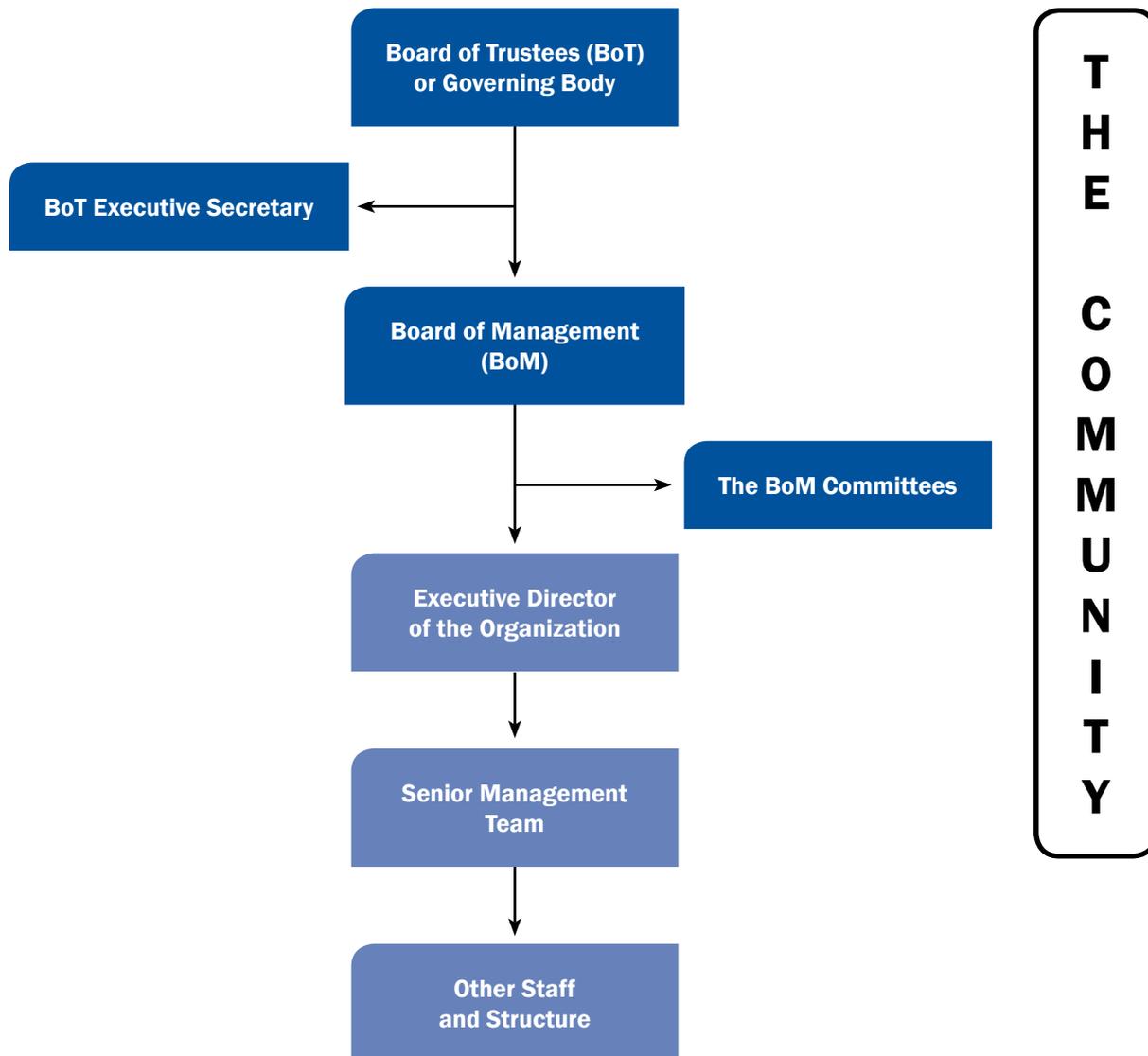
On a scale of 1–5, valueate your board on the following issues

(**5** – Very Good, **4** – Good, **3** – Average, **2** – Fair, **1** – Poor, **NA** – Not Applicable) Best possible total score: 100

#	INDICATOR	5	4	3	2	1
1	The roles of the board and staff are well defined and respected.					
2	The board participates fully in visioning and strategic planning.					
3	Each board member has an up-to-date job description and has signed it.					
4	The board sets fund raising goals and is involved in the generation of resources.					
5	The board's nominating process ensures that membership is appropriately diverse.					
6	Board members receive initial orientation and ongoing training, including mentoring.					
7	The board regularly reviews the policy documents.					
8	The board has a process for handing urgent matters between meetings.					
9	The board has an attendance policy and an annual calendar of meetings.					
10	Meetings have written agendas and materials are distributed in advance of the meeting.					
11	The board has a process for managing conflict.					
12	An audit or financial review occurs annually.					
13	The board is involved in accurate reporting of programs and financial resources.					
14	The board has a process to regularly review staff performance.					
15	The board has comprehensive personnel policies that have been reviewed by the human resource committee.					
16	Each board member feels involved and interested in the board's work.					
17	The board takes time regularly to understand affiliation with professional and regulatory bodies.					
18	Care is taken that necessary skills and professional expertise are present on the board.					
19	The board keeps abreast of and follows national government guidelines and regulations.					
20	The board is proactively engaged in consultation with their community and properly communicates community concerns to the board of trustees.					

Please list three to five points on which you think the board should focus its attention in the next year. Be as specific as possible.

## APPENDIX C: SAMPLE ORGANIZATIONAL CHART





Great Lake Cassava Initiative beneficiaries wait to receive their cassava seed the Democratic Republic of the Congo.

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## APPENDIX D: TERMS OF REFERENCE FOR THE BOARD EXECUTIVE COMMITTEE

### 1. APPOINTMENT OF EXECUTIVE COMMITTEE

The board may appoint the executive committee to serve the purposes set forth in these Terms of Reference, and delegate the duties and responsibilities set forth herein to the executive committee.

The executive committee will report to the board as provided below.

### 2. PURPOSE

The executive committee may exercise the authority of the board in the management of the affairs of the organization when the board is not in session.

### 3. COMPOSITION

The executive committee shall be composed of five members including the chairperson of the board. The chairperson of the board may chair the committee or delegate this authority to another member. The Executive Director shall be the secretary of the committee.

### 4. DUTIES AND RESPONSIBILITIES

The committee shall have the following specific duties:

- Exercise, in circumstances in which it is impossible or impractical to convene a meeting of the board and after receiving the appropriate delegation from the board, the powers of the board as they relate to the approval of, authorization for, or consent to any institutional action of the organization that would otherwise require the approval of the board itself.
- Provide a forum for organization management to seek comment in an informal manner on broad policy and planning matters relating to the administration of the organization before their presentation to and approval by the board or by its committees.
- Review and approve selective human resources transactions involving senior staff, in particular decisions related to hiring, termination, and promotion.
- Review and approve changes to the commitment and signing policies of the organization

- Report to the board in respect of such matters arising from the performance of the foregoing duties.

## **5. MEETINGS**

The committee shall meet at such times as it may determine or upon notice from the chairperson.

## **6. DECISIONS**

The Executive Director/Secretary shall keep and maintain books containing the minutes of the proceedings of each meeting of the committee.

Minutes of each meeting of the committee, or a summary of those minutes, shall be submitted to the next occurring meeting of the board.

## APPENDIX E: TERMS OF REFERENCE FOR THE FINANCE AND AUDIT COMMITTEE

The finance and audit committee reviews, monitors, and recommends improvements to internal control and financial reporting processes, and oversees Finance's internal and external audit processes. It provides independent advice to the Executive Director and the board on matters pertaining to Finance's accountability and financial responsibility.

Specific Terms of Reference include the following:

### **Financial reporting**

Oversee the organization's financial reporting processes on behalf of the board and report the results of its activities to the board.

### **Assessment of accounting, financial, and internal controls**

Discuss with management and the external auditors the adequacy and effectiveness of the accounting and financial controls; review with the external auditor any audit problems or difficulties and management's response.

### **Risk management framework**

Provide periodical reports to the board on the most significant risks facing the organization and the mitigation strategies and practices adopted by management.

### **Appointment of external auditors**

Make recommendations to the board on choice and performance of the external auditors and on resolution of disagreements between management and the auditor regarding financial reporting. The committee shall not recommend the engagement of the external auditors to perform any non-audit/assurance services that may impair their independence.

### **Assessment of the external audit**

At least on an annual basis, discuss with the external auditors the audit firm's internal quality control procedures and any issues which have been identified by other entities regarding such procedures.

### **Independence of the external auditors**

Review and assess the independence of the external auditor.

### **Scope of the external audit**

Discuss with the external auditors the overall scope of the external audit, including identified risk areas and any additional agreed-upon procedures. The

committee shall also review the external auditor's compensation to ensure that an effective, comprehensive, and complete audit can be conducted for the agreed-upon compensation level.

#### **Appointment and oversight of internal auditor**

Appoint and review performance of the internal auditor; review the overall scope, annual plans, and budget for internal audit activities; review all key internal audit reports; maintain direct access to the internal auditor, who reports to both the committee and the executive director.

#### **Communications with stakeholders**

Review the annual financial report and annual audit and any other matters required to be communicated to the committee by the external auditors under generally accepted auditing standards; review all representation letters signed by management to ensure that the information provided is complete and appropriate; establish procedures for the receipt, retention, and treatment of complaints received by the company regarding accounting, internal accounting controls, or auditing matters, as well as the confidential, anonymous submission by employees of the organization of concerns regarding questionable accounting or auditing matters.

#### **Committee performance**

Perform an evaluation of its performance at least annually to determine whether it is functioning effectively in compliance with current best practices.

#### **Disclosures**

The institution should provide auditors with full disclosure of all the significant events in a representation letter documenting the facts.

#### **Follow up and closure**

Management shall develop a corrective action plan and the committee should follow up for closure.



Catholic Relief Services is responding to the urgent needs of Sudanese refugees in Chad who have fled escalating conflict in western Sudan's Darfur region.

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## APPENDIX F: CORPORATE GOVERNANCE CHECKLIST

Determine/assess that the appointments of board members of the organization are in line with the guidelines stated in the bylaws/constitution of the entity. Evaluate the appointment process of the board and ascertain if it meets the minimum basic requirements of good governance. Obtain responses to the following:

- Does the organization have a board that provides oversight of the operation? If so, ascertain the names of the members and their qualifications where possible.
- Does the board report to another board or other bodies? If so establish the independence of those charged with governance or board duties.
- How are the members of the board appointed?
- Does the organization have regulations or rules for the appointment?
- Who is responsible for the selection of the board members? Is there a search or nominations committee?
- How does the organization evaluate the appointment process to ensure that all board members are appointed following due process?
- Is there an established tenure or period of the appointment? If so are there policies and procedures for reappointments?

Review to ascertain how the organization ensures that only individuals with the right qualifications are appointed to be members of the board. Obtain responses to the following:

- Does the organization have basic qualification requirements, both academic and non-academic, that are used to evaluate candidates for board member?
- Are there established criteria for the appointment of a board member?
- Evaluate the composition of the board and ascertain its suitability for the management of the organization.
- What is the composition of the board? Does the board have the right mix of executive and non-executive members?
- What is the size of the board? How many members are executive and non-executive?

- How does the organization ensure that the governing body is not too large or small for the organization concerned?

Review to establish if the board has clear duties and responsibilities for carrying out their business. Obtain responses to the following:

- Are the responsibilities of the members of the board well defined? Do members of the board understand their responsibilities?
- Are the duties of the chairman and secretary well defined and communicated to all members?
- Are the roles of those charged with governance or members of the board well defined and communicated to all members?
- Is there a transparent and clear structure of responsibility differentiating between what the board can do and what managers and employees can do?
- Are those charged with governance given clearly defined terms of reference?
- Are members of the board trained and inducted in their responsibilities?
- Is there any training provided for those members? How regular is the training?

Review and assess the conduct, process, documentation, and effectiveness of the board meetings in the organization. Obtain responses to the following:

- How do the persons charged with governance or board duties conduct business in the organization? Does the board conduct its business through meetings? If not, specify how business is conducted.
- Are there established procedures for the organization of meetings? If so, document the process and procedures.
- If the procedures for the conduct of meetings are laid out, do they cover the development of the agenda, frequency of meetings, notification process for meetings, meeting minutes, and confidentiality matters?
- Does the board chairman convene meetings through the secretary?
- Is the frequency of meetings adequate?
- Are agendas made for meetings and circulated before meetings?
- Is timely notice given for meetings?
- Are resolutions of the board recorded and implemented?

Review to establish the organization's role in fighting bad governance. Obtain responses to the following:

- Does the organization have separate fraud, corruption, and whistle blowing policies? If so are the policies made known to all employees of the organization?
- Do the persons charged with governance have procedures to monitor for fraud and bad governance practices in the organization? If so how are they implemented?
- Does the board have any ethical guidelines for its operations? If so how are the guidelines implemented?
- Does the board review the ethical guidelines regularly? If so, how often and who is responsible for its review?

Review to establish if the performance of the board is monitored and the monitoring mechanisms are adequate. Obtain responses to the following:

- Is the performance of the board and its committees reviewed? If so does the organization have procedures or guidelines for reviewing governance?
- Does the organization have performance indicators set for those in charge of governance?
- Are reports produced detailing the board's/subcommittees objectives for the year and progress against these objectives?

- Who handles the appraisals of governance in the organization?
- How often are the appraisals conducted?
- Does the organization have external and internal reviews such as external audits, internal audits, and an audit review committee? Does the organization produce a report regularly and on time?
- Does the organization undertake a review to ensure that board members have not become ineffective?
- Document every process taken to review the organizational governance and report on its effectiveness.

Review and assess the effectiveness of the governance practices on the development of the organization's policies. Obtain responses to the following:

- Does the organization have a mission statement?
- Is the mission stated clearly and concisely?
- Is the mission consistent with laws, regulations, and the organization's values?
- Has management set operational goals for the organization?
- Do these operational goals support the mission?
- Are these operational goals stated in measurable terms?
- Are the goals further divided into sub-goals for operating units?

Review to establish the board's role in the implementation of these policies. Obtain responses to the following:

- Does the organization have compliance officers or internal auditors? If so do they report their findings to the audit committee?
- Are the recommendations of the compliance officer, internal auditors, external auditors, and the audit committee implemented? Does the audit committee take responsibility for ensuring implementation of audit recommendations?
- Does the board assume the role of risk management or is the role assigned to another body, for example a sub-committee?





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