

Understanding Governance



Rural Community Network
SUPPORTING RURAL COMMUNITIES

What is Governance?

Governance is the process of overseeing the whole organisation. It involves a set of relationships between an organisation's management, its Board of Directors and other stakeholders. It also provides the structure through which the objectives of the organisation are set and the means of attaining those objectives and monitoring performance are determined. It is vital to analyse, plan, prioritise, monitor and review governance arrangements regularly.

Powers of Trustees

These are set out in the organisation's constitution. The Trustees have limited liability so long as they exercise the powers in keeping with the constitution.

Risk

Risk management is an important element of good governance and can help trustees to demonstrate that they have acted responsibly if things go wrong. It is not possible to eliminate all risks completely, but steps should be taken to reduce or remove them.

Types of risks in voluntary organisations

- Work outside the organisation's objectives
- Misapplication of restricted funds
- Loss of funding
- Failure to maintain proper accounting records
- Serious negligence
- Fraud
- Failure to deduct PAYE
- Failure to comply with Health & Safety
- Failure to comply with employment law

Reducing risk

- Understand your organisation's constitution

- Ensure that your organisation is doing the work it is funded to do
- Have plans in place for the work and monitor progress
- Have clear roles and responsibilities
- Think about the skills your organisation needs
- Hold induction sessions
- Make sure that the information your organisation is giving is clear – if it is not, ask
- Make sure that decisions are properly documented
- Ensure the organisation has adequate insurance cover
- Make sure that the organisation has written work plans for its staff and that the Board gets regular updates on progress
- Think about what other information your Board needs in relation to overall management
- Be clear about who will report, when and how often
- Make sure that you understand how the organisation is funded – are funds restricted to a particular purpose?
- What information does the organisation's funders need, by when and who will provide it?
- Make sure that the organisation has written policies and procedures in place – review them regularly
- If there are gaps, plan what needs to be done and write it down
- Prioritise – highest risk first
- Think about how procedures will be implemented

Roles and Responsibilities of Company Officers

The main responsibility lies with the Board of Directors who are charged with the management of the company. It is necessary for the Directors to take an interest in the affairs of the company and therefore attend and participate in Board meetings. Directors have a duty to act in good faith in the interests of the company and act within powers conferred by Memorandum and Articles of Association and for a proper purpose. An improper purpose includes purposes outside their Authority.

It is no defence to state that the Director acted in good faith in what he/she believed to be in the best interests of the company. Directors are required not to act negligently when managing the company's affairs and exercise skill relative to their qualifications. They must carry out functions with due diligence. Directors have a duty to avoid conflicting interests and conflicting duties and have a duty to disclose his/her own misconduct.

Reporting to the Board of Directors

Organisations in facilitating the engagement of Directors should consider the following.

- A set agenda for Board meetings.
- Meetings should be regular and at the least held quarterly.
- Format of information on performance needs to be fixed and consistent from period to period. This aids comparison and enables Board members to review the reports quickly.
- Reporting should take place on income and expenditure for relevant period and current financial position. A short-term/medium-term cash forecast should also be included.
- Consider summary reporting of activity.



What can be done to help avoid liability?

- Have appropriate corporate governance structures
- Memorandum and Articles of Association
- Directors' indemnity insurance
- Ensure proper minutes of meetings detailing reasons for decisions are retained
- Ensure timely filings at Companies Registry
- Read Board papers and attend Board meetings
- Systematically analyse the risks facing the organisation and seek advice where appropriate

Conflicts of Interest

The avoidance of conflicts of interest are paramount...even when good results are being achieved, here are a few things to bear in mind.

- Public accountability requirements go beyond what is required by company law
- Unmanageable conflicts of interest can only be dealt with by being avoided altogether
- Code of Conduct and Register of Interests should contain clear guidance
- Consider having conflicts of interest as a standing agenda item

Some simple actions towards ensuring Good Governance

- Induction for Board Members
- Attend Board meetings
- Agree strategy and challenge management on delivery
- Provision of relevant and timely information to Board
- Include Conflicts of Interest as a standing item on the Agenda of Board Meetings
- Implement a Code of Conduct for Directors
- Guidance on Conflicts of Interest
- Maintain a Register of Directors' interests
- Consider establishing an Audit Committee
- Implement a Risk Management process

Seven Principles of Public Life

- Selflessness
- Integrity
- Objectivity
- Accountability
- Openness
- Honesty
- Leadership