

CPAs for NGOs

Social Responsibility Programme

Quick Guide Series



Governance and Accountability



Hong Kong Institute of
Certified Public Accountants
香港會計師公會

Introduction

The Hong Kong Institute of CPAs has organized a series of “CPAs for NGOs” seminars to help local small- and medium-sized social service / non-governmental organizations improve their financial management and reporting, budget planning, internal control, and governance. Highlights of these seminars are captured in a series of quick guides designed to facilitate the implementation of best practices in your organization. For a full set of presentation slides, please go to www.hkicpa.org.hk/CPAforNGO.

Why is governance important?

- Corporate or organizational governance is a set of process, customs, policies, laws and institutions affecting the way an organization is directed, administered or controlled
- Governance includes the relationships among the many stakeholders (e.g. the governing body, employees, clients, funders, and the community at large) involved and the goals for which the organization is governed
- **Good governance** means transparent decision-making process, implementation, enforcement and accountability of the organization’s board and management to stakeholders and the public
- **Effective governance** serves to ensure a strategic guidance of the organization, effective monitoring of the management by the board, and the board’s accountability to its stakeholders – its clients, the funder and the community



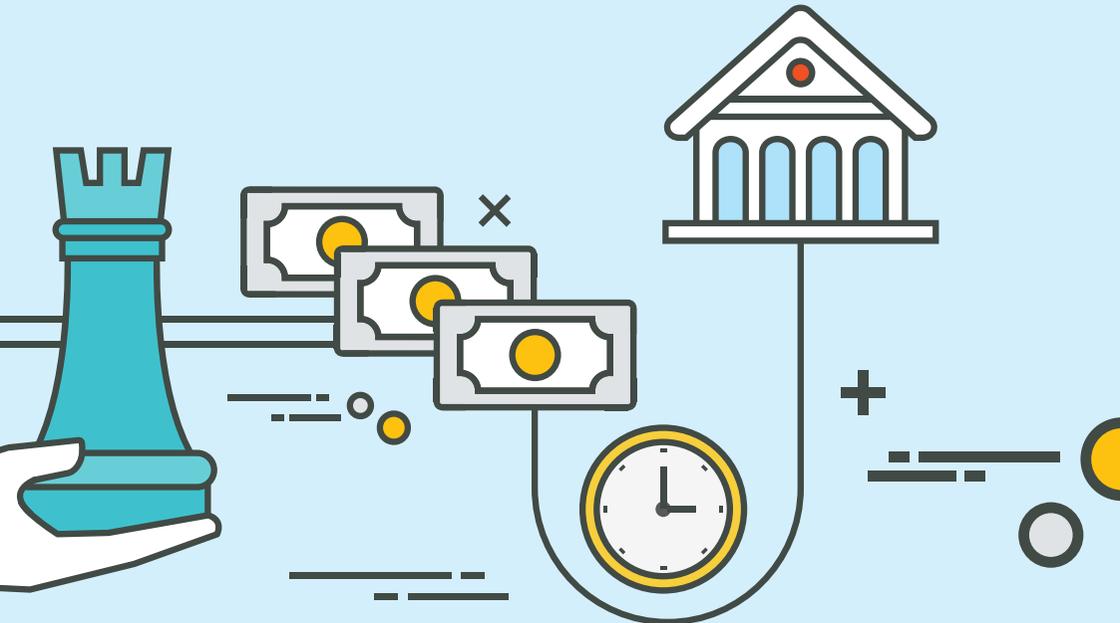
What are the roles and duties of governing board?

- The board has legal responsibility for the governance and oversight of the organization, which should be carried out with duty of care, loyalty and obedience
- The board is responsible for creating an environment in which the organization is able to provide real value to its stakeholders
 - ✓ Effective and valued social welfare services
 - ✓ Accountability to funders
 - ✓ Trust and respect of the community
- The board has to carry out the stewardship functions on:
 - ✓ Accountability
 - ✓ Policy and Procedures
 - ✓ Financial control
 - ✓ Public reporting
 - ✓ Compliance
 - ✓ Risk management
- The board's responsibilities on accountability, risk management and audits include:
 - Accountability for financial resources, financial reporting and disclosure preparation
 - Selection, appointment and/or dismissal of external auditors
 - Annual review of the effectiveness of the organization's internal control system
 - Annual review to ensure there are adequate staff with suitable qualifications and experience in financial reporting function
 - Review financial, operational and compliance controls as well as risk management functions
 - Identify, evaluate and manage significant risks faced by the organization



What are the basic characteristics of an effective board?

- Have a high level of independence from the management
- Have the appropriate balance of skills, experience and diversity among board members
- Have clear policies on appointment, termination, succession and remuneration of board members
- Have a clear statement of the role and required duties of board members (e.g. terms of reference)
- Have written policies and procedures for conducting board meetings
- Have clear strategies aligned to capabilities for vigorous implementation
- Provide high-level guidance to the management – focusing on strategy, planning, performance and reporting
- Key performance drivers monitored
- Effective risk/crisis management
- Sharp focus on views of key stakeholders and balance of stakeholders' interest
- Regular evaluation of board performance



Key functions undertaken by the board

• *Strategic leadership*

- Set and review the organizational vision, mission and strategies, in partnership with the organization's management, on a regular/needed basis
- Provide the direction and framework within which the management of the organization operates to achieve the agreed mission
- Provide strategic support for the management in developing annual/other business plans, validating business goals, reviewing budgets/forecasts, ensuring resources are sufficient, and reviewing the services offered are in need and in line with the organization's sustainable development
- Evaluate programmes, qualitatively and quantitatively, against the organizational mission

• *Financial*

- Approve a budget that reflects the organization's priorities
- Monitor and control expenditures on the basis of appropriate accounting procedures
- Oversee the stewardship of the organization's assets and liabilities
- Approve annual reports, including financial statements
- Approve written policies governing:
 - (i) investment of the assets
 - (ii) internal control procedures
 - (iii) purchasing practices
 - (iv) reserve funds



• *People management*

- Selection of chief executive officer
- Establish appropriate delegation of powers to senior management, which is required to be documented and monitored
- Evaluate the performance of the organization's management, particularly the chief executive officer
- Set remuneration policy for the organization's management
- Establish succession planning for the board and organization's management
- Ensure written personnel policies – recruitment, remuneration, performance appraisal and standard work rules for all staff – are set in place and regularly reviewed and updated
- Review periodically the effectiveness of working relationship among the board, the management and the staff

• *Communication*

- Establish channels for direct and effective communication with clients, funders, staff and the public
- Ensure the organization to report to stakeholders openly and responsively, and make information available upon request
- Establish complaint handling policies and procedures, with appropriate monitoring and appeal/review mechanisms



Functional committees for internal checks and balances

• *Executive Committee*

- Manage the organization in between regular board meetings and reporting to the full board on progress against strategy and duties set by the board

• *Nomination Committee*

- Deal with the appointment of board members, in accordance with specific criteria in the light of the role the prospective candidate is expected to fulfill

• *Remuneration Committee*

- Make recommendations to the board on remuneration-related matters

• *Audit Committee*

- Review independently financial information, the framework of control, external audit process, and compliance with applicable laws and regulations

• *Corporate Governance Committee*

- Develop, review and recommend to the board a set of corporate governance policies and guidelines
- Provide oversight of the annual evaluation of the performance of the board

• *Other Committees*

- Deal with specific areas of finance, human resources, risk management, business or service development, information technology, investment, capital works, infrastructure planning

Disclaimer:

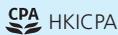
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Hong Kong CPAs Making a Difference

The Hong Kong Institute of CPAs, the only statutory body for professional accountants in Hong Kong, takes its social responsibility seriously through mobilizing and empowering members to proactively and positively contribute to the development and well-being of the community with their professional skills, expertise and knowledge. “CPAs for NGOs” is one of the Institute’s core social responsibility projects. CPAs volunteer in various programme activities, including seminars, workshops and advisory sessions, to advise small- and medium-sized social service / non-governmental organizations on the best practices to strengthen their financial system and governance to achieve sustainable development.



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