Governance

This section of the Organisations Information Kit (OIK) outlines the role, responsibilities and challenges that face a Board or Management Committee.

Governance underpins the operations of an organisation and Boards have an overarching responsibility, so it would be helpful to look at the Operational Administration and People Management sections of the OIK in conjunction with this section. In particular, the HR Strategic Framework may help in understanding the responsibilities of the Board in relation to staff and volunteers.

Contents

[Governance Overview 2](#_Toc443029317)

[Governance vs Management 3](#_Toc443029318)

[Challenges for Governance in NGOs 4](#_Toc443029319)

[Responsibilities of the Board 5](#_Toc443029320)

[The Governing Body's Role 6](#_Toc443029321)

[Structure of Boards 7](#_Toc443029322)

[Governing with Core Documents 8](#_Toc443029323)

[Skilled Board Members 9](#_Toc443029324)

[Allocating Responsibilities 10](#_Toc443029325)

[Succession Planning 11](#_Toc443029326)

[Board Member Induction 12](#_Toc443029327)

[Making Good Decisions 13](#_Toc443029328)

[Fiduciary and Other Duties of Board Members 14](#_Toc443029329)

[Conflicts of Interest 15](#_Toc443029330)

[Role of Office Bearers 16](#_Toc443029331)

[The Role of the President 16](#_Toc443029332)

[The Role of the Treasurer 16](#_Toc443029333)

[The Role of the Secretary 17](#_Toc443029334)

[The Role of the Public Officer 17](#_Toc443029335)

[Transparency and Accountability 19](#_Toc443029336)

[Financial Reporting Overview 20](#_Toc443029337)

[Further Information 21](#_Toc443029338)

[Glossary 22](#_Toc443029339)

# Governance Overview

Governance is the structures and processes by which an organisation sets goals, monitors performance, maintains viability and ensures compliance with legal requirements and ethical standards.

The governing body (board, committee, collective, etc) of an organisation, elected by the membership, has the main tasks of:

* Ensuring an organisation meets its contractual, ethical and legal obligations
* Ensuring organisational resources are sufficient and well managed
* Ensuring that the organisation's objectives/mission are developed and sustained
* Planning and monitoring the achievements of the organisation in relation to the objectives/mission
* Ensuring the ongoing viability of the organisation

Good governance allows an organisation to:

* Have a "big picture" vision and appropriate strategies to realise that vision
* Be accountable to its membership
* Achieve its stated objectives
* Support its employees to pursue the full range of their job descriptions

The governing board/committee achieves its goals and task this by:

* Understanding the organisation's philosophy and objectives
* Being organised, efficient and responsive
* Understanding its responsibilities
* Understanding the objectives, programs and work of the organisation
* Demonstrating inclusive and fair processes
* Setting goals and priorities and monitoring progress on these
* Ensuring the committee is diverse, relevant, skilled and representative of the organisation's membership

A governing body should not be:

* A group that interferes with the day to day functional aspects of an organisation
* An irrelevant but necessary body to tick off the required boxes
* A group of individuals who get involved in the day to day operations of an organisation
* Manager of the administrative functions of an organisation (some of these tasks might be done by committee members working as volunteers - this is not 'governing')

## Governance vs Management

A major obstacle in the governance of community organisations is ensuring the Governing Body and Managers are able to delineate their different responsibilities. **"Governance"** is the strategic task of setting the organisation's goals, direction, limitations and accountability frameworks. **"Management"** is the allocation of resources and overseeing the day-to-day operations of the organisation.

One way to think about this is that Governance determines the "What?" - what the organisation does and what it should become in the future. Management determines the "How?" - how the organisation will reach those goals and aspirations.

# Challenges for Governance in NGOs

Not-for-profit organisations often find themselves embroiled in disagreements over what the board should and shouldn't be doing. Some Boards are seen as too 'hands off' by staff, and others as 'micro-managers', scrutinising every small detail of an organisation's operations.

Not-for-profit organisations appear to have more governance problems than for-profit organisations because the question of who owns the organisation is complex. In a for-profit situation, the company belongs to the shareholders, or the owner. In a not-for-profit situation, employees feel their commitment to the organisation (often for less pay and more hours) is a kind of ownership. So they feel they have a right to make input to the running of the organisation.

This is complicated by the fact that funding bodies can feel they have ownership rights to the organisation - after all, they're putting up the cash. Clients and customers, in receiving services, may feel they have an ownership role as well.

A further issue is that not-for-profit organisations are often governed by a voluntary board, even if they have paid staff. This may mean that the Board has very little knowledge or experience in organisational governance, and this may lead to disputes over its role. Using voluntary board members, who will usually have their own jobs and life to concentrate upon, may also mean that paid staff have much greater knowledge and understanding of the organisation and board processes, leading them to "manage up" - or do much of the Board's governance role for them.

To top this off, in non-profits there are often conflicting and emotive attitudes about the core vision and values of the organisation (or its 'soul').

You may find one governance problem is resolved only to be followed by another. In this case, you can be fairly certain the board needs to sit down, consult with staff, and agree on the relative limits of board and staff responsibilities. Remember that, in times of change, the board needs to explain itself more and involve staff more in its decisions.

# Responsibilities of the Board

A community sector board should be mindful of its responsibilities. These include:

* Showing leadership by:
	+ Providing organisational vision above all else
	+ Understanding their role within the organisation
	+ Being a trustee/owner not a volunteer/helper
	+ Being results focussed: consumer result, cost result, vision outcomes
* Having the discipline to:
	+ Focus on their governance role
	+ Be responsible for working as a group
	+ Determine what information is needed for accountability
	+ Give clear and consistent instruction to the staff
	+ Speak with one voice
* Fulfilling obligations to membership under the *Associations Incorporation Act 1991*, including to:
	+ Maintain the register of members
	+ Manage the funds
	+ Appoint the auditor and commission the annual audits
	+ Appoint a Public Officer
	+ Convene the Annual General Meeting
	+ Ensure elections are conducted as required
	+ Provide reports to the Annual General Meeting
	+ Lodge documentation with the Registrar General

## The Governing Body's Role

The Board or Committee of an organisation is the group of members elected by the membership to take responsibility for the governance and strategic direction of the organisation. It is usually also responsible for employing the Managing Director or Executive Officer.

They are responsible for all aspects of the continued or ongoing operation of the organisation. This means it has to find a way it can delegate the day-to-day business, functions and activities of the organisation to Management, and still account for its responsibilities back to the membership.

The single most important feature of good governance is a clear segregation of the responsibilities and accountabilities of the board from those of the management. The board's job is to oversee management, not to manage.

It can be difficult to separate what is and isn't the board's business. A useful rule is to always consider matters before the board in terms of the strategic direction of the organisation. Set up board meetings to ensure the board is constantly monitoring whether the goals of the strategic plan are being met, or will be met. While the board should be aware of all the organisation's operations, it needs to keep its eye on the overall strategy and big picture for the organisation.

Some useful strategies for ensuring the delineation of roles is clear include:

* Including a Duty Statement for the Board in the organisation's Governance Policy
* Implementing a Director/CEO limitations policy, articulating the limits of Management's authority
* Ensuring that Board members undergo basic training in governance to help them understand the role of the governing body

In some small organisations, some of the management duties of the organisation will remain with the Board, or an Executive or Management Committee of the Board comprising Office Bearers of the organisation. It is still important in these circumstances to clearly articulate the different roles of the Board, Management Committee and Staff, although the allocation of roles may not necessarily be along a strict division of governance and management responsibilities.

## Structure of Boards

Under the *Associations Incorporation Act 1991* the board or management committee of an incorporated association must have at least three members. The model rules for associations in the ACT provide for three ordinary members and four office-bearers. The office bearers are the President (or Chair), the Deputy President, the Treasurer and the Secretary.

However, this make-up is not necessary if it is not considered appropriate for your organisation. The only mandatory office bearer position for an association is the appointment of public officer. The public officer does not necessarily have to be a governing committee member.

The Rules of Association (or Constitution) must specify the name, composition, powers and functions of the committee or board. The rules should also specify the method of election of committee members, the length of their terms of office, how vacancies on the committee should be filled and the various procedures to be followed at committee meetings such as whom is entitled to make decisions, and how they are made.

## Governing with Core Documents

**Core Documents** provide a board with much of its accountability framework. Most organisations would be familiar with having an annual **budget** process and the board using that budget to monitor spending priorities. Other core documents include:

* Constitution,
* Strategic Plan,
* Risk Management Plan,
* Policy & Procedure Manual, and
* Quality Standards.

Core Documents assist in monitoring and supporting the day to day work of an organisation. There are some key questions to consider when looking at our core documents:

Do any of the documents need updating?

Is there an action plan to do this: for the staff, for the board members?

Are the documents in a readily accessible place that everyone knows about?

Our core documents need to be living documents that support our work and help to drive our organisations. To do this we need to know what is in them, and how they contribute to our direction and priorities.

One of the ways that they contribute is by being current. A regular review of documents is a healthy thing and assists our board in having a greater capacity to provide strategic guidance and direction for the organisation. Most of these documents need approval by the board but may be redrafted by staff or a sub group of the board (depending on your size).

Most boards will have regular agenda item for checking the finances against the budget. However, it is also a good idea to have a regular agenda item to approve a policy & procedure, or to check the current work against the strategic plan. The board should also be aware of how the self-assessment process is progressing and monitor the stage it is up to.

Our core documents can provide real guidance and direction if we “own” them as living documents and the board uses them to govern.

## Skilled Board Members

A skilled, communicative, functioning board is essential to an organisation's success.

A board should not be a collection of people who are friends of the staff and other board members. It should never be a bunch of "yes" people. It needs to be made up of people who have the right experience and skills, and management and financial background, to set and monitor the strategic direction of the organisation.

Staff can sometimes regard the board as simply a requirement for the organisation to satisfy its legal obligations. This is not a recipe for long-term success. As much as it may seem that because staff run day to day operations they are in the best position to make decisions, the history of failed NGOs shows that this is not always the best way to go.

Rather it is precisely because staff are involved in daily operations that they need a group of interested and dedicated people to ensure that the organisation's legal, policy and strategic requirements safely underpin operations. A good board does not constantly interfere in the staff's work; they monitor progress and offer advice when needed. Without board input, staff will find themselves increasingly making decisions without the information and strategic direction they need. Board members also need to have the courage to ask questions and sometimes challenge management.

## Allocating Responsibilities

Here is a list of the kinds of things you may wish to formally 'segregate' between the board and management. Areas where there may be some overlap are also shown.

|  |  |  |
| --- | --- | --- |
| **Board/Management Committee** | **Possible overlap** | **Executive Officer** |
| Setting strategic plan and monitoring it | Meeting strategic plan objectives | Implementation and driving strategic plan |
| Approving purchasing over an agreed limit | Purchasing limit | Purchasing below a certain agreed limit within board approved budget |
| Overseeing finances through financial reports to board | Keeping projects within budget | Detailed understanding of financial position and project-by-project status |
| Risk management | Constant assessment of risk, financial and otherwise | Reporting to board on risk, actual and potential, developing risk management plan |
| Making contacts for potential funding, passing on grant information | Ideas about the number and mix of grant proposals | Applying for funding, securing sufficient grant monies to run organisation |
| General framework for staffing matters | Staff performance issues; grievances | Staff matters such as leave, performance appraisals, conditions and detail of supervision |

## Succession Planning

Often when a community organisation is created, it has a Board of committed, skilled and dedicated people to oversee the development of the organisation. However, some time on, these people slowly leave the organisation, and are not replaced with people with the same passion or skills, and the organisation slowly begins to atrophy and lose direction.

**Succession Planning** is the term used to describe the recruitment of new Board members and preparing them to take on more senior roles on the Board. This will help ensure that an organisation is continuously re-energised and secure its long-term viability.

Recruiting and developing new Board members is properly the responsibility of the Board, not staff or the CEO. Leaving Board member recruitment to staff leaves an organisation open to "staff capture": where the staff or CEO effectively appoint the Board and are no longer sufficiently accountable for their actions.

Put effort into recruiting the very best people you can find to your board. This may take some effort, but it helps to recruit the assistance of the whole Board. If potential Board members decline, ask if they can suggest someone they think will be suitable.

Make a list of the relevant skills that your Board needs in order to have the proper expertise and be representative of the membership. It is always handy to have a lawyer and an accountant on a Board. If you serve a particular community or population group, ensure your board has representatives of those groups. Think about factors like age, ethnicity, job background, gender and geography.

Ensure that while the person is committed to the organisation's ethos, the board's processes and its code of conduct, you are not recruiting someone who is exactly like the rest of the board. Aim for diversity not only in professional and personal backgrounds but also in personality. A good board needs people willing to question, disagree, and challenge. The board doesn't have to be best friends - but they do need to respect each other's viewpoints.

## Board Member Induction

Don't simply ask a new Board Member to 'turn up' at the next Board meeting. Set up a meeting between the Member and the President or Chair to discuss expectations and responsibilities. Organise a tour of the organisation's offices so that the person begins to understand what the organsiation does and how it operates. Organisations can also prepare an Induction Manual for new Board Members, which can include:

* The Constitution
* The Strategic Plan
* Board duty statement and legal responsibilities
* The Annual Budget
* The Policies and Procedures Manual
* The Risk Management Plan
* Any relevant quality standards
* The previous Annual Report
* The Minutes of the previous AGM
* The Minutes of the last few Board meetings
* Any publications or newsletters

Governance training is also available for your Board, by contacting Wendy Prowse, deputy@actcoss.org.au

## Making Good Decisions

Successful decision-making by a board (or management committee) is the responsibility of the President (or Chair). This doesn't mean the President has the authority to make decisions for the board, but it does mean they have to facilitate the best decisions possible. In meetings, this means:

* deciding how much discussion to devote to decisions;
* ensuring all items on the agenda are dealt with;
* ensuring all viewpoints are heard, including the minority viewpoints;
* ensuring the board has the information it needs to make timely responsible resolutions; and,
* ensuring that the Board is clear about the decisions they have to make (e.g. to approve, or not to approve, the purchase of paper clips).

To make the President's role easier, and meetings less stressful, the board needs to agree on its preferred decision-making method. Many NGOs seek 'consensus' decisions without fully understanding what consensus means. A textbook definition would be 'an ultimate position that represents a unified viewpoint after differences have been resolved'. A board that makes a decision without dissent has not necessarily made a consensus decision - quieter board members may secretly disagree with a decision. For this reason, the President must take pains to ensure that the decision is indeed unanimous. This might require him or her to directly ask each board member whether they agree or disagree on each decision, or ask out loud 'does anyone disagree?' and wait for a response, before the decision is minuted.

If you adopt consensus decision-making, you will still need a back-up system if the board becomes locked on an issue. In this case the President could put the resolution to a vote. To be true to the spirit of consensus, if the decision is found to be split 50/50, you can put it in your constitution, rules of association or board policy that the President does not have a casting vote and the proposal is deemed to be lost.

Some constitutions or rules of association may provide for certain important decisions of the board or management committee to be passed by special majority - i.e. by three quarters of the board/committee members present and entitled to vote at the meeting. Such decisions could relate to matters such as creating a charge over the association's property, issuing proceedings in court against another party, entering into contracts to purchase real estate, or any other matter considered important.

If the board would prefer a basic voting system, board members need to understand that if they 'lose' a vote, it does not help the organisation's interests to attempt to undermine the decision's implementation. Nor is it helpful to criticise the decision publicly or to staff - this is a symptom of a weak or divided board.

If a board member strongly disagrees with a decision, there are a number of options they can take, for example:

* ask that the reasons for their dissent from the decision be minuted;
* ask to bring a further proposal to the board suggesting another approach; or,
* insist the board monitor the effects of the decision closely and review it by a certain date.

If a board member finds that they have constant problems with the kinds of decisions the board is making, it may be time for them to consider whether they are the right 'fit' for the board. A separate interview, outside board meetings, with the President may also help in clarifying the directions the board is taking.

In the case of a company incorporated under the *Corporations Act 2001*, if members feel decisions of a corrupt or fraudulent nature are being made, they may have rights to apply to the court to have the fraudulent or corrupt behaviour stopped and also to obtain orders for compensation to be paid if they have suffered any loss or damage due to such fraud.

The member, along with others, could also seek to hold an extraordinary general meeting with the whole company membership to question the board further about certain decisions. Further advice can be sought from the [Australian Securities & Investments Commission](http://www.asic.gov.au), or the [Australian Institute of Company Directors](http://www.companydirectors.com.au).

## Fiduciary and Other Duties of Board Members

There are five key duties that board members have in carrying out their responsibilities under the *Corporations Act 2001*. These are also applicable to associations incorporated under the *Associations Incorporation Act 1991*, although they are not all specified in the legislation. The common law fiduciary duty applies to all incorporated entities.

* **Fiduciary duty:** the duty to act in the best interest of the organisation.
	+ Within fiduciary duty is the expectation that board members will act with a duty of care, loyalty and obedience to purpose, in keeping with the philosophy and objectives of the organisation.
	+ Even if the staff and/or volunteers run the day to day affairs of the organisation, the committee or board are ultimately responsible for maintaining financial and legal responsibilities.
* **Duty to act honestly:** to apply reasonable skills, act in good faith and in the best interests of the organisation.
	+ Speaks for itself - just be honest and check if unsure.
* **Duty of care and diligence:** the duty to abide by the constitution of the organisation and to know and comply with all legal requirements.
	+ This includes taking all reasonable steps to minimise risk for the organisation.
	+ It also includes working on a positive public perception of the organisation.
	+ It also means making sure you have enough information to make decisions.
* **Duty of confidentiality:** the duty to keep confidential all organisational and Board information.
	+ This includes not expressing dissent about a board decision with which you disagree - remember the board speaks as one voice. If you cannot live with a decision you need to leave the board. Once a decision is made it is a decision of the board as an entity.
* **Duty to declare any conflict of interest:** the duty to inform the governing body of any personal interest in any matter before it and to absent yourself from issues where there is the possibility of a perceived or real personal or financial interest.
	+ A financial conflict of interest may be, for example, where an organisation hires a contracting firm run by a board member's partner. There is the possibility of direct financial gain to the board member. Another common cause of conflict of interest arises when board members undertake paid work for the organisation.
	+ An ethical conflict of interest may be, for example, a board member's partner is applying for the Executive Officer position. There may be no issue of direct financial gain but bias, real or perceived, may be an issue.

## Conflicts of Interest

As members of the board or committee of an association, each board member needs to be aware that they are acting as a "fiduciary" of the association. A "fiduciary" is a person appointed to act at all times in the best interests of the association.

As such, board members should avoid situations in which there is a real and sensible possibility of conflict arising between the board members' personal interests and the interests of the association.

Such a conflict of interest might arise when negotiating a contractual arrangement between the association and another organisation owned or managed by a board member. Under the contract the board member may be deriving income and personal profit. Hence, the board member could not be taken to be acting in the best interests of both the association and the organisation at the same time when negotiating and performing the contract as he or she would have competing loyalties to both.

In these circumstances, the board member must declare the nature of the interest to the association so that the members of the association can consider whether or not to approve the arrangement. This requirement is also supported by the *Associations Incorporation Act 1991*.

If a board member fails to declare any such conflicts of interest, he or she will be liable to compensate the association for any profit the board member makes from the contract or for any other loss or damage caused to the association by reason of the conflict.

Following on from the rule against conflict of interest is the rule against board members misusing their position or special knowledge of the association's affairs for their own advantage without the association's fully informed consent. Failing to inform the association of the board member's action in such circumstances would require the board member to account to the association for any personal profit made, or loss or damage caused to the association, by the board member.

# Role of Office Bearers

## The Role of the President

The President (or Chair) is the leader of the organisation, and bears important responsibilities for leadership of the Board. While an organisation assigns specific roles and duties to the President in its Constitution, Policies and through Board resolutions, the President is usually presumed to have a role in ensuring the overall health and functioning of an organisation.

While specific duties will vary between organisations, the President often undertakes the duties of:

* Chairing Meetings of the Board
* Planning the Agenda of the Board and ensuring sufficient information has been given to Board members
* Being the spokesperson or representative of the Board to outside parties
* Being the “supervisor” of the Executive Officer, and providing the link between the Board and staff through this relationship
* Mediating or otherwise resolving conflict between board members, or staff conflicts unable to be resolved by the Executive Officer

There are some legal precedents that have determined that the President has certain responsibilities beyond those of non-executive directors. This is particularly the case for organisations incorporated under the *Corporations Act 2001*, and where the organisation is facing financial difficulty. Responsibilities may include:

* Being more active and vigilant with respect to the organisation's financial circumstances, particularly in times of financial difficulty
* Ensuring that the board (or management committee) are properly informed about all relevant matters, in particular, financial matters and issues concerning the organisation's debtors and creditors and other information relevant to potential financial difficulties
* Ensuring that the board adequately, properly and promptly understand and address serious financial concerns of the organisation, if they arise
* Personally assessing the quality, reliability and timeliness of information provided to the board, particularly where it concerns the organisation's deteriorating financial position

## The Role of the Treasurer

As well as bearing all the general responsibilities of being a member of a management committee or board, there are several tasks for which the Treasurer of an organisation has responsibility. Many of these are the regular practical administrative duties that will be done by staff where the organisation employs paid members of staff.

The Treasurer is responsible for providing financial transparency and accountability to the board/committee, and ensuring that processes and reporting requirements are met openly and accountably. A Treasurer also provides an assurance of the ongoing financial viability of the organisation to the board/committee.

The tasks of the Treasurer for committee or board meetings may include:

* Ensuring that the finances of the organisation are managed appropriately
* Making recommendations to the board about income and expenditure, investments and debts
* Keeping records of all incoming and outgoing payments
* Reviewing the annual profit and loss, and balance sheets
* Ensuring that the annual audit process is undertaken in a timely fashion according to legislative requirements
* Providing regular financial statements to the management committee/board with a capacity to explain any details
* Drawing up the annual budget in consultation with staff and the other executive members
* Ensuring that sufficient funds are available at all times to support the organisation's liabilities

Many of these tasks would be undertaken by staff in organisations where administration is carried out by staff, but the Treasurer is still responsible for ensuring that the necessary processes for reporting are in place and that sufficient funds are available. The Treasurer is also responsible for explaining any details in those reports that the committee/board might ask questions about.

## The Role of the Secretary

A board or management committee will sometimes appoint a Secretary to take general responsibility for certain administrative tasks which the board or management committee is required to carry out.

As well as bearing all the general responsibilities of being a member of a management committee or board there are several tasks for which the Secretary of an organisation has responsibility. Many of these are the regular practical administrative duties that will be done by staff where the organisation employs paid members of staff.

The tasks of the Secretary for committee or board meetings can include:

* convening meetings
* booking rooms
* dealing with correspondence
* preparing agendas for meetings (in consultation with the President)
* taking the minutes of meetings (although some committees may wish to appoint a minute secretary for this purpose)
* ensuring back-up information is available at meetings where the topics to be discussed require it.
* care of the common seal

Note that, in respect of incorporated associations, the position of Secretary is not expressly referred to in the *Associations Incorporation Act 1991*. Hence, all members of the board may be liable for any action taken or breach of its responsibilities under the Act.

## The Role of the Public Officer

The Public Officer is the only office bearer covered in detail in the *Associations Incorporation Act*.

The appointment of the Public Officer is different from other positions, in that they can be appointed indefinitely. It is an offence however if the Public Officer does not notify the Registrar General that the Public Officer has changed within one month of the appointment.

It is also an offence if the Public Officer fails to notify the Registrar General of his or her change of address within one month.

It is quite common for the Public Officer to be the coordinator or director of the organisation, due to ease of correspondence, authority to correspond, etc. This person does not need to be a member of the association.

In summary, the Public Officer:

* Is the person with whom the Registrar General corresponds;
* Is responsible for compliance with the Act;
* Is the person on whom documents are served;
* Has the power to sign documents on behalf of the Association; and,
* May be an indefinite appointment.

To be appointed, the Public Officer must reside in the Territory and be at least 18 years of age.

The Act also restricts certain persons from being appointed to the position, including any person who:

* has been convicted of offences in the promotion, formation or management of a body corporate;
* has been convicted of offences involving fraud or dishonesty punishable by imprisonment of three months or more; or
* is insolvent under administration for the purposes of the *Corporations Act 2001*.

The position of Public Officer in an association is deemed to be vacant if the person:

* is removed from office by the association in general meeting;
* resigns from the office or dies;
* becomes insolvent under administration within the meaning of the *Corporations Act 2001*;
* suffers from a mental or a relevant physical incapacity (such that he or she is unable to carry out the functions and responsibilities of the office);
* has been convicted of an indictable offence involving the promotion, formation or management of a body corporate or an offence involving fraud or dishonesty; or
* ceases to reside in the Territory.

If the position of Public Officer becomes vacant for any reason, the management committee must appoint a replacement within fourteen days of the vacancy.

# Transparency and Accountability

It is not enough that a community organisation does good work. It also needs to be able to show others that this is really the case, and to be open to outside scrutiny. Being "transparent" means that others, such as consumers, members, the board, or funding bodies, can see what an organisation is doing and how it operates. Being "accountable" means that those responsible for the operation of the organisation, including staff and board members, are open to question and willing to take responsibility and change their behaviour where warranted.

Incorporated associations are ultimately accountable to their membership. These are the people who "own" an organisation - who must be confident of its viability and comfortable with its ethical framework.

The Board is delegated by the membership to look after the organisation between Annual General Meetings (AGMs), so they are the stewards for monitoring accountability and transparency during the year. It is at the AGM that accountability is most visible, but it is important to develop it as part of organisational culture throughout the year.

Other people who require a level of accountability are stakeholders like funding bodies, consumers of services, and other community organisations. These groups require various levels of accountability, but it is usually a need to ensure that the organisation is viable and operates within certain ethical parameters.

There is more to accountability than just showing someone the financial reports. It is also about being able to report confidently on the processes that are used within your organisation as it gets its work done. This might be working within certain human rights or ethical parameters, it might be openly using Raising the Standard, or it could be ensuring regular surveys of members and / or consumers.

Transparency is about having processes that are clear and understandable. Consumers should find it easy to know what processes are in place to gain access to your service, and how to provide feedback. Staff should understand how employment, entitlement and workload decisions are made, and how to provide input to them. Funding bodies should be able to understand how responsibility is assigned in an organisation, and how funds are spent to achieve the outcomes of a funding agreement.

Transparency means that information about how the organisation operates is readily and easily available. For example, complaints processes about service provision should specify what will happen to a complaint, who to complain to, and how long it will take the organisation to factor in your feedback and make any changes necessary.

# Financial Reporting Overview

The most central duty of Board is to oversee the financial health of the organisation. The most common form of oversight is financial reporting, where the Treasurer or Finance Offer presents financial reports to the board, comparing performance against the Budget.

However, not all board or management committee members will have backgrounds in book-keeping or accounting. Nevertheless, all members need to be able to understand and interpret the financial documents presented to them at board or committee meetings. While it is tempting to defer to the expertise of other board members on financial statements, you could be making yourself legally liable by doing this.

In a non-government or voluntary organisation, four concepts will generally be used in financial reports: assets, liabilities, expenses and revenue/income:

* **Assets** are what the organisation "owns" or income due to it e.g. cash, equipment, accounts receivable, inventory.
* **Liabilities** are what the organisation "owes", e.g. bank overdraft, creditors, loans, staff leave not yet taken.
* **Expenses** are the "costs" incurred by running your organisation, e.g. wages, rent and telephones.
* **Revenue** or **Income** is what you "earn"; in the case of a non-government organisation this will commonly be grants, user fees, donations and membership subscriptions.

The two most common financial statements you will see are a Profit and Loss Statement, and a Balance Sheet.

A **Profit and Loss Statement** is a statement which shows the revenue and expenses of the organisation over a certain period of time. By subtracting the expenses from the revenue you get the 'net surplus' or 'net deficit' at the bottom of the statement. Sometimes organisations carry a "net deficit" over a period of time (for example, when waiting for a large grant to come in), but be sure to raise the issue at Board meetings if the organisation is running any risks associated with this.

A **Balance Sheet** is a listing of all the assets and liabilities at a certain point of time. The basic rule is that the total assets should equal the total liabilities. (In a private firm you would also include the owner's equity in the equation, but this does not really apply in a non-profit situation.) A basic approach to the balance sheet is to be sure that, if you wound up business tomorrow, you wouldn't be left with any outstanding debts you couldn't pay. In this way a balance sheet is a good financial 'health check'.

Understanding the above terms and concepts will get you across the first hurdle of reading financial statements. Remember, however, that financial reports can be often a lot more complicated than this because every organisation has a different 'financial cycle'.

A common problem in NGOs is that 'income' doesn't work like a private business, which 'sells' its products and banks the proceeds. Often, there are big and small grants and they are paid at different times of the year. Or you are constantly putting in grant applications and no-one knows which ones will be successful.

As a board member you can ask the Treasurer to incorporate a 'risk' assessment of the financial statement to provide an indication of the grant situation, e.g. 'likely to receive', 'have been short listed', and so on.

It can also be helpful to the whole board to view a 'user friendly' version of the accounts. This could include a one or two-page summary on the front of the statement, highlighting the most important information for the board. The Treasurer's report to the board could then involve a run-down and questions on this summary.

If you feel intimidated by the financial statements, or want to build up your skill-base in this area anyway, many community colleges run one or two day workshops on accounting basics. You will probably find the whole class made up of small business people and people involved in voluntary or non-government organisations. Also, if you have a Treasurer who communicates well you could ask them for a couple of lessons on the finances.

# Further Information

The OIK is not the only web resource available on organisational governance. If you can't find the information here, it might be elsewhere on the internet. If you're having trouble, you can also [Contact Us](http://www.actcoss.org.au/about/contact.html) and we'll do our best to find the information for you.

* The [Boards, Committees and Governance Centre](http://www.ourcommunity.com.au/boards/boards_main.jsp) on the [ourcommunity.com.au](http://www.ourcommunity.com.au) website contains an extensive range of resources to help not-for-profit Boards in their work.
* The are a few easy-to-read [Governance Factsheets](http://www.csaust.com/Content/NavigationMenu/TechnicalResources/GoodGovernanceGuides1/GoodGovernanceGuides/Notforprofit/Not_for_profit.htm) on the [Chartered Secretaries of Australia](http://www.csaust.com) website that may assist you.
* The [Office of Regulatory Services](http://www.ors.act.gov.au/) website is another source of useful information.

# Glossary

Here is a list of some common terms used in discussing governance in not-for-profit organisations.

**Compliance:** Acting within the rules/responsibilities

**Delegate:** Give a task or authority to someone else

**Diligence:** Being careful and persistent, showing care and effort

**Fiduciary:** Looking after for someone else, "acting in the best interest of" the organisation

**Integrity:** Honest and ethical behaviour

**Monitor:** Check if something is done or not done, how well it is going

**Prescribe:** Detailed instruction

**Stewardship:** Looking after and keeping in good shape for the future of the organisation and its owners. (Sometimes referred to as "acting as trustee".)

**Viability:** Can operate financially and can do the jobs required