Governance & Disclosure Practices

Learning Series for Voluntary Organisations, Issue - V, 2012

Oversight Function of Board

A joint initiative of Credibility Alliance & Oxfam India

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* The Advisory support members have contributed to the document, however, the entire content is not necessarily the opinion of the advisory group.

$\mathcal{F}$oreword

It should come as no surprise that the concepts of nonprofit governance and management are much better understood today than they were few years ago. Nor should it be any surprise that there are different schools of thought as to the best approach to governance.

But greater understanding has not sharpened the lines separating governance from management. The lines between them at times becomes blurred, not because the participants have inappropriately been crossing boundaries in violation , but because greater learning has led to a better understanding of how the management and governance responsibilities should be more broadly shared within a non-profit environment.

Faced with today's challenges of nonprofits, it would probably be right to say that it is the Board's job to have a broad understanding of the dynamics that are behind the challenges, to set the basic policy about a solution, and to let the CEO and staff implement that policy to solve the problem.

This Issue of CA Learning Series aptly discusses this crucial issue to develop a good understanding on the roles of Governance and Management.

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$\mathcal{C}$ontent

Oversight Function of Board

Introduction

1.01   A board has to understand the delicate difference between governing and managing. A board is not supposed to manage an organisation but it is supposed to oversee and control the management of an organisation. For example, in some sports like tennis we have the concept of a non playing captain. A non playing captain is a person who is involved in each and every aspect of the game but is not actually playing. A board has to devise a similar mechanism, where it directs and manages the management team without participating in the management process. One has to be very careful in designing the governance process and the role of the board. It may result in two extremes (i) the board becomes too interfering and troubles the management at each and every step (ii) the board becomes passive and the management stops reporting to the board and its role is relegated to endorsing the management decision at periodic interval.

1.02   Developing the ideal oversight function is to strike a balance between the above two extremes.

Characteristics of an Ideal Board Oversight Mechanism

2.01   Developing a governance structure where the board is playing the ideal role which is controlling as well as empowering the CEO and the management is the art and challenge for every organisation. Some attributes of such a mechanism are as under :

   ◆   As discussed above, the board should not try to manage the activities or the functions of the organisation. It is the job of the team headed by the

CEO to execute all activities and functions. Therefore, the board should develop a mechanism of MIS and reporting by the management team.

- The board should set controls in the management journey, in other words, it should set a mechanism where crucial or large value decisions are routed through the board.

- The board should retain with itself all strategic learning and decision making. For instance, whether a building should be constructed or not should be the prerogative of the board, but how the building will be constructed, who will be contracted etc. should be the prerogative of the management. Another way of looking at it is that board level decisions could be to take all long term decision. The decision whose impact will be for a long period i.e. multiple years may be approved at the board level only.

- The board should setup a mechanism whereby it ensures that all timelines and compliances are being met by the management. The management should be made accountable for any deviation.

- The board should also clearly define the role, function and mandate of the management team and thereafter should monitor the various execution, delivery, timelines and compliances without interfering into the process. The board should become pro-active only if there are violations or failures in execution, delivery, timelines and compliances of various functions and processes.

2.02   There is lot of confusion regarding the division of role and mandate between the board and the management. In suceeding paras we are providing some key areas where the board should or should not take the decision making or execution at its level.

Long Term & Perspective Planning

3.01   The long term and perspective planning is analogous to the mission and revision in the mission of an organisation. Any resolution or decision pertaining to long term or perspective planning should be carried out at the board level only. The management should be responsible for providing data and inputs for such planning processes. In other words, the management should play a support and complementing role to the board.

The Annual Plan & Annual Budget

4.01   The annual plan & annual budget should be the responsibility of the management

of the organisation. The board, generally, should not interfere into the annual planning process. However, certain statutes may require filing of annual budgets before various authorities, for example, annual budget has to be filed as per Bombay Public Trust Act at the end of February every year. This statutory requirement mandates the board to prepare and sign and file the budget document. Therefore, on case to case basis the board has to define its mandate with regard to annual budget or annual plans.

4.02   However, in any case, all annual budgets and plans should be placed before the board for approval. In case of large organisation or organisation where multifaceted plan and budgets are being prepared, the approval may be taken on case to case basis. The board may also consider reviewing an interim plan or budget at a periodic interval to ensure that there is no need for course correction.

System related Policy Documents

5.01   All system related policy documents such as Finance Policy, Procurement Policy, Staff Policy etc. should be prepared by the management and approved by the board. In case of smaller NPOs, such policy document may be prepared at the level of the board in consultation with the management staff.

Enduring and Constitutional Policies or Bye Laws

6.01   All enduring and constitutional policies or bye laws such as :

- Changes in the objects or Memorandum

- Changes in the objects or Rules and bye laws

- Vision Statement

- Mission Statement

- Governance Policy

- Conflict of Interest Policy

- Transparency and Disclosure Policy

- Gender Policy etc.

should be prepared by the board and the management may provide inputs on case to case basis at the discretion of the board. Certain issues such as :

- Changes in the objects or Memorandum

- Changes in the objects or Rules and bye laws
- Vision Statement
- Mission Statement

should be recommended by the board to the general body for its approval.

Accounting & Management of Funds and Assets

7.01   The accounting & management of funds and assets shall be the responsibility of the management. The board should be entitled to periodic reporting and course correction if any.

Internal Audits & External Audits

8.01   It is the responsibility of the board to appoint the internal and external auditors. In case of statutory auditors, the appointment of board needs to be further approved by the General Body. Ideally the internal auditor should directly report to the board which will empower him/her to be able to report about the management to the board. The statutory auditors should submit the Management Letter directly to the board.

Monitoring & Inspection

9.01   The monitoring and inspection for various processes and systems is the responsibility of the management. If consultant and external experts are hired, they can be appointed by the management, unless the monitoring and inspection involves a scutiny or review of the functions of the CEO and Senior Management. The board shall be entitled to receive MIS and reports from the management in a manner which may have been laid down.

Evaluation & Impact Analysis

10.01   The overall evaluation and impact analysis of the programmes should be carried on by the board. The management should support in carrying out of such processes.

Appointment, Appraisal & Promotion of Staff

11.01   The entire process of appointing, appraisal & promotion of staff shall be the responsibility of the CEO and Management of the Organisation. The Board shall determine and approve the process of appointing and appraisal of the CEO or selected very senior staff. In case of other staff, the board shall be entitled to receive MIS and reports from the management in a manner which may have been laid down.

Training & Capacity Building of the Staff

12.01   The entire process of training and capacity building of staff shall be the responsibility of the CEO and Management of the Organisation. The board shall determine and approve the process of capacity building of the CEO or very senior staff. The board may further determine the process and mechanism for the sensitization of the board members. In case of other staff, the board shall be entitled to receive MIS and reports from the management in a manner which may have been laid down.

Stakeholder & Donor Engagement

13.01   The responsibility of stakeholder & donor engagement shall be with the CEO and Management of the Organisation. The Management should manage and maintain the various relation, delivery, communication and compliances required for various stakeholders. The board should support in stakeholder engagement, particularly with regard to fund raising and image building of the organisation. The management should interact with all the stakeholders including the donor, beneficiaries etc.

Legislative responsibility of the Organisation

14.01   The board is primarily responsible for all legal obligation and legislative issues. However, it is the responsibility of the CEO and Management of the Organisation to ensure legal compliances at all stages. The board approves and signs all legal documents unless some specific powers are delegated the CEO.

Board & General Meetings & its Agenda

15.01   The board is primarily responsible for the convening of the board meetings. Generally the secretary (or equivalent position), who is the legislative functionary, convenes the board and general meeting. The agenda of the meeting is generally prepared in consultation with the management.

15.02   The management may also initiate the process of convening a meeting, if necessary, by taking up the matter with the secretary who represents the legislative functions of the board. However, the logistic and documentation support for the meetings is the responsibility of the management. The management is also responsible for secretarial support and preparation of the minutes. The management should also ensure that all important issues are placed before the board or general meeting.

Advisors & Committees

16.01   The board is primarily responsible for constituting various committee for specific functions of the organisation. For example, the board may constitute a Finance Committee or a Purchase Committee to whom the management can report for specific purposes. Similarly, the board is responsible for appointing strategic advisors who can guide the management in general or specific aspects of the management processes.

Consultants & Contractors

17.01   As discussed above, the board is primarily responsible for constituting various committees and appointing advisors, However, the management is responsible for appointment of consultants and contractors. In other words, the board should not interfere with the management with regard to the engagement of various service providers, suppliers, contractors and vendors.

Conflict Resolution

18.01   The board shall be responsible for resolution of conflicts pertaining to various stakeholders and senior staff. The board generally designs and creates an adequate mechanism for conflict resolution which is managed by the CEO and management under the oversight of the board. The board should ensure that conflicts where the management may have conflict of interest should be resolved

by the board directly or through independent bodies. A sound governance system should have space for dispute and grievance resolution against even the board members and powerful functionaries. In such circumstances the board should develop mechanism whereby the interested or alleged persons are not in a position to influence the process.

About Credibility Alliance

Credibility Alliance (CA) is a consortium of Voluntary Organizations committed towards enhancing Accountability and Transparency in the Voluntary Sector through good Governance. Registered in May 2004 as an independent, not-for-profit Organization, CA emerged as an initiative from within the Sector after an extensive consultative process over a period of two years involving thousands of VOs all over India. As an Organization, CA aspires to build trust among all stakeholders through improving Governance within the Voluntary Sector. As an initiative whose hallmark has been the participatory approach, CA has developed suitable Norms through wide-ranging consultation with and participation of diverse Organizations within the Sector by developing a large membership base.

With the mission '*to build credibility of the Voluntary Sector through creation and promotion of Norms of Good Governance and Public Disclosure',* CA's core programme areas comprise of: Accreditation, Capacity Building, Networking and Information Dissemination.

I. **Accreditation:** Accreditation of Voluntary Organizations refers to the certification of upholding of the quality of an organization, which adheres to the minimum norms or desirable norms set by Credibility Alliance. The main purpose of the Accreditation exercise is to develop a cost effective mechanism of periodic evaluation of VOs in the country.

    'Minimum Norms' are the Norms that all VOs should follow. It is mandatory for all the Accredited Members of CA to comply with the Minimum Norms or give an undertaking that they will do so within an year, whereas 'Desirable Norms' are the next level of Norms for good Governance and public disclosure. These are the practices that are at present not mandatory and some Organizations may require time to adopt such practices.

II. **Capacity Building:** Credibility Alliance focuses on the Capacity Building process to maximize its potential and sustain its work by adopting the existing best practices. CA plans the Capacity Building initiatives for the Voluntary Organizations by identifying and outlining the gaps in the Sector, assessing the needs and finally instituting the programs to address those needs.

III. **Networking:** Credibility Alliance facilitates interaction between experts in different areas and promotes the sharing of ideas and information between the Voluntary Organizations and the experts. CA helps VOs to seek issue-based information in the Sector that they are working in, which helps in building the professional capacities of VOs through training, thereby enabling them to increase institutional capacities.

IV. **Information Dissemination:** Credibility Alliance sensitizes, spreads awareness, assists, educates and apprises on the recent developments, responsibilities and other critical issues pertaining to Voluntary Sector by disseminating vital information periodically to all VOs.

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