CGAI

The Corporate Governance
Association of Ireland

Irish Development NGOs

Code of Corporate Governance

Developed in partnership with

Dóchas

The Irish Association of Non Governmental Development Organisations

Acknowledgements

As Chairman of the joint CGAI/Dóchas Steering Group, I would like to acknowledge the contributions made by the many individuals and organisations in the development of this Code. Firstly, I would like to thank the Steering Group members:

CGAI	Dóchas
Alan McDonnell	Hans Zomer
Dermod Dwyer	Helen Keogh
Liam Marnane	Mike Williams
Tom Quinn	Ray Jordan

On behalf of my colleagues in the CGAI, I would like to express particular thanks to Alan McDonnell for his dedicated work in compiling and editing this Code under the guidance of the Steering Group. A special thanks is also due to Hans Zomer, Director of Dóchas, for his support, energy and enthusiasm. Bernadette Coyne and the staff of Research Solutions also played a key role in this project.

Our thanks are also due to the many interested stakeholders including the members of Dóchas and the CGAI who contributed submissions during the consultation process.

We would like to express our appreciation to the authors and publishers who gave us their generous permissions to reference and adapt their works in formulating this Code. They are:

- The National Hub of Expertise in Governance

- The Financial Reporting Council

- Marilyn Wyatt, The Central and East European Working Group on Nonprofit Governance, and The European Centre for Not-For-Profit Law

- The Institute of Chartered Secretaries and Administrators (ICSA)

Jim Corbett CGAI

Chairman
Steering Group

About the CGAI

The CGAI is a professional association of members certified in corporate governance post graduate studies. The Association provides its members with continuous professional development programmes and other resources to enable them to keep abreast of this continually evolving subject.

The Association seeks to promote best practice in governance across the commercial, public and voluntary sectors by developing Codes of Good Governance in partnership with like-minded organisations as well as providing candidates for Board positions.

Web: www.cgai.ie

About Dóchas

Dóchas is the association of Irish Non-Governmental Development Organisations. Dóchas provides a forum for consultation and co-operation between its members and helps them speak with a single voice on development issues.

Vision: The vision of Dóchas is to contribute, through the cooperative efforts of its members, to sustainable human development in a world where people are able to enjoy their rights and are empowered to fulfil their needs.

Purpose: Dóchas aims to be a vibrant, outward-looking network, with an active and informed membership representative of the Irish development sector, providing services and promoting effective action to bring about sustainable development.

Web: www.dochas.ie

The Aim of this code is:

To determine and formulate standards of best practice in corporate governance applicable to the Development NGO sector with a view to strengthening the impact and quality of Development NGO work and enhancing stakeholder confidence in the sector.

Foreword

Irish Development NGOs exist to create a better world. They operate on a global scale with diverse missions, but are united by a shared commitment to social justice and the eradication of poverty. For all Dóchas members, the principles of participation and transparency are integral to development processes and to the workings of Development NGOs.

The size and complexity of the Irish Development NGO sector is changing at an ever-increasing pace. The legislative and regulatory environment governing charities will bring greater accountability to the sector as will increased State funding. The donating public will demand, and deserve, increased transparency in the workings of charities to determine how their contributions are being deployed. All stakeholders will expect charities to be properly managed and governed by an effective board to best practice standards.

One of our jobs as the representative body of Irish Development NGOs is to encourage members to adopt best practice in corporate governance. Adopting best practice can help members keep pace with the changes and make them more effective where it really counts – increasing the choices available to poor people, and promoting their rights.

We have worked with the Corporate Governance Association of Ireland (CGAI) to develop this Code of Governance. It has been produced in consultation with members and stakeholders. It draws from established codes in other jurisdictions that have proven effective. The Code provides a flexible and proportionate framework for NGOs; there are common standards to which all NGOs should aspire, with higher expectations of larger NGOs.

Dóchas will monitor with interest to see how members meet the challenge of complying with the Code and will encourage all NGOs to embrace its principles in the interests of maintaining and enhancing stakeholder confidence in the sector as a whole.

Helen Keogh

Chairperson
Dóchas

Contents

Part One

■ INTRODUCTION

1.1 Why a Code of Governance?

1.2 What is 'Governance'?

1.3 About this Code

1.4 Using the Code

1.1 Why a Code of Corporate Governance?

Corporate governance is high on the agenda in all sectors – public, commercial and voluntary as it is the basic form of accountability in all bodies. As Development NGOs working for the benefit of the needy in the developing world, we are increasingly expected to demonstrate how well we are governed. Good governance is a vital part of how Development NGOs operate and are held accountable.

Other sectors have already developed codes in recent years. The public sector has a Code of Practice in the Governance of State Bodies published by the Department of Finance. The private sector has its Combined Code on Corporate Governance, which applies to companies quoted on the Irish Stock Exchange but has also been adopted by progressive privately-owned firms. Action in our sector is overdue.

This Code arises from directly expressed needs in the Irish Development NGO sector. These came from organisations which needed guidance to clarify the main principles of corporate governance and to help them in decision-making, accountability and the work of their Boards. In response to these demands, Dóchas and the CGAI came together to work towards developing this Code.

This first edition is aimed at the entire Irish Development NGO sector. After it has been in operation, together with the CGAI, we intend to carry out a major and open review of its effectiveness, so that we can refine it to better meet the sector's needs.

Terminology
For simplicity, we refer throughout to 'the board' and 'directors', but recognise that many different terms are in use for the people in these roles. Similarly we refer to the 'chief executive' to mean an organisation's most senior member of staff. We also deliberately and intermittently use the term 'corporate governance' as most Development NGOs are incorporated entities and as such, are subject to company law.

1.2 What is 'Governance'?

The Central and Eastern European Working Group on Nonprofit Governance defines good governance as:

"A transparent decision-making process in which the leadership of a nonprofit organisation, in an effective and accountable way, directs resources and exercises power on the basis of shared values."

In our sector, directors take ultimate responsibility for the governance of their organisations. However, governance is not a role for directors alone. More, it is the way directors work with chief executives and staff (where appointed), volunteers, service users, members and other stakeholders to ensure their organisation is effectively and properly run and meets the needs for which the organisation was set up.

Behind good governance must lie principles formally structured and documented. In this Code, we structure and document the main principles of good governance tailored for the Irish Development NGO sector.

It is worth referring here to the "Nolan Principles", set out by Lord Nolan while chairing the Committee on Standards in Public Life in the UK. Although these were originally established for individuals involved in public and government positions, they are seen as having wider relevance, including for the directors of charitable organisations.

Many organisations have found the Nolan principles a useful basis for understanding the individual role of a director, and they often appear in director job descriptions or codes of conduct. The principles are: Selflessness, Integrity, Objectivity, Accountability, Openness, Honesty, and Leadership.

We have adopted and adapted these principles in this Code of Governance. We recognise that the language of governance and performance will be more familiar to larger organisations. In practice, the way organisations 'govern' will be different depending on their circumstances. These circumstances can include the size of an organisation, how long it has been in existence, and the culture and values it possesses.

One distinctive factor is size and here are a few examples of how an organisation's understanding of governance may differ:

- In a small Development NGO governance might be about getting the basic things in place, making sure it's clear who is doing what and, making sure that all concerned are working together to a common cause.
- In the larger organisation, governance might be about the need to demonstrate how the organisation delivers on its mission through quality aid programmes, its accountability to donors, beneficiaries and other stakeholders, how it manages risk, and always ensures that the Board's structure is 'fit for purpose'.

The Code is written to be applicable in all such circumstances, but clearly each organisation will need to interpret and apply its principles and guidelines according to its particular needs and circumstances.

1.3 About this Code

This Code is primarily aimed at the directors of Development NGOs who have ultimate corporate governance responsibilities. It will help them to lead their organisations by example, and to achieve excellent governance. It is also aimed at chief executives, who provide the bridge between directors and staff, and have a central role in ensuring good governance is embedded in the organisation.

We hope that it will also be more widely useful. For staff, volunteers and beneficiaries, it will help them to understand what they can expect from a well-governed Development NGO. It will also be relevant to those with a wider involvement in the governance of the sector, such as: funders; donors; the general public; professional advisers; consultants; trainers; and regulators.

The Code aims to help enhance the effectiveness of Development NGOs by:
- clarifying what effective corporate governance looks like and how Boards can govern effectively;
- reassuring an organisation's stakeholders about the way organisations are governed; and
- maintaining and enhancing public confidence in Irish Development NGOs and in the development aid sector generally.

The Code draws from numerous international references including that of The National Hub of Expertise in Governance in England (the Governance Hub), which kindly permitted us to draw extensively from their seminal work *Good Governance – a Code for the Voluntary and Community Sector* first published in 2005.

1.4 Using the Code

The main and supporting principles of the Code are intended to be relevant to all sizes and types of Development NGO. The Implementation Guidelines are optional and likely to be more applicable to the larger-sized organisation. There will be supplements created for different types of organisation where it has been recognised, through future consultation, that there are differing needs.

The Code is compliant with legal and regulatory requirements relating to charities. It links closely with other codes and standards and company law as it relates to incorporated entities.

Complying with this Code

This Code is not mandatory but sets out best practice in its main and supporting principles. Development NGOs that subscribe to the Code's principles should make a statement to that effect in their annual report and other relevant published material.

- In the statement, the Development NGO has either to confirm that it complies with the Code's principles or – where it does not – to provide an explanation. This 'comply or explain' approach provides flexibility to enable organisations interpret it to suit their particular circumstances. It is for stakeholders and others to evaluate the organisation's statement.

- While it is anticipated that many Development NGOs will aspire to implementing the Code's Guidelines, it is recognised applying such standards will be progressive in nature and likely to be phased in as the organisation grows in size and more formal governance practices are employed.

- Where an organisation's governing document does not allow the organisation to adopt one or more recommendations of this Code, then the governing document must take precedence and the related reasons for non-compliance with the Code explained.

- Organisations using this Code are advised to review their governing document, standing orders and other documentation, and consider amending them as necessary to enable their implementation of the Code.

Part Two

■ THE CODE

2.1 The main principles of good corporate governance

      A. Board Leadership

      B. Board Accountability

      C. Board Responsibilities

      D. Board Review and Renewal

      E. Board Delegation

      F. Board and Director Integrity

      G. Board Openness

2.1 THE MAIN PRINCIPLES OF GOOD CORPORATE GOVERNANCE

The *Main Principles* set out below have been used in the drawing up of this Code, and provide the main headings for each section. They are presented here to set the context and to help with interpretation.

A. BOARD LEADERSHIP: Every organisation should be led and controlled by an effective Board of directors which collectively ensures delivery of its objects, sets its strategic direction and upholds its values.

B. BOARD ACCOUNTABILITY: The directors as a Board should collectively be responsible and accountable for ensuring and monitoring that the organisation is performing well, is solvent, and complies with all its obligations.

C. BOARD RESPONSIBILITIES: The Board should have clear responsibilities and functions, and should compose and organise itself to discharge them effectively.

D. BOARD REVIEW AND RENEWAL: The Board should periodically review its own and the organisation's effectiveness, and take any necessary steps to ensure that both continue to work well.

E. BOARD DELEGATION: The Board should set out the functions of sub-committees, officers, the chief executive, other staff and agents in clear delegated authorities, and should monitor their performance.

F. BOARD AND DIRECTOR INTEGRITY: The Board and individual directors should act according to high ethical standards, and ensure that conflicts of interest are properly dealt with.

G. BOARD OPENNESS: The Board should be open, responsive and accountable to its users, beneficiaries, members, partners and others with an interest in its work.

In the Code, each of these main principles is accompanied by a set of *Supporting Principles* which define in some detail what can be considered as best practice in the operations of an effective Board.

A. BOARD LEADERSHIP

◼ **MAIN PRINCIPLE:**

Every organisation should be led and controlled by an effective Board of directors which collectively ensures delivery of its objects, sets its strategic direction and upholds its values.

SUPPORTING PRINCIPLES

A.1 The role of the board

Directors have and must accept ultimate responsibility for directing the affairs of their organisation, ensuring it is solvent, well-run, and delivering the outcomes for which it has been set up.

A.2 Strategic direction

Directors should focus on the strategic direction of their organisation, and avoid becoming involved in day to day operational decisions and matters (except in the case of small organisations with few or no staff). Where directors do need to become involved in operational matters, they should separate their strategic and operational roles.

> **The board makes decisions collectively.**
>
> *The board represents the interests of the NGO's multiple stakeholders. Its collective leadership helps an organisation stay focused on its mission and resist the special agenda of particular individuals or groups.*

B. BOARD ACCOUNTABILITY

■ MAIN PRINCIPLE:

The directors as a Board should collectively be responsible and accountable for ensuring and monitoring that the organisation is performing well, is solvent, and complies with all its obligations.

SUPPORTING PRINCIPLES

B.1 Compliance

The Board must ensure that the organisation complies with its own governing document, relevant laws, and the requirements of any regulatory bodies.

B.2 Internal Controls

The Board should maintain and regularly review the organisation's system of internal controls, performance reporting, policies, procedures and its need for an internal audit function.

B.3 Managing Risk

The Board must act prudently to protect the assets and property of the organisation, and ensure that they are used to deliver the organisation's objectives. The Board must regularly review the risks to which the organisation is subject, and take action to mitigate risks identified.

B.4 Audit Committee

In addition to ensuring compliance with regulatory and statutory financial reporting obligations relevant to the organisation, the Board of a larger Development NGO should establish an Audit Committee to ensure it regularly receives and reviews sufficient, relevant and timely financial information to enable it to monitor and assess the organisation's financial position.

> **One of the Board's basic jobs is to ensure the NGO has sufficient resources to fulfill its mission.**
>
> *The Board will then verify that expenditures are appropriate and reasonable, funds are spent according to approved procedures, investments are carefully managed, a complete and accurate record is kept of financial transactions, and adequate steps are taken to acquire and maintain diversified financial resources.*

B.5 Equality and Diversity

The Board should ensure that it upholds and applies the principles of equality and diversity in all of its activities.

C. BOARD RESPONSIBILITIES

■ **MAIN PRINCIPLE:**

The Board should have clear responsibilities and functions, and should compose and organise itself to discharge them effectively.

SUPPORTING PRINCIPLES

C.1 Director Duties and Responsibilities

Directors should understand their duties and responsibilities and should have a statement defining them.

C.2 The Chairperson

The Chairperson should run the Board and set its agenda. The agenda should take full account of the issues and the concerns of all board members. Agendas should be forward looking and concentrate on strategic matters rather than formulaic approvals of proposals.

A crucial partnership: the chief executive and the Board chair.

A good partnership is the basis of solid and directed organisational leadership, while a bad one can be a nightmare—not only for the people involved but for the NGO as a whole.

C.3 The Chief Executive

The Board should make proper arrangements for the supervision, support, appraisal and remuneration of its chief executive.

C.4 The Effective Board

The Board should organise its work to ensure that it makes the most effective use of the time, skills and knowledge of directors.

C.5 Information and Advice

Directors should ensure that they receive the advice and information they need in order to make good decisions.

C.6 Skills and Experience

The directors should have the diverse range of skills, experience and knowledge needed to run the organisation effectively.

C.7 Development and Support

Directors should ensure that they receive the necessary induction, training and ongoing support needed to discharge their duties.

D. BOARD REVIEW AND RENEWAL

■ **MAIN PRINCIPLE:**

The Board should periodically review its own and the organisation's effectiveness, and take any necessary steps to ensure that both continue to work well.

SUPPORTING PRINCIPLES

D.1 Performance Appraisal

The Board should regularly review and assess its own performance, that of individual directors, and of sub-committees, standing groups and other bodies.

D.2 Renewal and Recruitment

The Board should have a strategy for its own renewal. Recruitment of new directors should be open and transparent, and focused on creating a diverse and effective Board.

D.3 Review

The Board should periodically carry out strategic reviews of all aspects of the organisation's work, and use the results to inform positive change and innovation.

E. BOARD DELEGATION

MAIN PRINCIPLE:

The Board should set out the functions of sub-committees, officers, the chief executive, other staff and agents in clear delegated authorities, and should monitor their performance.

SUPPORTING PRINCIPLES

E.1 Clarity of Roles

The Board should define the roles and responsibilities of the chair and other honorary officers, in writing.

E.2 Effective Delegation

The Board should ensure that staff, volunteers and agents have sufficient delegated authority to discharge their duties. All delegated authorities must have clear limits relating to budgetary and other matters.

Management and Governance are separate.

The underlying assumption is that this separation makes possible the checks and balances that ensure the organisation is well run and important decisions are made with the public interest in mind.

E.3 Terms of Reference

The Board should set clear terms of reference for subcommittees, standing groups, advisory panels, etc.

E.4 Monitoring

All delegated authorities must be subject to regular monitoring by the Board.

F. BOARD AND DIRECTOR INTEGRITY

■ MAIN PRINCIPLE:

The Board and individual directors should act according to high ethical standards, and ensure that conflicts of interest are properly dealt with.

SUPPORTING PRINCIPLES

F.1 No Personal Benefit

Directors are precluded from making any personal profit from their roles as Board members and must ensure that no conflict of interest arises between their own personal interests and those of the organisation.

F.2 Conflicts of Interest

Directors should identify and promptly declare any actual or potential conflicts of interest affecting them.

F.3 Probity

There should be clear guidelines for receipt of gifts or hospitality by directors.

> **What is conflict of interest?**
>
> *Conflict of interest is a situation in which outside interests affect, or are perceived to affect, the ability of an individual to make fair and impartial decisions on behalf of the NGO.*

F.4 Code of Conduct

Every Board should provide directors with clear guidelines as to their collective standard of behaviour, responsibilities and best practice in fulfilling their obligations.

G. BOARD OPENNESS

■ **MAIN PRINCIPLE:**

The Board should be open, responsive and accountable to its users, beneficiaries, partners and others with an interest in its work.

SUPPORTING PRINCIPLES

G.1 Communications and Consultation

Each organisation should identify those with a legitimate interest in its work (stakeholders), and ensure that there is a strategy for regular and effective communication with them about the organisation's achievements and work.

G.2 Openness and Accountability

The Board should be open and accountable to stakeholders about its own work, and the governance of the organisation.

G.3 Stakeholder Involvement

The Board should encourage and enable appropriate engagement of key stakeholders, such as funders and beneficiaries, in the organisation's planning and decision-making.

> **What is accountability?**
>
> *Accountability is both about being held responsible by others and taking responsibility for oneself. An accountable NGO invites scrutiny by - and responds to the demands and expectations of - all those affected by its work.*

Part Three

■ CODE IMPLEMENTATION GUIDELINES

3.1 Guidance on Board Leadership

3.2 Guidance on Board Accountability

3.3 Guidance on Board Responsibilities

3.4 Guidance on Board Review and Renewal

3.5 Guidance on Board Delegation

3.6 Guidance on Board and Director Integrity

3.7 Guidance on Board Openness

Code Implementation Guidelines

INTRODUCTION

The following guidelines are drawn from various international codes that set out best practice in Board governance. The guidelines deal with implementation of each of the *Supporting Principles* contained in the Code.

Subscribers to the Code should consider these guidelines as optional and are advised to interpret them in a manner that is appropriate to their organisation's size and stage of development.

Larger Development NGOs are encouraged to adopt as many of these practices as is feasible while smaller organisations may consider progressively adopting them as they grow.

These guidelines will be regularly reviewed in the light of experience of Dóchas members and to ensure they are consistent with evolving standards of corporate governance internationally.

3.1 GUIDANCE ON BOARD LEADERSHIP

A.1 Supporting Principle

THE ROLE OF THE BOARD

Directors have and must accept ultimate responsibility for directing the affairs of their organisation, ensuring it is solvent, well-run, and delivering the outcomes for which it has been set up.

Guidance:

A.1.1 The Board should have a statement of its strategic and leadership roles, and of key functions which cannot be delegated. This statement should include as a minimum:

a. ensuring compliance with the objects, purposes and values of the organisation, and with its governing document;

b. setting or approving policies, plans and budgets to achieve those objectives, and monitoring performance against them;

c. ensuring the solvency, financial strength and good performance of the organisation;

d. ensuring that the organisation complies with all relevant laws, regulations and requirements of its regulators;

e. dealing with the appointment and performance evaluation (and if necessary the dismissal) of the organisation's chief executive;

f. setting and maintaining a framework of delegation and internal control; and

g. agreeing or ratifying all policies and decisions on matters which might create significant risk to the organisation, financial or otherwise.

A.1.2 The Board must ensure that the organisation's vision, mission and values and activities remain true to its objects.

A.1.3 Directors are bound by an overriding duty, individually and as a Board, to act reasonably at all times in the interests of the organisation and of its present and future beneficiaries.

A.1.4 All directors are equally responsible in law for the Board's actions and decisions, and have equal status as directors.

A.1.5 Each and every director must act personally, and not as the representative of any group or organisation; this applies regardless of how that person was nominated, elected or selected to become a director.

<div style="border: 2px solid green; padding: 1em; background-color: #d9d9d9;">

A.2 Supporting Principle

STRATEGIC DIRECTION

Directors should focus on the strategic direction of their organisation, and avoid becoming involved in day to day operational decisions and matters (except in the case of small organisations with few or no staff). Where directors do need to become involved in operational matters, they should separate their strategic and operational roles.

</div>

Guidance:

A.2.1 Where an organisation employs staff, the chief executive has responsibility for maintaining a clear division of responsibilities between the Board and the staff team. She or he should provide an effective link between Board and staff, informing and implementing the strategic decisions of the Board.

A.2.2 Directors should not seek to become directly involved in decisions which have been properly delegated to staff. Instead, they should hold staff to account through the chief executive.

A.2.3 In the case of smaller organisations, where some directors may be directly involved in operational decisions and matters, those concerned should make a clear distinction between their director role and their operational work.

3.2 GUIDANCE ON BOARD ACCOUNTABILITY

> **B.1 Supporting Principle**
>
> ## COMPLIANCE
>
> **The Board must ensure that the organisation complies with its own governing document, relevant laws, and the requirements of any regulatory bodies.**

Guidance:

B.1.1 The Board must ensure that the organisation complies with:
   a. its own governing document;
   b. the requirements of its regulators and relevant legislation, and in particular that it submits annual returns, reports and accounts as required by law;
   c. any statutory or regulatory requirements relating to maintenance of financial records, and external audit of its accounts; and
   d. the requirements of all other statutes, authorities and regulations governing its work, e.g. Code of Conduct on Images; Fundraising; etc.

B.1.2 Depending on their size, the nature of their activities and the type of their governing document, organisations must ensure compliance with any of the following that apply to them:
   a. charity law and the requirements of the Charity Regulator; (Pending)
   b. company law and the requirements of the Companies Registration Office;
   c. the requirements of the Revenue Commissioners related to tax exemption;
   d. employment law;
   e. health and safety legislation;
   f. data protection legislation;
   g. legislation against discrimination on grounds of race, disability, gender and other factors; and
   h. any other legislation which may apply to particular organisations, such as that relating to fundraising, the protection of children or vulnerable adults, the provision of health or care services, the provision of financial advice, housing and tenancy law and others.

B.1.3 The Board should have policies, procedures and reporting mechanisms in place toensure compliance with applicable legislation.

B.1.4 Organisations which fundraise should comply with the ICTR Statement of Guiding Principles for Fundraising. (Pending)

B.2 Supporting Principle

INTERNAL CONTROLS

The Board should maintain and regularly review the organisation's system of internal controls, performance reporting, policies, procedures and its need for an internal audit function.

Guidance:

B.2.1 The Board should set and maintain standing orders, systems of financial control, internal control, performance reporting, and policies and procedures.

B.2.2 The Board should ensure that there is a system for the regular review of the effectiveness of its internal controls.

B.2.3 Larger and more complex organisations should consider establishing an internal audit function.

B.3 Supporting Principle

MANAGING RISK

The Board must act prudently to protect the assets and property of the organisation, and ensure that they are used to deliver the organisation's objectives. The Board must regularly review the risks to which the organisation is subject, and take action to mitigate risks identified.

Guidance:

B.3.1 The Board must avoid undertaking activities which might place at undue risk the organisation's service users, beneficiaries, volunteers, staff, property, assets or reputation.

B.3.2 The Board must exercise special care when investing the organisation's funds, or borrowing funds for it to use, and must comply with the organisation's governing document and any other legal requirements in doing so.

B.3.3 Directors should understand the risks facing the organisation and how these are managed and minimised. The Board should undertake a full risk assessment (either periodically or on a rolling basis) and take appropriate steps to manage the organisation's exposure to significant risks.

B.3.4 The Board should obtain advice from professional advisors or others on all matters where there may be material risk to the organisation, or where the directors may be in breach of their duties.

B.3.5 The Board should take ultimate responsibility for dealing with and managing conflicts that may arise within the organisation. This includes conflicts arising between directors, staff, the chief executive, members, volunteers or service users.

B.4 Supporting Principle

AUDIT COMMITTEE

In addition to ensuring compliance with regulatory and statutory financial reporting obligations relevant to the organisation, the Board of a larger Development NGO should establish an Audit Committee to ensure it regularly receives and reviews sufficient, relevant and timely financial information to enable it to monitor and assess the organisation's financial position.

Guidance:

B.4.1 The board should establish an audit committee of at least three, or in the case of smaller organisations two, directors. The board should satisfy itself that at least one member of the audit committee has recent and relevant financial experience. The chairperson of the Board should not be an audit committee member.

B.4.2 The main role and responsibilities of the audit committee should be set out in written terms of reference and should include:

a. to monitor the integrity of the financial statements of the organisation, and any formal announcements relating to the organisation's financial performance, reviewing significant financial reporting judgements contained in them;

b. to review the organisation's internal financial controls and to review the organisation's internal control and risk management systems;

c. to monitor and review the effectiveness of the organisation's internal audit function;

d. to make recommendations to the Board, for it to put to the members for their approval in general meeting, in relation to the appointment, re-appointment and removal of the external auditor and to approve the remuneration and terms of engagement of the external auditor;

e. to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant Irish professional and regulatory requirements;

B.4.3 The terms of reference of the audit committee, including its role and the authority delegated to it by the Board, should be made available. A separate section of the annual report should describe the work of the committee in discharging those responsibilities.

B.4.4 The audit committee should review arrangements by which staff of the organisation may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters. The audit committee's objective should be to ensure that arrangements are in place for the proportionate and independent investigation of such matters and for appropriate follow-up action.

B.4.5 The audit committee should monitor and review the effectiveness of the internal audit activities. Where there is no internal audit function, the audit committee should consider annually whether there is a need for an internal audit function and make a recommendation to the Board, and the reasons for the absence of such a function should be explained in the relevant section of the annual report.

B.4.6 The audit committee should have primary responsibility for making a recommendation on the appointment, reappointment and removal of the external auditors. If the Board does not accept the audit committee's recommendation, it should include in the annual report, and in any papers recommending appointment or re-appointment, a statement from the audit committee explaining the recommendation and should set out reasons why the Board has taken a different position.

B.4.7 The annual report should explain to stakeholders how, if the auditor provides non-audit services, auditor objectivity and independence is safeguarded.

Guidance:

B.5.1 The Board should ensure that its organisation upholds and promotes equal opportunities and diversity in all areas of its work, including:

    a. the identification and assessment of needs to be met;

    b. allocation of resources or provision of services;

    c. membership of the Board and any sub-committees;

    d. staff recruitment, selection, training and conditions of service;

    e. communication with stakeholders and the public;

    f. accessibility of meetings and communications; and

    g. the buying of goods and services.

B.5.2 The Board should set strategies for and receive regular reports on the organisation's work to achieve equality and diversity, against clear targets where practicable. These reports should be used to help develop the organisation's overall strategies.

B.5.3 Where the organisation is set up to serve a specific cause, this should be clear and the above provisions should be interpreted and applied as appropriate.

3.3 GUIDANCE ON BOARD RESPONSIBILITIES

C.1 Supporting Principle

DIRECTOR DUTIES AND RESPONSIBILITIES

Directors should understand their duties and responsibilities and should have a statement defining them.

Guidance:

C.1.1 All directors should be asked to sign and return a statement or terms-of-reference setting out their fiduciary duties and statutory obligations, and the organisation's expectations of directors.

C.1.2 The director's terms-of-reference should, as a minimum, include obligations to:

a. know and support the mission of the organisation;

b. uphold the values and objectives of the organisation;

c. give adequate time and energy to the duties of being a director;

d. prepare for meetings in advance;

e. maintain confidentiality;

f. offer informed and impartial guidance;

g. fulfill fiduciary and statutory duties;

h. act with integrity, and avoid or declare personal conflicts of interest;

i. participate in committees and special events;

j. support the chief executive;

k. take part in resource development;

l. promote the organisation in the community; and

m. comply with the principles of this Code.

C.1.3 Individual directors must not act on their own on behalf of the Board, or on the business of the organisation, without proper authority from the Board.

C.2 Supporting Principle

THE CHAIRPERSON

The Chairperson should run the Board and set its agenda. The agenda should take full account of the issues and the concerns of all board members. Agendas should be forward looking and concentrate on strategic matters rather than formulaic approvals of proposals.

Guidance:

C.2.1 The Chair should ensure that the members of the Board receive accurate, timely and clear information, in particular about the organisation's performance, to enable the Board to take sound decisions, monitor effectively and provide advice to promote the success of the organisation.

C.2.2 The Chair should ensure effective communication with stakeholders and enable members of the Board develop an understanding of the views of the major funders.

C.2.3 The Chair should manage the Board to ensure that sufficient time is allowed for discussion of complex or contentious issues. Where appropriate, arranging for informal meetings beforehand to enable thorough preparation for the Board discussion. It is particularly important that directors have sufficient time to consider critical issues and are not faced with unrealistic deadlines for decision-making.

C.2.4 The Chair should encourage active engagement by all the members of the Board.

C.2.5 The effective Chair should:
   a. uphold the highest standards of integrity;
   b. promote effective relationships and open communication, both inside and outside the boardroom, between directors and the executive team;
   c. build an effective and complementary Board, initiating change and planning succession in Board appointments, subject to Board approval;
   d. promote the highest standards of corporate governance and seek compliance with the provisions of this Code wherever possible;
   e. ensure clear structure for and the effective running of Board committees;
   f. ensure effective implementation of Board decisions;
   g. establish a close relationship of trust with the chief executive;
   h. provide support and advice while respecting executive responsibility; and
   i. provide coherent leadership of the organisation, including representing the organisation and understanding the views of stakeholders.

C.3 Supporting Principle

THE CHIEF EXECUTIVE

The Board should make proper arrangements for the supervision, support, appraisal and remuneration of its chief executive.

Guidance:

C.3.1 The Board should ensure that formal arrangements are set up for the regular supervision, appraisal and personal development of their chief executive. This may be carried out by the chair, another director or sub-committee of the Board.

C.3.2 The Board should ensure that there is a formal mechanism for setting the remuneration of the chief executive, which should be ratified by the Board.

C.3.3 The remuneration package for the chief executive should:
a. be adequate to attract and retain the quality of staff required, but no more;
b. be openly disclosed in the organisation's accounts, including pension and other benefits; and
c. where there is a performance related element, be linked to the achievement of measurable targets.

C.3.4 The Board should seek independent expert or professional advice when required concerning sensitive matters relating to the chief executive's employment.

C.4 Supporting Principle
THE EFFECTIVE BOARD
The Board should organise its work to ensure that it makes the most effective use of the time, skills and knowledge of directors.

Guidance:

C.4.1 The Board should meet regularly, and ensure that its work is focused on delivering its strategic role.

C.4.2 Within the terms of its governing document, the Board should ensure that it has enough directors to provide the skills and experience needed, without becoming so large that decision-making becomes unwieldy.

C.4.3 The Board should elect a Chairperson in accordance with the procedures specified in the organisation's governing documents.

C.4.4 There should be a clear written division of responsibilities between the Chairperson and the Chief Executive. It should specify the Chairperson's responsibilities for the running of the board and the Chief Executive's responsibilities for the running of the organisation. No one individual should have unfettered powers of decision.

C.5 Supporting Principle
INFORMATION AND ADVICE
Directors should ensure that they receive the advice and information they need in order to make good decisions.

Guidance:

C.5.1 The Board should ensure that it conducts its work efficiently, and receives the information and advice it needs to make good decisions. Board papers should be timely, well-presented, circulated well in advance of Board meetings, and should make clear recommendations to the Board.

C.5.2 The Board should take professional advice where necessary before making important decisions and should not rely excessively or exclusively on a single source.

C.6 Supporting Principle

SKILLS AND EXPERIENCE

The directors should have the diverse range of skills, experience and knowledge needed to run the organisation effectively.

Guidance:

C.6.1 The directors should collectively provide a mix of skills, experience, qualities and knowledge appropriate to the organisation and its beneficiaries' needs, and so that the organisation can respond to the challenges and opportunities it faces.

C.6.2 Depending on the organisation's size and the nature of its activities, the collective experience of directors should, as appropriate, cover the following areas:

   a. providing effective strategic leadership, and working as a team;
   b. direct knowledge of the organisation's beneficiaries, and of their needs and aspirations, whether gained through life or work experience;
   c. governance, general finance, business and management;
   d. human resources and diversity;
   e. the operating environment and risks that exist for the organisation; and
   f. other specific knowledge required, such as fundraising, health, social services, property or legal.

C.6.3 The Board should aim to have a diverse group of directors, broadly representative of the organisation's stakeholders.

C.6.4 The Boards of organisations providing services to beneficiaries should be open to director membership from these groups unless there are clear legal or other reasons why this is not practicable.

C.7 Supporting Principle

DEVELOPMENT AND SUPPORT

Directors should ensure that they receive the necessary induction, training and ongoing support needed to discharge their duties.

Guidance:

C.7.1 The Board should have a strategy for the support of all directors, so that each director can keep up to date with the knowledge and skills they need to carry out their role.

C.7.2 All new directors should undergo a full induction, in which they receive all the information and support they need to carry out their new role, and can meet key staff, beneficiaries and other stakeholders.

C.7.3 Implementation of these strategies may be delegated by the Board to the organisation's chief executive or secretary.

3.4 GUIDANCE ON BOARD REVIEW AND RENEWAL

> **D.1 Supporting Principle**
>
> ## PERFORMANCE APPRAISAL
>
> **The Board should regularly review and assess its own performance, that of individual directors, and of sub-committees, standing groups and other bodies.**

Guidance:

D.1.1 The Board should ensure that:

a. at least every two years, it sets aside time to reflect on its own performance and functioning as a team;

b. the performance of individual directors is regularly assessed and appraised, either by the chair or another director, or by using external assistance;

c. the performance of the chair is likewise assessed and appraised, with input from the chief executive, by the Board as a whole excluding the chairperson, or by using external assistance; and

d. the performance of sub-committees, standing groups and other bodies is similarly appraised and reviewed.

D.1.2 The results of these appraisals should be used to make necessary changes and improvements, to inform the creation of appropriate training programmes, and to guide director renewal and recruitment.

> **D.2 Supporting Principle**
>
> ## RENEWAL AND RECRUITMENT
>
> **The Board should have a strategy for its own renewal. Recruitment of new directors should be open and transparent, and focused on creating a diverse and effective Board.**

Guidance:

D.2.1 The Board should have a strategy for its own renewal, with succession planning arrangements in place to ensure timely replacement of directors resigning or reaching the end of their terms of office; particular attention should be given to succession planning for replacement of the chair and other honorary officers. The Board may wish to delegate implementation of this strategy to a sub-committee or panel.

D.2.2 Directors must be recruited and appointed in accordance with the organisation's governing document, and with relevant legislation.

D.2.3 The Board should set maximum terms of office to ensure a steady renewal of directors; these may be set out in standing orders or in the organisation's governing document.

D.2.4 Before new directors are appointed, the Board should determine what new attributes and knowledge are needed, and write them down in the form of a role description, or role profile.

D.2.5 The Board should ensure that the recruitment process is transparent, and should consider open advertising and a range of other recruitment methods, where appropriate, to attract the suitable candidates.

D.2.6 Candidates should, where the organisation's governing document permits, be interviewed formally, and appointed on merit.

D.2.7 In the case of organisations where the directors are nominated by an external body, or elected by a wider membership, the Board should work in partnership with the organisations or people concerned to ensure that they are aware of the specific skills and experience required from new directors.

D.2.8 Where permitted by the organisation's governing document, co-options should be used where necessary to recruit individuals with particular skills, experience and qualities that are not fully provided by existing directors.

D.2.9 The Board should ensure that the procedures for joining and leaving the Board are clearly understood by all directors and others involved.

D.3 Supporting Principle

REVIEW

The Board should periodically carry out strategic reviews of all aspects of the organisation's work, and use the results to inform positive change and innovation.

Guidance:

D.3.1 To remain effective, the Board should periodically conduct strategic reviews of all aspects of the organisation's work and functioning, to ensure that:

  a. the needs for which the organisation was set up still exist, and its objects as set out in the governing document remain relevant to those needs;

  b. the organisation is continuing to meet those needs, and remains fit for purpose;

  c. the needs are being met in the most effective way.

D.3.2 Reviews should include the areas covered in this Code, including the organisation's:

  a. governing document, standing orders, purposes, mission and vision;

  b. Board and directors – their functioning and effectiveness;

  c. staffing and volunteer structures, working methods, and operational policies and procedures;

  d. mechanisms for internal control and performance reporting;

  e. mechanisms for planning and budgeting;

  f. sub-committees, working groups and advisory bodies; and

  g. relations with stakeholders, and arrangements for communication and consultation with them.

D.3.3 The Board should use the results of such reviews to:

  a. generate a creative and innovative approach to the organisation's development;

  b. inform its strategic planning;

  c. make changes and improvements to its operational activities; and initiate collaborative work with other organisations to deliver the best possible outcomes for beneficiaries; and

  d. create a positive impact on the overall effectiveness and governance of the organisation.

D.3.4 Where possible, the Board should be open with stakeholders about the results of such reviews, indicate clearly what steps they intend to take in response, and give explanations concerning actions they have decided not to take.

3.5 GUIDANCE ON BOARD DELEGATION

> **E.1 Supporting Principle**
>
> ## CLARITY OF ROLES
>
> **The Board should define the roles and responsibilities of the chair and other honorary officers, in writing.**

Guidance:

E.1.1 The Board should define and write down the role of the chair, and that of other officers such as vice-chair, treasurer and the secretary to the Board. It should be noted that for charitable companies the role of secretary is partly defined by the relevant legislation.

E.1.2 The role of the chair should include, as a minimum, to ensure:
a. the efficient conduct of business at the organisation's Board and general meetings;
b. that the organisation's business is efficiently and accountably conducted between Board meetings;
c. that the organisation complies generally with this Code;
d. specifically that the appraisal and remuneration of the organisation's chief executive is conducted in accordance with this Code;
e. that the employment of the chief executive complies with employment legislation and good practice; and
f. that the appraisal of board and director performance is conducted in accordance with this Code.

E.1.3 Where the Board has delegated specific roles to honorary officers or to other directors, ultimate responsibility rests with the Board as a whole. In such situations the director(s) concerned should separate the specific roles from their wider director role.

E.2 Supporting Principle

EFFECTIVE DELEGATION

The Board should ensure that staff, volunteers and agents have sufficient delegated authority to discharge their duties. All delegated authorities must have clear limits relating to budgetary and other matters.

Guidance:

E.2.1 In all but the smallest organisations, the Board will need to delegate parts of its work to others in a clear, practical and legal manner. Delegations may be made to individual directors, sub-committees, the chief executive, other staff, volunteers or agents and consultants.

E.2.2 Delegations must comply with the terms of the organisation's governing document and any relevant legislation.

E.2.3 Where there is a chief executive, delegations to other staff and volunteers should normally be through that individual.

E.2.4 Delegations should always be in writing, and should set clear limits on matters such as expenditure, authority and decisions that can be made. Delegations may be written in Board minutes, terms of reference for sub-committees, staff job descriptions, or in a separate list.

E.3 Supporting Principle

TERMS OF REFERENCE

The Board should set clear terms of reference for subcommittees, standing groups, advisory panels, etc.

Guidance:

E.3.1 The Board may wish to set up sub-committees, advisory groups, panels or other bodies to assist its work. Such bodies should have clear written terms of reference in addition to any delegated authority.

E.4 Supporting Principle

MONITORING

All delegated authorities must be subject to regular monitoring by the Board.

Guidance:

E.4.1 The Board must remain in ultimate control of all delegations:

a. honorary officers and other directors should report back to the Board promptly on any use of delegated authority;

b. the Board should receive regular reports and minutes from all sub-committees etc; and

c. the mechanisms established for internal control and performance reporting should be used to monitor use of delegated authority by the chief executive, or other staff or volunteers.

3.6 GUIDANCE ON BOARD AND DIRECTOR INTEGRITY

> **F.1 Supporting Principle**
>
> ## NO PERSONAL BENEFIT
>
> **Directors are precluded from making any personal profit from their roles as Board members and must ensure that no conflict of interest arises between their own personal interests and those of the organisation.**

Guidance:

F.1.1 Directors must be scrupulous in avoiding any remuneration, private benefit or profit from their position as director except in the situation where:

   a. a service provided is permitted by law and the organisation's governing document;

   b. the service provided to the organisation is for non-Board related services;

   c. the Board as a whole reasonably believe it to be in the organisation's interest that the service be provided by that director;

   d. the Board manages the transaction properly; and

   e. any transaction between the organisation and one of its directors is conducted openly and reported as required.

F.1.3 The organisation should have procedures for directors to claim legitimate travel and other expenses incurred while carrying out the organisation's business; directors should not be out of pocket for the work they carry out for the organisation.

F.2 Supporting Principle

CONFLICTS OF INTEREST

Directors should identify and promptly declare any actual or potential conflicts of interest affecting them.

Guidance:

F.2.1 The organisation must have procedures for directors to declare actual or potential conflicts of interest to the Board; such declarations should be made at the earliest opportunity. They should be recorded in Board minutes or in a register kept for the purpose.

F.2.2 Where a material conflict of interest arises at a Board meeting, the director concerned should not vote on the matter or participate in discussions. She or he should also offer to withdraw from the meeting, and the other directors should decide if this is required.

F.2.3 Where a director has a major or ongoing conflict of interest, she or he should offer to resign from the Board.

F.2.4 Boards should have special procedures or standing orders to deal with conflicts of interest for directors who are the organisation's service users or beneficiaries.

F.3 Supporting Principle

PROBITY

There should be clear guidelines for receipt of gifts or hospitality by directors.

Guidance:

F.3.1 The organisation should have a written policy on the matter of gifts and hospitality received by directors defining a materiality threshold, what is and is not acceptable and setting out clear procedures to be followed.

F.3.2 At the very least, the policy should request that directors should declare all personal gifts received or material hospitality accepted while on the organisation's business, or from people or organisations connected with the organisation; such declarations should be recorded in Board minutes or in a register kept for that purpose.

F.3.3 Where directors accept gifts exceeding the materiality threshold they should contribute such gifts or their monetary value to the organisation's cause. Such contributions and their origin should be recorded in the Board minutes or register.

F.3.4 Directors should under no circumstances accept any gifts or hospitality where this could be seen as being likely to influence the decisions of the Board.

F.4 Supporting Principle

CODE OF CONDUCT

Every Board should provide directors with clear guidelines as to their collective standard of behaviour, responsibilities and best practice in fulfilling their obligations.

Guidance:

F.4.1 When introducing a Code of Conduct for directors, due regard should be given to the NGO's governing document to ensure that the Code reflects the powers of the directors contained in the governing document. Ultimately, the governing document's provisions must take precedence.

F.4.2 The contents of the Code of Conduct will be specific to each organisation but at a minimum should state that:
a. directors must have a good understanding of, and be sympathetic with, the aims and objects of the NGO and act in accordance with the governing document at all times.
b. directors must act and make decisions in the best interests of the organisation, and its present and future beneficiaries.
c. directors should do their best to avoid conflicts of interest, and where they do find themselves conflicted should declare that fact and not take part in any relevant decision-making, in accordance with the conflict of interest policy.

d. directors must play an active role in Board and sub-committee meetings, having spent due time reading and digesting board papers in preparation for the meeting. A minimum attendance at meetings should be specified to ensure that best practice in governance is reached and maintained.

e. directors are jointly and severally liable for their decisions, therefore decisions should be taken together, as a team, recorded accurately in the minutes, and communicated to staff, beneficiaries and funders in a unified manner.

f. directors are accountable to a range of interested stakeholders for their actions and as such decision-making and governance issues should be as transparent as possible, except for when confidentiality is required.

g. any information of a confidential nature must remain so outside the confines of the Board meeting.

3.7 GUIDANCE ON BOARD OPENNESS

> **G.1 Supporting Principle**
>
> ## COMMUNICATION AND CONSULTATION
>
> **Each organisation should identify those with a legitimate interest in its work (stakeholders), and ensure that there is a strategy for regular and effective communication with them about the organisation's achievements and work.**

Guidance:

G.1.1 The Board should identify those people and groups who have a legitimate interest in the organisation's work; these might include users, beneficiaries, partners, staff, volunteers, regulators, government bodies and funders. We refer to these as 'stakeholders' in this Code.

G.1.2 The Board should ensure that the whole organisation and its stakeholders have a clear understanding of the Board's role, and of the organisation's objects and values.

G.1.3 There should be regular and appropriate communication and consultation with stakeholders to ensure that:

a. their views are taken into account in the organisation's decision-making;

b. they are informed and consulted on the organisation's plans and proposed developments which may affect them;

c. there is a procedure for dealing with feedback and complaints from all stakeholders; and

d. the organisation's performance, impacts and outcomes are reported to stakeholders.

G.1.4 The Board must ensure that the organisation produces an annual report and accounts that comply with relevant legislation; these should provide a balanced and accurate assessment of the organisation's successes and failures.

G.1.5 Communication should be offered in formats accessible to the stakeholder audiences, for instance in plain language and where reasonable, translated into languages commonly spoken among the communities served.

G.1.6 The organisation must hold an Annual General Meeting if required by the governing document or by law.

G.2 Supporting Principle

OPENNESS AND ACCOUNTABILITY

The Board should be open and accountable to stakeholders about its own work, and the governance of the organisation.

Guidance:

G.2.1 The Board should ensure that the organisation's Annual Report and Accounts are widely available and accessible on the organisation's website.

G.2.2 The Board should ensure that the organisation upholds a commitment to openness and accountability at all levels. This will mean:

a. being clear about what information is available, and what must remain confidential to protect personal privacy or commercial confidentiality;

b. complying with reasonable outside requests for information about the organisation and its work;

c. being open about the organisation's governance work, and its strategic reviews;

d. ensuring that stakeholders have the opportunity to hold directors to account and know how to do this;

e. ensuring that the principles of equality and diversity are applied, and that information and meetings are accessible to all sections of the community; and

f. Ensuring that all codes and standards of practice to which the organisation subscribes are publicly stated and are available.

STAKEHOLDER INVOLVEMENT

The Board should encourage and enable the engagement of key stakeholders, such as funders and beneficiaries, in the organisation's planning and decision-making.

Guidance:

G.3.1 The Board should ensure that the views of funders, beneficiaries, staff, volunteers and other stakeholders are taken into account in the organisation's decision-making and strategic reviews. This will mean:

a. encouraging wide stakeholder engagement in the organisation's decision-making, and promoting activities that support that engagement; and

b. ensuring that funders, beneficiaries, and other stakeholders are involved in the most appropriate way.

G.3.2 In organisations where the directors are elected by a wider membership, the Board should ensure that it:

a. has clear policies on who is and is not eligible for membership of the organisation;

b. keeps the members informed about the organisation's work; and

c. uses the membership as a way of involving stakeholders in the organisation's governance.

ANNEXES

I.   **Guidance on the Role of Director**

II. **Guidance for Board Recruiters**

III. **Guidance on Due Diligence for New Board Members**

IV. **Guidance on New Director Induction**

V.   **Guidance on Board Performance Evaluation**

I. GUIDANCE ON THE ROLE OF DIRECTOR

As members of the Board, all directors are required to:

- Provide entrepreneurial leadership of the organisation within a framework of prudent and effective controls which enable risk to be assessed and managed;
- Set the organisation's strategic aims, ensure that the necessary financial and human resources are in place for the organisation to meet its objectives, and review management performance; and
- Set the organisation's values and standards and ensure that its obligations to its stakeholders and others are understood and met.

In addition to these requirements, the role of a director has the following key elements:

- **Strategy.** Directors should constructively challenge and help develop proposals on strategy.
- **Performance**. Directors should scrutinise the performance of management in meeting agreed goals and objectives and monitor the reporting of performance.
- **Risk**. Directors should satisfy themselves on the integrity of financial information and that financial controls and systems of risk management are robust and defensible.
- **People**. Directors are responsible for determining appropriate levels of remuneration of chief executive, and have a prime role in appointing, and where necessary removing, the chief executive and in succession planning.

Directors should constantly seek to establish and maintain confidence in the conduct of the organisation. They should be independent in judgement and have an enquiring mind. To be effective, directors need to build a recognition by the executive of their contribution in order to promote openness and trust.

To be effective, directors need to be well-informed about the organisation and the external environment in which it operates, with a strong command of issues relevant to its objectives. A director should insist on a comprehensive, formal and tailored induction. An effective induction need not be restricted to the boardroom, so consideration should be given to visiting fieldwork and meeting management and volunteers. Once in post, an effective director should seek continually to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant.

Best practice dictates that an effective director will ensure that information is provided sufficiently in advance of meetings to enable thorough consideration of the issues facing the Board. The director should insist that information is sufficient, accurate, clear and timely.

The effective director:

- upholds the highest ethical standards of integrity;
- supports the chief executive in his/her leadership of the organisation while monitoring his/her conduct;
- questions intelligently, debates constructively, challenges rigorously and decides dispassionately;
- listens sensitively to the views of others, inside and outside the board;
- gains the trust and respect of other Board members; and
- promotes the highest standards of corporate governance and seeks compliance with the provisions of this Code wherever possible.

II. GUIDANCE FOR BOARD RECRUITERS

Questions to ask of Board candidates:

Skills and expertise

1. What is their background in terms of experience / expertise?
2. Have they any voluntary experience and if so what?
3. Have they ever been a Board member before?
4. What skills / added value do they see themselves bringing to the Board?
5. Do they understand the job description given by the Board and are they happy with that?
6. Are they aware of the term which they would be appointed to the Board – two years / three years?
7. How would they handle conflicts or disagreements?
8. Do they have the time to commit to this Board including any extra work from sub-committees/ projects etc?
9. Are they prepared to be appraised as a Board member?

Organisation

1. What do they know about the organisation?
2. Do they feel they have a clear understanding of the mission and objectives of the organisation?
3. Have they had any previous experience /need for this organisation and if so what?
4. What do they see as the challenges for the organisation?
5. What do they see are the cultural differences between this non-profit organisation and their own corporate organisation?
6. Does the potential board member understand the relationship between the CEO and the board?
7. Are they aware of the present structure of the Board and backgrounds of the existing board members?
8. Are they happy to accept a trial period to ensure that both parties are happy with their performance?

Legal

1. What is their understanding of their legal obligations if they become board members?
2. Do they have any conflicting interests if they accept the Board position?
3. Do they have any legal actions now or in the past that the Board should be made aware of?
4. Have they ever been disqualified as a Board member or director of a company before and if so why?

Governance

1. What is their understanding of good governance for a Board?
2. Do they understand the duties and agree with the Board core values that this organisation has agreed upon?
3. Are they prepared to sign up to this Code of Governance?

Board Preparation

1. Who is responsible for suggesting / or nominating Board candidates
2. Is there a set procedure for recruiting Board members and retiring other members?
3. Is it necessary to carry out a skills audit on our present Board members?
4. Do we have a job description for all Board members existing and new which includes their main responsibilities, term of office, re-election terms, etc?
5. Do we have a Board member induction pack that informs new Board members of their responsibilities, schedule of meetings, etc which includes:
   a. Overall mission and objectives of organisation
   b. Copy of Memorandum and Articles of Association
   c. Strategic plan of organisation
   d. Overall responsibilities of the Board
   e. Specific terms of office for Board members
   f. Detailed Board and management structure
   g. Job descriptions of Board members
   h. Schedule of meetings and possible agenda items
   i. Standard financial reports
   j. Good Governance policy
   k. Minutes of previous meetings
6. Is there an open and transparent policy when recruiting new Board members?
7. Is there training provided for new and existing Board members?
8. Is there a policy of Board diversity to enable new ways of thinking to be introduced at Board level?
9. What are the criteria for the evaluation of the performance of Board members?
10. Do you carry out exit interviews with retiring Board members to improve the overall performance of the board?
11. Do new Board members get a tour of the organisation and a meeting with CEO and staff?

III. GUIDANCE ON DUE DILIGENCE FOR NEW BOARD MEMBERS

Why?

Before accepting an appointment a prospective director should undertake their own thorough examination of the organisation to satisfy themselves that it is an organisation in which they can have faith and in which they will be well suited to working.

The following questions are not intended to be exhaustive, but are intended to be a helpful basis for the pre-appointment due diligence process that all directors should undertake.

Questions to ask

- What are the exact nature and extent of the organisation's activities?
- What is the size and structure of the Board and board committees and what are the relationships between the chairperson and the Board, the chief executive and the management team?
- Who are the current directors, what is their background and their record and how long have they served on the Board?
- Is the organisation clear and specific about the qualities, knowledge, skills and experience that it needs to complement the existing board?
- Do I have the necessary knowledge, skills, experience and time to make a positive contribution to the Board of this organisation?
- What is the organisation's current financial position and what has its financial track record been over the last three years?
- What are the key dependencies (e.g. regulatory approvals, funding sources, etc)?
- What record does the organisation have on corporate governance issues?
- If the organisation is not performing particularly well is there potential to turn it round and do I have the time, desire and capability to make a positive impact?
- Who are the organisation's main stakeholders and how has the profile changed over recent years? What is the organisation's attitude towards, and relationship with, its stakeholders?
- Is any material litigation presently being undertaken or threatened, either by the organisation or against it?
- What insurance cover is available to directors and what is the organisation's policy on indemnifying directors?

- How closely do I match the job specification and how well will I fulfil the board's expectations?
- Is there anything about the nature and extent of the organisation's business activities that would cause me concern both in terms of risk and any personal ethical considerations?
- Am I satisfied that the internal regulation of the organisation is sound and that I can operate effectively within its stated corporate governance framework?
- Am I satisfied that the size, structure and make-up of the Board will enable me to make an effective contribution?
- Would accepting the directorship put me in a position of having a conflict of interest?

IV. GUIDANCE ON NEW DIRECTOR INDUCTION

Guidance:

Every organisation should develop its own comprehensive, formal induction programme that is tailored to the needs of the organisation and individual directors. The following guidelines might form the core of an induction programme.

As a general rule, a combination of selected written information together with presentations and activities such as meetings and field visits will help to give a new appointee a balanced and real-life overview of the organisation. Care should be taken not to overload the new director with too much information. The new director should be provided with a list of all the induction information that is being made available to them so that they may call up items if required before otherwise provided.

The induction process should:

1. Build an understanding of the nature of the organisation, its objectives and the fields in which it operates. For example, induction should cover:

- the organisation's mission;
- organisation structure;
- the organisation's constitution, Board procedures and matters reserved for the Board;
- summary details of the organisation's principal assets and liabilities;
- the organisation's major risks and risk management strategy;
- key performance indicators; and
- regulatory obligations.

2. Build a link with the organisation's people including;

- meetings with senior management;
- visits to sites to learn about fieldwork and meet staff and volunteers working on the ground.; and
- participating in Board strategy development. 'Awaydays' enable a new director to begin to build working relationships away from the formal setting of the boardroom.

3. Build an understanding of the organisation's main relationships including meeting with the auditors and developing a knowledge of:

- who are the charity's beneficiaries;
- who are the major funders; and
- who are the major stakeholders and what is the stakeholder relations policy.

The induction pack

On appointment, or during the weeks immediately following, a new director should be provided with certain basic information to help ensure their early effective contribution to the organisation.

V. GUIDANCE ON BOARD PERFORMANCE EVALUATION

The Code provides that the Board should undertake a formal and rigorous evaluation of its own performance and that of its committees and individual directors at least once every two years. Individual evaluation should aim to show whether each director continues to contribute effectively and to demonstrate commitment to the role (including commitment of time for board and committee meetings and any other duties).

The chairperson should act on the results of the performance evaluation by recognising the strengths and addressing the weaknesses of the Board and, where appropriate, proposing new members be appointed to the Board or seeking the resignation of directors. The Board should state in the annual report how such performance evaluation has been conducted.

It is the responsibility of the chairperson to select an effective process and to act on its outcome. The use of an external third party to conduct the evaluation will bring objectivity to the process.

The directors should be responsible for performance evaluation of the chairperson, taking into account the views of the chief executive.

The evaluation process will be used constructively as a mechanism to improve Board effectiveness, maximise strengths and tackle weaknesses. The results of Board evaluation should be shared with the Board as a whole while the results of individual assessments should remain confidential between the chairperson and the director concerned.

The following are some of the questions that should be considered in a performance evaluation. They are, however, by no means definitive or exhaustive and organisations will wish to tailor the questions to suit their own needs and circumstances.

The responses to these questions and others should enable Boards to assess how they are performing and to identify how certain elements of their performance areas might be improved.

Performance evaluation of the Board

- How well has the Board performed against any performance objectives that have been set for the Board?
- What has been the Board's contribution to the testing and development of strategy?
- What has been the Board's contribution to ensuring robust and effective risk management?
- Is the composition of the Board and its committees appropriate, with the right mix of knowledge and skills to maximise performance in the light of future strategy?
- Are inside and outside the Board relationships working effectively?
- How has the Board responded to any problems or crises that have emerged and could or should these have been foreseen?
- Are the matters specifically reserved for the Board the right ones?
- How well does the Board communicate with the management team, organisation employees and others?
- How effectively does it use mechanisms such as the AGM and the annual report?
- Is the Board as a whole up to date with latest developments in the regulatory environment?
- How effective are the Board's committees? [Specific questions on the performance of each committee should be included such as, for example, their role, their composition and their interaction with the Board.]

The processes that help underpin the Board's effectiveness should also be evaluated e.g.:

- Is appropriate, timely information of the right length and quality provided to the Board and is management responsive to requests for clarification or amplification?
- Does the Board provide helpful feedback to management on its requirements?
- Are sufficient Board and committee meetings of appropriate length held to enable proper consideration of issues? Is time used effectively?
- Are Board procedures conducive to effective performance and flexible enough to deal with all eventualities?

In addition, there are some specific issues relating to the chairperson which should be included as part of an evaluation of the Board's performance e.g.:

- Is the chairperson demonstrating effective leadership of the Board?
- Are relationships and communications with stakeholders well managed?
- Are relationships and communications within the Board constructive?
- Are the processes for setting the agenda working? Do they enable Board members to raise issues and concerns?
- Is the organisation secretary being used appropriately and to maximum value?

Performance evaluation of an individual director

The chairperson and other Board members should consider the following issues and the individual concerned should also be asked to assess themselves. For each director:

- How well prepared and informed are they for Board meetings and is their meeting attendance satisfactory?
- Do they demonstrate a willingness to devote time and effort to understand the organisation and its mission and a readiness to participate in events outside the boardroom such as field visits?
- What has been the quality and value of their contributions at Board meetings?
- What has been their contribution to development of strategy and to risk management?
- How successfully have they brought their knowledge and experience to bear in the consideration of strategy?
- How effectively have they probed to test information and assumptions?
- Where necessary, how resolute are they in maintaining their own views and resisting pressure from others?
- How effectively and proactively have they followed up their areas of concern?
- How effective and successful are their relationships with fellow Board members, the company secretary and the chief executive? Does their performance and behaviour engender mutual trust and respect within the Board?
- How actively and successfully do they refresh their knowledge and skills and are they up to date with:
  - the latest developments in areas such as corporate governance framework, regulatory and financial reporting ?
  - the NGO sector and fundraising environment?
- How well do they communicate with fellow Board members, senior management and others, for example stakeholders? Are they able to present their views convincingly yet diplomatically and do they listen and take on board the views of others?

REFERENCES

The National Hub of Expertise in Governance www.governancehub.org.uk
Good Governance – A Code for the Voluntary and Community Sector
This seminal publication has been a key reference for this Code. The Principles are largely based on this work with adaptations to suit the Irish and Development NGO environment. Some of the Guidelines are also extracted from it and adapted as appropriate.

The Financial Reporting Council Limited (FRC) www.frc.org.uk
The Combined Code on Corporate Governance (June 2006)
The following sections are reproduced from this code and adapted to align them with the context with the kind permission of the Financial Reporting Council:
- Guidelines on Audit Committees (B.4.1 – B.4.7)
- Supporting Principle C.2 – The Chairperson and related Guidelines
- Annex I. Guidance on the Role of Director.
- Annex III. Guidance for Due Diligence for new Board Members
- Annex IV. Guidance on New Director Induction
- Annex V. Guidance on Board Performance Evaluation

Marilyn Wyatt, The Central and Eastern European Working Group for Nonprofit Governance, and The European Centre for Not-For-Profit Law www.ecnl.org
The Handbook on NGO Governance
The text boxes throughout Part Two – The Code, are extracted from the Handbook to emphasise aspects of the Supporting Principles.

The Institute of Chartered Secretaries and Administrators (ICSA) www.icsa.org.uk
The ICSA website contains a comprehensive range of guidance notes which are updated in line with changes in the regulatory and legislative framework and developments in best practice. We have adapted their guidance note on Code of Conduct to form Supporting Principle F.4 and related Guidelines

Boardmatch
- Annex II. Guidance for Board Recruiters