

The Directors' BULLETIN

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**Directors And
Corporate Governance
In NGOs Or Non-Profit
Organisations**
An Interview With Willie Cheng,
Gerard Ee And Laurence Lien

Singapore Institute of Directors

MISSION STATEMENT

To promote the professional development of directors and corporate leaders and encourage the highest standards of corporate governance and ethical conduct

THE INSTITUTE'S OBJECTIVES ARE:

- To be the national association of company directors for the local business community. The SID works closely with its network of members, professionals such as accountants and lawyers, and the authorities to identify ways to uphold and enhance standards of corporate governance.
- To act as a forum for exchange of information on issues relating to corporate governance and directorship in Singapore. The SID plays a leading role in holding discussions and providing feedback to the authorities on matters of concern.
- To organise and conduct professional training courses and seminars to meet the needs of its members and company directors generally. Such courses aim to continually raise the professional standards of directors in Singapore by helping them raise their effectiveness through acquisition of knowledge and skills.
- To regularly publish newsletters, magazines and other publications to update members on relevant issues, keeping them informed of latest developments. These publications also serve as reference materials for company directors.
- To be responsible for the discipline of members. The SID has drawn up a code of conduct for directors in Singapore setting out the standards to ensure they discharge their responsibilities dutifully and diligently.

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FROM THE EDITOR

Welcome to the latest edition of the Directors' Bulletin. In this issue, we focus on all things charitable.

Governance in charitable organisations have come up for attack in one way or another over the last half a decade. Whether always fair or otherwise is not a relevant question to ask. Charitable organisations like any other public organisation seek to provide a service to members of the public; and typically would collect public money for this purpose. Where there is public funds involved, accountability and transparency, the hallmarks of good governance, must be met to a "T".

It is thus that regulations and guidelines are introduced for charitable organisations to follow and abide by. This issue of the Bulletin provides a background to some of these regulations.

The series of articles begin with an interview with three very well known figures Mr Willie Cheng, Mr Gerard Ee and Mr Laurence Lien. They need no introductions having in one way or another contributed significantly to the governance of charitable organisations. The individuals tackle issues from whether accountability and good governance are necessary for the sustainability of non-profit organisations, to the roles performed by non-profit boards and whether the board members of such organisations should be paid a remuneration. What is particularly insightful is the slightly varying perspectives offered by each of the three gentlemen interviewed, and the occasional divergence.

Several articles than follow which provide legal and accounting insights to the relevant legislation and regulations that deal with the charitable and non- profit organisations. One article

also deals with the sustainability of such organisations.

This issue of the Bulletin also highlights a number of events which have been organised by the Institute for you. The events are a reflection of a key aim of the Institute to provide members with more platforms for learning, sharing and exchanging views.

Still on events, the Institute will once again host its Annual Directors' Conference, this time in September. The focus is very much on directors and is aptly titled Heat & Hope. Please block out 14 September and do attend the Conference. We promise an exciting and enlightening time with a varied range of speakers.

Finally, before I say thank you, a note that the next issue of the Bulletin will focus on the recent proposed changes to the Companies Act and the Code of Corporate Governance. Please do let us have your thoughts and views by the end of this month.

It remains for me now to say thank you to Mr Cheng, Mr Ee and Mr Lien for sharing with us. I also thank each of our several contributors to this issue for taking time out and providing informative viewpoints. Till the next issue.

Kind regards,

Kala Anandarajah
Editor

CHAIRMAN'S MESSAGE



Dear fellow members,

By the time you receive this issue of 'The Directors' Bulletin President SR Nathan would have completed his second term of office and Singapore would have elected a new President. We take this opportunity to thank President Nathan for his 12 years of distinguished and dedicated service to the Nation and to wish him a very happy and well deserved 'retirement'.

For the first time in her history, not only are there four candidates vying for the Presidency this election is also characterised by the differing views of the candidates on what the role of the President should or could be, it's definition in the Constitution notwithstanding. Which candidate will finally emerge victorious remains to be seen but it is certain the new President will be President Tan.

While there is no doubt that the next elected President will be President Tan what is less certain is how both the global and the Singapore economy will pan out in the coming months amid a strong probability that harder economic times are in store over the next few years. The mark down in the triple-A credit rating of the United States by Standard & Poor's is likely to magnify the weaknesses and woes of the euro zone and the Japanese economy. Recent plunging equity markets and weak consumer and business confidence and continuing concerns over Europe's debt situation have added to the uncertainty. While Asia, led by China and India, is expected to continue to grow, the uncertain global economic outlook is expected to impact negatively on an export dependent Singapore economy. The weak second quarter result may be an early indication of things to come. However, despite the uncertainty, our growth in the first half year was 4.9%, our unemployment rate remains low at 2.1% and our GDP growth for the full year is projected at between 5 and 6%.

In this time of economic uncertainty the role of the board in providing the necessary collective leadership, stability, wisdom and direction for the company takes on even greater importance. A strong proactive working relationship and collaboration between the board and senior management to

ensure the effective management and close monitoring of all key risks is critical. Additionally, boards must ensure management remain focused on their core businesses, continue to stay close to customers and maintain prudent financial practices and a balance between short and long term goals.

These are challenging times and boards must remain vigilant and stay focused on their roles and responsibilities and continue to keep abreast of developments that may affect their companies.

I urge all directors to take advantage of the many SID director development courses which are conducted regularly to increase their knowledge and stay current on the latest developments in best practices in corporate governance and in company regulations, in addition to changing business practices and environment.

In this regard, all members are likely to be aware of the proposed revisions to the Code of Corporate Governance by the Corporate Governance Council and the Report of the Steering Committee for Review of the Companies Act and the review on the regulatory framework for foreign entities by ACRA. All the proposals and reports have been put up for public consultation. While the public feedback for the proposed revisions to the Code closed on 31st July, comments on the Report of the Steering Committee remain open till 16th September. A separate feedback session for all its members was conducted by SID on the reports on the Code and on the Companies Act. I would like to thank all members who attended the sessions and provided valuable feedback and also those who were unable to attend but provided written comments.

This Bulletin will feature in its next edition the proposed revisions to both the Code and to the Companies Act and I will therefore not deal with these in detail in this message. However, I would like to state that SID supports the proposed changes in general and have provided our written feedback on these proposals and where we have some differences in views, mainly on implementation. The proposed revisions in



CHAIRMAN'S MESSAGE (Cont'd)

our view are bold and represent a move in the right direction. Some of the proposed changes, however, particularly those relating to the tenure of independent directors and the recommendation for at least half of the boards to comprise of independent directors under certain situations relating to the Chairman and CEO are expected to result in significant changes to the composition of the boards of many listed companies (assuming they comply with the proposals) and we have provided our relevant comments on these in our written feedback.

In an analysis done recently in collaboration with our partner AON Hewitt on existing directors and boards of over 700 companies listed on SGX, it was found that almost 25% of all independent directors have served on their boards for 9 or more years and that more than 40% of listed companies do not meet the proposed 50% independent directors.

My intent in highlighting the above is to alert all members who are directors of listed companies of the need to review the composition of their boards where appropriate and plan any necessary changes early. More on these revisions in our next issue of the Bulletin.

Meantime, I would like to reiterate our Editor's reminder of our next one day Annual Conference on 14th September at the Shangrila Hotel and urge all those who have not yet signed up to attend to do so. We have three panels of outstanding speakers and promise a day of interesting and provocative exchanges.

Warm regards,

John KM Lim
Chairman

SID Governing Council 2010/2011

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	Mr Willie Cheng	Mr Andy Tan Chye Guan

SID

Singapore Institute of Directors

SID DIRECTORS CONFERENCE 2011

Heat & Hope: The New Realities In Corporate Governance

The annual one-day conference organised by the Singapore Institute of Directors
Wednesday, 14 September 2011 • Time: 9.00am – 5.30pm • Venue: Shangri-La Hotel Singapore

The 2011 SID flagship conference will cover current hot topics related to directorships and corporate governance:

- Global governance from a Singapore perspective
- Corporate governance in key Asian economies
- Taking boards from good to great
- Panel: Controversial areas in directorships (independent directors, director liabilities and disclosure requirements)
- Panel: Do we need auditors?
- Panel: Is the Sustainability Agenda sustainable?

More than 20 international and local leaders will provide attendees with a balanced multi-stakeholder perspective on these issues.

Josephine Teo, Minister of State, Ministry for Finance & Ministry for Transport
John Lim, SID • Magnus Bocker, Singapore Exchange • Jamshed J Irani, Everonn Education • Wong Meng Meng, Singapore Law Society • Chua Sock Koong, SingTel
Mak Yuen Teen, NUS Business School • Sanjiv Misra, Phoenix Advisers • Yeo Wee Kiong, Drew & Napier • Elaine Yew, Egon Zehnder International • Gillian Yeo, NTU
Lim Hock San, UIC • Ng Boon Yew, Raffles Campus • Juthika Ramanathan, ACRA
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Directors And Corporate Governance In NGOs Or Non-Profit Organisations

An Interview With Willie Cheng, Gerard Ee And Laurence Lien

Edited by Kala Anandarajah
Editor, Directors' Bulletin
Partner, Rajah & Tann LLP



Willie Cheng, Gerard Ee and Laurence Lien

The Institute is always looking for life issues of importance and over the course of this year, we agreed that the non-profit organisations, which have been in the limelight for some years now, was ripe for just such a discussion. Hunting down three brave men who would share their views frankly proved less difficult than we thought, and we were honoured to have Willie Cheng, former country managing partner with Accenture,

Gerard Ee, Chairman, National Kidney Foundation, and Laurence Lien, Chief Executive Officer, National Volunteer & Philanthropy Centre, share their views.

True to spirit, perhaps the only question to which there was a clear convergence of responses was whether non-profit board members should be paid. The answer - NO! However, to the question of whether accountability and governance

was critical to a non-profit organisation, the three good men had varying views.

Recognising the slight diversions across the responses to the views given, we have taken the liberty to arrange the responses provided by the individuals to ensure better flow rather than in a 1, 2, 3 fashion.

1. It is said that the NCSS in Singapore believes that for sustainability of the non-profit organisation, accountability and good governance are necessary. Would you agree with this? And what do you deem as constituting sufficient good governance for the non-profit organisation?

GE: I agree with the statement totally. All organisations, irrespective of their size, should observe basic governance practices such as avoidance of any conflict of interest, transparency, and

disclosures. The size of an organization is of less importance than the value of transactions, assets and liabilities which an organization has. The more money and organization handles the higher the level of governance is required.

WC: That's an ideal world which regulators like to preach: Nonprofits depend largely on donations and grants to survive and if they are properly governed and accountable, then those funds should keep coming and they will be sustainable.

In the real world, NPOs can successfully continue to get funding without being fully accountable for the money they raise and spend. Witness some of the charity scandals: it's about mastering the art of fundraising. A whole industry and profession has developed around this art. Yes, governance and accountability help, but so far, they have not been absolutely necessary.

LL: I would like to differ in my opinion. The problem with NPOs is that they can be sustainable even without being accountable and practicing good governance. As long as they can convince donors to continue to provide funding, mediocrity is survivable, in a way that it usually isn't for a for-profit company in a competitive marketplace. For the latter, if you are mediocre, someone will come and eat your lunch. For a nonprofit, one could excel in marketing and may have a broad-based membership to call on to continue to fund it, even if it did not practise good governance.

Good governance basically means having a clear and compelling mission, and effectively, steering, directing and controlling the organisation towards this objective.

2. How different really is the for-profit board from the non-profit board?

GE: In my opinion the accountability of both profit and non-profit board are similar. The difference between them would be the stakeholders.

LL: A key difference is that a for-profit

All organisations, irrespective of their size, should observe basic governance practices such as avoidance of any conflict of interest, transparency, and disclosures. The size of an organization is of less importance than the value of transactions, assets and liabilities which an organization has. The more money and organization handles the higher the level of governance is required

Gerard Ee

board tends to focus on strategy and governance only, whereas non-profit board, while focusing on these, typically also rely on the board members for skills and expertise it lacks. It is also not uncommon for board members to be involved in operations, to supplement the human resource it lacks.

WC: The big difference is that profit boards focus primarily on one thing: profits. For nonprofit boards, the focus should be their mission – which is different for each nonprofit. However, in practice, many nonprofits get distracted from this mission focus; but then there is also no one to really keep them in check in this respect anyway.

3. Boards of non-profit organisations operate slightly differently, with different KPIs. Given this, how do you see accountability being established by such board members? What is the appropriate KPIs that boards of non-profit organisations should work with?

WC: The notion of and type of KPIs are evolving in the nonprofit sector. The whole area of impact assessment and outcome measurement is turning heads around. It's because nonprofits, with their differing mission orientation, are a lot more diverse than commercial entities which are fairly homogenous in their financial measures.

GE: KPIs should be established by reference to the activities an organization is conducting. Just as for businesses,

KPIs should reflect outcomes rather than output. As for businesses, the KPIs should include a measurement on the effective use of funds – instead of a monetary return, the non-profit would measure such a KPI in terms of the outcome achieved.

LL: KPIs are very different for different NPOs. Too many boards just focus on outputs, namely the number of programmes being implemented and the number of clients and beneficiaries that it reaches out to. Boards must track outcomes and assess impact, review strategy, and ensure compliance with laws and ethical standards. Above all, the most important task and measure of success is being able to put together a good leader and team of passionate staff.

4. Which stakeholders' interest should the non-profit board take into account in making their decisions?

WC: The answer for profit boards tends to be: the shareholder. For nonprofit boards, it is: almost the whole world, and perhaps in this theoretical order of importance: beneficiaries (who the nonprofit should exist for), the public (in particular the donors and volunteers) and finally the regulators. Often, the order of focus is the reverse way round, though.

LL: Another fundamental difference is the accountability to a diverse range of stakeholders – members, regulators, donors, volunteers, beneficiaries and the public.

In the real world, NPOs can successfully continue to get funding without being fully accountable for the money they raise and spend. Witness some of the charity scandals: it's about mastering the art of fundraising. A whole industry and profession has developed around this art.

Willie Cheng

GE: All stakeholders are important. The non-profit organization is no different from for profit organization and has to address the concerns of all stakeholders.

5. Is the Charity Code of Corporate Governance truly effective for non-profit organisations?

WC: It's a help, but I think that most people get too caught up with ticking the boxes.

Taking a step back, there are two aspects of good governance: conformance and performance.

Regulation and codes are mainly about conformance, about not "doing wrong". Even if you do agree with all the "best practices" in the Code, too much time spent on conformance does not move the organization forward much.

Rather, nonprofits - more so than commercial entities - need to focus on performance, "doing right" relative to their mission. That's because the market quite quickly punishes commercial entities that do not perform whereas in the nonprofit sector, organizations can get away for a long long time even when they do not perform (relative to their mission) but are able to, as we mentioned previously, nevertheless get funding through clever fundraising approaches.

GE: It is a very good guide and checklist for the non-profit organisations. The challenge is for organisations to take it seriously in lieu of the lack of consequence on non compliance.

LL: Please see my speech delivered at the Charities Secretaries Conference

2009 on 18 September 2009, a copy of which is available from the Institute's Secretariat.

6. Should non-profit boards also have audit, nominating and remuneration committees? How effective are such committees? What roles do you envisage such committees performing?

WC: Depends. Audit, nominating and remuneration committees are carry-overs from the commercial sector that have some but not a lot of relative importance for nonprofits. There can be more important committees such as fundraising and the (various) program committees.

GE: This is dependent on the size of the organization. The larger the organization, the greater is the need for various committees to look into specialized areas of responsibility. Such committees should bring to the table specialized knowledge such as HR for the remuneration com, financial knowledge for the finance com, investment knowledge for the investment com, etc.

LL: Whether committees are necessary is entirely situational. If the board is able to cope with the workload, then such committees are not necessary. Most boards, however, would benefit from an Audit Committee to review financial statements and ensure internal processes are robust, and from a Nominating Committee, to ensure that the board continues to perform effectively, with the right members on board and with renewal implemented. Boards can make use of the Board Match programme run by the Centre for Non-Profit Leadership to find fresh board members.

[Declaration: I am the President of the Centre for Non-Profit Leadership.]

7. How do non-profit organisations that operate across borders ensure compliance with governance practices in the different jurisdictions they operate in?

WC: In many respects, it is not unlike commercial companies operating overseas. You have to know the law of the land you operate in, and have sufficient control or influence in those countries as is appropriate. The latter is achieved through the people it sends over and recruits, the organizational culture, processes and communication.

GE: The check for compliance could be a part of the audit scope. For very large organisations there would be a need for internal audits to be conducted – it could be in-house or outsourced.

LL: It is important to ensure that staff overseas are not beyond parental control and that financial processes minimise surprise leakage, especially when operating in emerging countries, where leakage is often a problem. What is important is that a common set of values pervades across the organisation; when shared values are practised, it increases alignment and reduces chances of staff going off on a tangent or doing unethical things that puts the NPO's reputation at risk. It is useful for board members to travel and meet up and be familiar with heads of overseas offices. Where amounts are large, separate local audits in each jurisdiction are prudent.

8. Is there a particular country, in your view, that has achieved very good standards so as to act as an illustration for aspiring non-profit organisations insofar as governance practices are concerned? Is there any particular non-profit organisation, whether in Singapore or elsewhere, which has achieved this?

WC: In my limited exposure, I see the UK as the most proactive and enlightened in developing good practices and being innovative in the social sector. And the

progressiveness is manifested both from the government as well on the ground players in the nonprofit sector itself.

GE: Every developed country has its examples of exemplary non-profit organization as well as of delinquent non-profit organisations. In Singapore, leading the way is the NCSS which sets the standard.

9. You have been involved with non-profit organisations for a long period of time. What motivates you and keeps you going? How have you ensured that the organisations you work with comply with good governance standards?

WC: Different strokes for different folks, but most of us want to lead meaningful lives. In my corporate life at Accenture, we were driven by the difference we were making to our clients. The nonprofit sector allows us to make a meaningful difference in a nobler setting.

BTW, making a difference in nonprofits can have little to do with “complying with good governance standards.”

GE: Motivation comes from looking at the outcomes achieved – that disadvantaged person making good in life, that hearing impaired child growing up and successfully outperforming mainstream students, etc. It is an ongoing effort to ensure that an organization comply with good governance standards and maintain those standards. Over time due to complacency, change of personnel, busyness, etc standards can erode without the Board noticing. Therefore the Board must make it part of their corporate value and check on its health regularly.

LL: The most important motivation is the knowledge that I am able to make a positive difference to people’s lives. One important way is to make sure that people who are not contributing or who

have been on the board too long, are rotated out, and fresh blood is injected, and that fresh blood does not just come from people you know well.

10. Should non-profit board members be paid a fee? If yes, how to determine the appropriate fee? After all, quite a lot of time is taken by them in ensuring that there are good governance practices within the organisation, as well as providing counsel to the management team?

WC: For charity organizations, absolutely not. It goes against the grain of the sanctity of the sector and risks corrupting the very value of charity.

GE: Board members of non-profit organisations should not be paid so as to preserve the value of volunteerism. However, there is much to be said in favour of allowances to defray out-of-pocket expenses. It should be left to individual board members to donate the allowance received, not necessary to the organization paying it but to a charity. There are board members who as a retiree could find out-of-pocket expenses a burden.

LL: Preferably not. When a board member is not paid, he or she is more likely to be on the board for the right reasons, and when he or she is present, he or she would want to contribute in a meaningful way, otherwise it would just be a pure waste of time for him/her.

However, when a board member is not paid, it is also easier to end up with some board members who are not committed and will not turn up or prepare for meetings. Hence, it is typically better to have more board members for a nonprofit board than a for-profit one.

11. What are some of the practical examples that have been implemented in your non-profit organisations that you can share and allow others to learn from? Any unique anecdotes?

GE: At the NKF, due to its size we have a full complement of committees – audit com, finance com, remuneration com, investment com, etc. Ensuring that the various committees have as members people with the relative knowledge and experience helps the organization to keep governance standards high. Our Remuneration Com has as members, practicing HR executives, and this helps us develop staff retention schemes, rationalize the salary scales and allowances so that we remain competitive enough to recruit the nurses we need.

LL: One of the NPOs I am involved in, makes extensive use of committees, and the involvement of many volunteers. This has helped the NPO to achieve a lot, with very lean staffing.

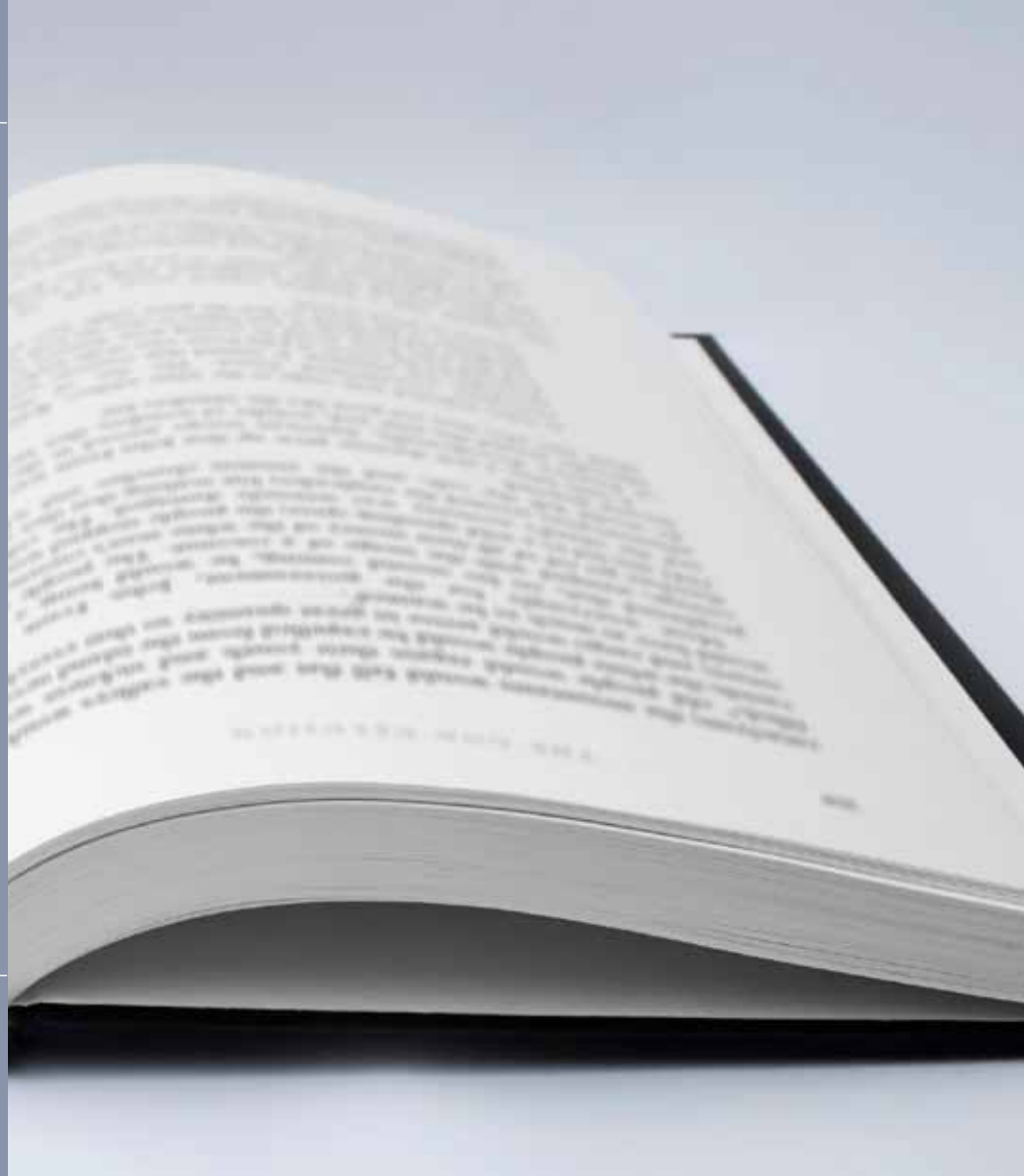
WC: Can, but how much time do you have for stories? Suggest you read my book, Doing Good Well.

The problem with NPOs is that they can be sustainable even without being accountable and practicing good governance. As long as they can convince donors to continue to provide funding, mediocrity is survivable, in a way that it usually isn't for a for-profit company in a competitive marketplace.

Laurence Lien

The Refined Code Of Governance For Charities And IPCs

By Gregory Vijayendran
Partner
Rajah & Tann LLP



Introduction

On 26 November 2007, Singapore's Charity Council issued a Code of Governance (the "Code") for Charities and Institutions of a Public Character ("IPCs"). The stated objective of the Code was to "provide guidance on the principles and standards of good governance in the charity sector". This it aimed to do by prescribing principles of best practice in key areas of charities governance and management, which charities were encouraged to adopt. These principles of best practices set sector benchmarks for charity trustees and managers to aspire to and adopt. The Code operated on the principle of "comply or explain". Charities were to either comply with the Code or explain their non-compliance. The Code operated in tandem with the charities legislation, supplementing it by providing specific policy guidance

in such areas as the management of conflicts of interest, financial management, human resources, fund raising and board governance. Practically, the regulators prescribed an online governance evaluation checklist (the "Checklist"), which allows the monitoring of charities' progress in adhering to the new guidelines set out by the Code.

In an effort to help charities apply the principles undergirding the Code more effectively and in the continuing quest to strike an optimal balance between the optimal policies for good charities' governance and smooth-running charity operations, the Charity Council formed a sub-committee in 2010 to review and refine the Code based on feedback from stakeholders and the sub-committee members' experiences on the ground. The main objective of the exercise was to make the Code clearer, more relevant and encourage charities

to adopt the guidelines. The result of this refinement process is a Refined Code of Governance for Charities and IPCs issued by the Charity Council on 19 January 2011 (the "Refined Code"). The Refined Code improved upon the Code primarily by simplifying its guidelines and further refining the tiered system of guidelines defining the principles a charity should adhere to, depending on its gross annual receipts and whether or not it is an Institution of a Public Character ("IPC"). It provides guidance to board members on strongly recommended practices.

The aim of this article is to briefly introduce the Refined Code and highlight some of the more significant amendments made.

The Revised Tiers

The Refined Code introduces a further stratified set of guidelines for the

governance of charities in Singapore as follows:

Charity Size	Tiers of Guidelines Applicable Under the Refined Code	Tiers of Guidelines Previously Applicable
Charities with gross annual receipts of less than \$50,000	Basic I	Basic
Charities with gross annual receipts of \$50,000 or more, and less than \$10 million	Basic II	Basic
Large Charities with gross annual receipts of \$10 million or more	Basic II and Enhanced	Basic and Enhanced
IPCs with gross annual receipts of less than \$200,000	Basic II	Basic and Enhanced
IPCs with gross annual receipts of \$200,000 or more, and less than \$10 million	Basic II and Enhanced	Basic and Enhanced
Large IPCs with gross annual receipts of \$10 million or more	Basic II, Enhanced and Advanced	Basic, Enhanced and Advanced

A Better Fit For Small Charities

The single largest change has been in relation to charities whose gross annual receipts do not exceed \$50,000. Since the Code’s introduction in 2007, compliance has proved a challenge for many small charities. Their experience has been either one of a lack of full understanding of some of the Code’s guidelines or non-compliance due to their small size and limited resources. These difficulties were reflected by the fact that few such charities submitted a completed Checklist.

To address these problems, the Refined Code incorporates a new “Basic I” tier for these small charities. This new tier considerably simplifies, and reduces, the

requirements to be complied with under the Refined Code. It consists of 13 fundamental guidelines. For example, in recognition of the limited manpower available to these charities, the Refined Code does not require the charity’s Board to be wholly independent of its staff, or that a clear distinction be made between a Board Member’s operational and oversight roles as long as the risk is considered and addressed. The following are also not required under the new “Basic I” tier:-

- term limits for Board members, policies for the renewal of the Board, Board committees, and minuted board meetings;
- an operations plan;
- a documented conflict of interests policy;
- regular updates to the Board on the progress of programmes and services;
- documented human resource management policies;
- preparation of a documented annual budget, financial statements and periodic internal reviews of operational controls; and
- the preparation of financial accounts or annual reports.

In addition, many requirements that have been retained for Basic I tier charities have been simplified. For instance, the Refined Code only requires these charities to ensure “basic operational controls” are in place for financial matters, and that these charities declare “any actual or potential conflicts of interest”.

However, these toned down requirements should not be seen as a dilution by the Charity Council of commitment to best practices of charities governance. Instead, what the Refined Code puts in place are governance guidelines more tailor-made for small charities where the same people serve as Board Members and staff, and in which no administrative infrastructure exists

to facilitate adherence to requirements for official minutes of meetings or documented policies. The Refined Code therefore demonstrates greater clarity and flexibility for small charities and IPCs.

Improving Disclosure, Protecting Donors

The Refined Code has also strengthened key aspects of governance such as the protection of charity donors. The Charity Council has recommended that the use or transfer of any monies from restricted or endowment funds set up by a charity should only be done after obtaining donor consent and even then only after informing the donor of the purpose of the funds and the amount of funds needed. It also condenses the Code’s guidelines on maintaining the confidentiality of donors into a simple guideline prescribing that a donor’s identity should not be disclosed, nor his information shared, without his permission. Thirdly, the Refined Code also updates the guidelines on the use of commercial third party fund-raisers to require that the use of such fund-raisers and the targets of fundraising be disclosed to donors.

Additionally, the Checklist (in parallel with the Refined Code) has also been amended to encourage non-IPC charities to make improved disclosure to their donors or members by offering an option for such charities to make their Checklist submission available to their members or donors. Overall the Refined Code and the Checklist reinforce the principle that charity donors should be kept well-informed about how their donations (and prospective donations) are used by charities.

Clearer Separation between Staff and Board Members

An important change from the Code is that the Refined Code no longer differentiates between paid staff and unpaid staff (or unpaid volunteers).

While the Code restricted Board membership to people who were not paid staff and encouraged procedures for recruiting paid staff with relationships to existing paid staff, these restrictions now apply to all staff, whether paid or not (for example, unpaid volunteers). The Refined Code requires that performance review systems and human resources policies be revised to account for unpaid staff. As such, the abolition of the distinction between paid and unpaid staff effectively sharpens the distinction between the Board and staff, preserving Board independence as well as extending the benefits of human resources policies to unpaid staff.

Simple Is Better

One of the more discernible changes in the Refined Code, apart from the creation of the new Basic I tier of charities, is the considerable simplification of the guidelines as compared to the Code. This simplification is both in form and substance.

With regard to form, the Refined Code notably reduces the use of any language which may make the guideline more difficult for a lay person involved in a charity to understand but which is not necessary to convey the spirit of the guideline. With regard to substance, the Refined Code does away with guidelines which were not absolutely necessary for the good governance of charities and which therefore imposed extra burdens on charities to comply with them. Instances of this include the removal of guidelines specifying that the charity should express appreciation to their donors, and the need for the Board to review the intermediate and long-term outcomes of a charity at least once in each Board's term.

The removal of such guidelines does not indicate that the subject matter of these guidelines is no longer valid or significant. However, it streamlines the Refined Code so as to enable charities to focus on the more crucial

guidelines. This serves to balance the need to instil good charities governance without over-burdening the charities with disproportionate time and costs of compliance.

Other Guidelines on Disclosure of Remuneration, Checklist Submission and Qualifications of Board Members

Generally, it should be noted, in the interests of further preventing conflicts of interest, that the Refined Code prescribes that both staff (as required under the Code) and Board Members should not be involved in setting their own remuneration. This guideline will apply to all tiers of the Refined Code, including the new Basic I tier discussed above.

The Refined Code has also seen greater clarity in disclosure requirements for staff remuneration in the Enhanced tier and above. Where the Code previously required the disclosure of the annual remuneration for the top 3 "key executives", (a phrase which gave rise to ambiguity) this has now been clarified to refer to the remuneration of the 3 "highest paid staff", who each receives more than \$100,000. This bands in which disclosure should be made have also been increased from \$50,000 to \$100,000 each. Should the charity have no staff earning more than \$100,000, it should still disclose this fact.

Additionally, to further ease the administrative burden on charities under the Refined Code, there is a revised submission deadline for charities to submit the Checklist will be changed to align it with charities' existing deadlines for annual reports and financial statements to be submitted – 6 months from the end of the charity's financial year.

Finally, directors of charities should note that the Refined Code institutes new guidelines for charities in the Enhanced tier and above, which require that the Treasurer and the Chairmen of the Audit and Finance Committees of

the charity should preferably possess recognised accounting qualifications and/or relevant experience in the respective area.

Conclusion

While the foregoing is not a comprehensive summary of all the amendments made in the Refined Code, it is intended to provide a sense of the coherent train of thought running through the refinement of the Code culminating in the Refined Code. The Refined Code has been clearly drafted to balance, above all, the need for proper charity governance with the desire not to over-burden charities with compliance requirements that will entail unnecessary time, resources and expenditure. Forward-looking charities that are aiming for growth and expansion should not aim for a "lowest common denominator" approach of compliance but instead consider positioning for the next level of compliance as part of their short term to medium term strategic plans.

In so doing, the Refined Code has included amendments that in some way benefit all stakeholders in charities, whether by enhancing disclosure requirements to protect the interests of donors or from the point of view of the charities, simplifying the Code to make the guidelines more understandable and compliance less burdensome or from the perspective of unpaid staff, extending the benefits of human resource policies to more people.

The Refined Code has attempted to fine tune the balance in charities governance by taking into consideration practical and operational issues faced by the charity and yet at the same time staying true to the overarching aim of improving the system for charity oversight in Singapore. Time will tell if the balance is indeed right now or whether the Refined Code itself needs further refinement.

This article is contributed with invaluable assistance by Benjamin Smith, Associate, Rajah & Tann LLP.

Corporate Commitment To The Greater Good

By Vivien Yui
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Directors of companies in Singapore have in recent years become increasingly interested in corporate philanthropy and corporate social responsibility (“CSR”) initiatives. Such initiatives not only allow the company to engage in social and charitable activities, but also form a part of the company’s long-term business strategy on corporate branding and aligning its business objectives with international norms and ethical standards. This article seeks to briefly touch upon some of the basic yet important questions which directors should consider before embarking on such initiatives.

Setting Up A Voluntary Welfare Organisation

Board management of companies wishing to become involved in social, charitable and environmental causes may consider setting up a Voluntary Welfare Organisation (“VWO”), which is basically a non-profit organisation that provides welfare services or generally services which benefit the community at large. A VWO is usually

organised under Singapore law in one of the following forms: (a) as a company limited by guarantee incorporated under the Companies Act (Chapter 50 of Singapore) (the “Companies Act”), (b) as a society registered under the Societies Act (Chapter 311 of Singapore) (the “Societies Act”) or (c) as a trust pursuant to a trust deed.

Table 1 sets out the key features of a company limited by guarantee, society and a trust.

Types Of Charity Status

Charity

AVWO which has been set up exclusively for charitable purposes must register itself as a charity with the Charities Unit of the Ministry of Community Development, Youth and Sports (the “Charities Unit”). Obtaining charity status will allow the VWO to claim tax exemptions on any funds raised.

Governing members of registered

TABLE 1	Company limited by guarantee	Society	Trust
Definition	<ul style="list-style-type: none"> • Company incorporated pursuant to the Companies Act with a separate legal personality • Governing instrument: Memorandum and Articles of Association 	<ul style="list-style-type: none"> • Any club, company, partnership or association of 10 or more persons • Governing instrument: Constitution 	<ul style="list-style-type: none"> • A trust which binds the trustee(s) to deal with and manage the trust property so as to fulfil these purposes • Governing instrument: Trust Deed
Advantages	<ul style="list-style-type: none"> • Allows for better accountability as a company is required to comply with the provisions of the Companies Act • Able to hold property in its own name • Liability of members is limited • Perpetual nature of the company reduces the possible problems that may arise in a change of persons having the general control and management of the administration of the charity 	<ul style="list-style-type: none"> • Relatively easy to establish • Suitable for membership/volunteer-based groups which are not particularly dependent on external funding 	<ul style="list-style-type: none"> • Relative lack of formalities (i.e. generally not subject to stringent accounting and booking requirements unlike a company limited by guarantee and a society) • Particularly useful where the trust is primarily intended to hold and invest funds and to disburse the income derived from these funds • Limited public disclosure
Disadvantages	<ul style="list-style-type: none"> • Subject to accounting and book-keeping requirements (accounts have to be audited regularly unless the company is exempted from doing so) • Subject to ongoing disclosure obligations and statutory control, including annual reporting requirements 	<ul style="list-style-type: none"> • Subject to accounting and book-keeping requirements • Unable to hold property in its own name, so any change in its management structure will involve the transfer of property to the incoming committee • Any transfer of property may be an expensive and time consuming process if the property comprises real property • No separate legal entity so members are exposed to liability 	<ul style="list-style-type: none"> • Unable to hold property in its own name, so any change in the trust structure will involve the transfer of property to the incoming trustee(s) • Any transfer of the trust property will be an expensive and time consuming process if the trust property comprises real property • No separate legal entity so trustees are exposed to liability

charities have a legal obligation to ensure that the charity complies with the Charities Act and the requirements of the Office of the Commissioner of Charities. They must act in the best interests of the charity, play an active role in its management and engage in joint and collective decision-making. They must also take steps to ensure that the charity fulfils the various accounting requirements. For example, the governing members must ensure that accounting and donation records are properly maintained and such records are to be kept in existence for a minimum period of five years. The Charities Act also states that the members must oversee the preparation and filing of the annual report and statement of accounts of the charity to the Commissioner of Charities within six months from the end of each financial year and comply

with public requests for the inspection of annual reports. In the event of a breach of these provisions, governing members may be liable to a maximum fine of S\$5,000.

Institutions Of Public Character

Where a charity meets certain criteria, including the requirement that it engages in activities which are exclusively beneficial to the community in Singapore as a whole (and are not confined to sectional interests or groups of persons based on race, belief or religion), it may apply to be recognised as an Institution of a Public Character (“IPC”). IPCs are subject to a more stringent set of reporting and accounting obligations than charities, but have an advantage in that its donors are entitled to benefit from double tax deduction (“DTD”) on their donations.

Grantmakers And Qualifying Grantmaking Philanthropic Organisations

Grantmakers

Grantmakers are typically non-profit organisations (“NPOs”) such as private (i.e. family, corporate etc.) foundations which do not raise funds from the public and which give monies to specific charitable clauses. Given that most of their donations come from private sources, certain grantmakers may qualify for a “lighter-touch” regime, provided that (a) they are a non-profit and non-governmental organisation, (b) they have as its source of funds, from an individual, family or for-profit company, (c) they are established to aid exclusively charitable purposes through the provision of grants, and (d) they are not IPCs.

Grantmakers qualifying for the “lighter-touch” regime are (a) only required to have one charity trustee (rather than three for ordinary charities), (b) not required to apply their funds wholly or substantially in Singapore (though at least some of their funds should be used for the benefit of Singapore), and (c) allowed to file their annual audited accounts with the Commissioner of Charities’ office, instead of reporting through the Charity Portal based on the prescribed format.

Qualifying Grantmaking Philanthropic Organisations

A DTD scheme for “Qualifying Grantmakers Philanthropic Organisations” (“QGs”) was introduced in Budget 2007. This scheme is to allow DTD to donors who donate to grantmakers, where the donations are eventually channelled to an approved IPC.

Grantmakers which either take the form of (a) registered charities (registered under the Charities Act) or (b) NPOs which are approved under the NPO tax incentive scheme administered by the Economic Development Board or the Monetary Authority of Singapore may register to be recognised as “Qualifying Grantmakers Philanthropic Organisations” (“QGs”), if they undertake to adhere to a certain set of conditions laid down by the Inland Revenue Authority of Singapore. Such conditions include (but are not limited to) the following: (a) the QG must channel donations that are intended for IPCs to a segregated account/fund that is designated for donations to IPCs only, (b) donations must be distributed to IPCs within five years of receipt of the donations from the donors and (c) the QG must institute proper procedures to ensure that the donations are in fact channelled to IPCs.

Obligations And Liabilities Of Governing Members

The governing members of these initiatives should be aware of the legal

implications which they may be subject to. Firstly, there is an overarching fiduciary obligation under common law which the boards of directors, members or trustees owe to the VWO. “Fiduciary obligation” is broadly defined as a duty to act in the interests of the company, society or trust and to avoid conflicts of interest and a breach of such fiduciary duty on the part of these directors, members or trustees may result in civil liability to the VWO.

Secondly, the Criminal Procedure Code (Chapter 68 of Singapore), Penal Code (Chapter 224 of Singapore) and the Prevention of Corruption Act (Chapter 241 of Singapore) provide for criminal liability where a director or trustee has misappropriated funds, engaged in corruption or committed bribery to the detriment of the VWO. In the recent case of *Goh Kah Heng (alias Shi Ming Yi) v Public Prosecutor* and another matter [2010] 4 SLR 258, the High Court held that Reverend Shi Ming Yi, the former Chairman and Chief Executive Officer (“CEO”) of Ren Ci Hospital and Medicare Centre (“Ren Ci”) had misappropriated the funds of Ren Ci Hospital and Medicare Centre and was as a result convicted of criminal breach of trust under section 405 of the Penal Code and sentenced to six months’ imprisonment.

Thirdly, the governing members are also bound by the specific provisions of the Companies Act, Societies Act or Trustees Act, depending on the legal structure of the VWO:

Board Of Directors Of A Company Limited By Guarantee

A VWO which takes the form of a company limited by guarantee has separate legal entity and may enter into agreements under its own name and its members enjoy limited liability. That being said, the directors of the company continue to owe fiduciary duties and are bound by the various duties and obligations spelt out in the Companies Act. Section 157(1) of the Companies

Act provides that a director must “act honestly and use reasonable diligence in the discharge of the duties of his office”. This means that a director has to act honestly in what he considers is in the best interests of the company and avoid placing himself in situations where there is a conflict of interest with the discharge of his functions. Further, Section 157(2) states that a director must not misuse or abuse any information acquired in his capacity as director “to gain, directly or indirectly, an advantage for himself or for any other person or to cause detriment to the company”. Any director who is found to have breached Section 157(1) or 157(2) may be liable to the company for any profit made by him or damage incurred by the company and the director himself may be subject to a fine not exceeding S\$5,000 or imprisoned for up to 12 months.

Committee Members Of A Society

Where the VWO takes the form of a society, it is the committee members who manage the society. There are no laws specifying the duties of the members to the society. However, the Societies Act does impose statutory penalties on committee members in certain specified situations. For instance, where committee members misuse money or property of a society, they may be liable to a fine not exceeding S\$5,000. Where committee members allow a registered society to change its name or place of business or amend its rules without the prior approval in writing of the Registrar or Assistant Registrar of Societies, such committee members may be liable to a fine not exceeding S\$3,000.

Unlike a company, a society does not have a separate legal entity. However, the Societies Act gives societies some of the same characteristics, and registered societies have been described in the case of *Chen Cheng and another v Central Christian Church* and another appeal [1995] 3 SLR(R) 806 as having sufficient legal personality to be considered a “near-corporation” or a “quasi-corporation”. For example, the

Where a charity meets certain criteria, including the requirement that it engages in activities which are exclusively beneficial to the community in Singapore as a whole (and are not confined to sectional interests or groups of persons based on race, belief or religion), it may apply to be recognised as an Institution of a Public Character (“IPC”). IPCs are subject to a more stringent set of reporting and accounting obligations than charities, but have an advantage in that its donors are entitled to benefit from double tax deduction (“DTD”) on their donations.

Societies Act provides that a society can sue or be sued in its own name and a judgment in any suit against a society will only be enforced against the property of the society and not against its members. Property (whether land or otherwise) is usually held by a few key members of the society on trust for the society and in this respect, members entering into contractual agreements on behalf of the society may be exposed to personal liabilities.

Trustees Of A Trust

Where the VWO takes the form of a trust, the trustees are bound by the provisions of the trust deed, an instrument which sets out the duties and responsibilities of the trustees and provides for liability incurred in the event of any breach of such duties and responsibilities. Further, trustees have to comply with the duties and obligations set out in the Trustees Act and under general common law. Under the Trustees Act, trustees owe a duty to exercise care and skill as is

reasonable in the circumstances in the exercise of their powers of investment and acquisition of land, among others. Under the common law, trustees also have a duty to administer the trust, remain loyal to beneficiaries, keep and render trust accounts and furnish information to the beneficiaries (i.e. a copy of the trust deed).

Given that a trust has no separate legal entity, it is the trustees who must own trust property in their own name and who can therefore be sued in connection with the property. A further implication is that any change in trustees will necessitate a transfer of the trust property.

In addition, where a charity is required to prepare financial statements, its governing members should be aware of their duty of public accountability and stewardship. In this regard, their main obligation is to give a true and fair view of the charity’s income and expenditure and cash flows. In order to achieve this,

they may adopt the Charities Accounting Standard (“CAS”) which was recently issued by the Singapore Accounting Standards Council (on 24 June 2011). The CAS functions as an alternative financial reporting framework to Financial Reporting Standards (“FRS”) for all registered charities and IPCs that are registered under the Charities Act, except for certain specified types of charities, and is intended to, amongst other things, provide greater clarity as to how a charity receives and applies its income to meet its objectives. It should be noted that adopting the CAS may not be enough on its own - governing board members should in any case exercise their judgement in determining if disclosure of more information than what the CAS prescribes is required in order to give a true and fair view of the charity’s financial statements.

Conclusion

In conclusion, board management of companies should carefully consider the various legal and practical issues before embarking or expanding on CSR initiatives. Through understanding the implications of their choice of vehicle for the VWO, being aware of the various advantages and obligations which may follow from applying for a particular charity status and being mindful of the potential liabilities that the governing members of a VWO may face, board management will put themselves in a better position to protect their own interests and contribute more effectively to the greater good.

This article is contributed with invaluable assistance by Kate Zhu, Practice Trainee, WongPartnership LLP.

Rebuilding Public Confidence In Charities

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Why Is The New Charities Accounting Standard Good For Directors Of Charities In Helping Them To Discharge Their Responsibility For Public Accountability?

Charities strive on public support. Good governance and high quality accounting and reporting is the backbone to build transparency and trust with its key stakeholders. Currently, charities follow either Singapore Financial Reporting Standards (“FRS”) or the Recommended Accounting Practice 6 (“RAP 6”). These reporting requirements are relatively more complex and subject the charities to a more stringent disclosure regime. In aid of this, the Accounting Standards Council–Committee for Charities was entrusted the task to prescribe accounting standards specifically for charities, co-operative societies and societies.

This beneficial change is expected to

be welcomed by directors and trustees of charities whose main obligation is to discuss clearly the activities of the charity during the year, explain how it had met its objectives and give details of successes and failures, in a simple and cost effective way.

Highlights Of The Charities Accounting Standards (“CAS”)

The main thrust of the CAS is that charities need to report their activities in the columnar format under specific categories on the face of the Statement of Financial Activities (“SOFA”) This contrasts the commercial style of presentations for income and expenditure. For instance, a typical trading company’s income statement simply reports the turnover and the related cost of supplying goods and services with a disclosure of expenses under broad categories such as cost of

goods sold, selling and administrative expenses. On the other hand, a typical SOFA would be presented in Table A.

The proposed approach of a clear distinction between unrestricted income fund, restricted income funds² and endowment fund is necessary because it helps donors and financial supporters better understand the performance of the funds which are fundamentally different in terms of how a charity is legally entitled to use the funds.

In a similar vein, the requirement to disclose details of material funds and summarise each fund’s assets and liabilities (in columnar format) within the notes to financials is well supported by stakeholders. There are also other additional disclosures to deal with - such as support cost apportionment, details on loan receivables (description of loan recipient relationship with entity, collaterals, terms & conditions, among others). Governing board

Table A Statement Of Financial Activities	Current Period						
	Notes	Unrestricted Funds	Restricted Funds	Endowment Funds	Current Period Total	Prior Period Total	
Income							
Income from generated funds							
Voluntary income							
Activities for generating funds							
Investment income							
Income from charitable activities							
Other income							
Total income							
Expenditures							
Costs of generating funds							
Costs of generating voluntary income							
Funraising trading: cost of goods sold and other costs							
Charitable activities							
Governance costs							
Other expenditures							
Total expenditures							
Net income/expenditure before tax expense							
Tax expense							
Net income/expenditure							
Gross transfers between funds							
Net movement in funds							
Reconciliation of funds							
Total funds brought forward							
Total funds carried forward							

members’ remuneration and benefits are included to reinforce the importance of stewardship information in charity reporting - a term often used in the voluntary sector to refer to the responsibility an organisation to inform donors of the manner in which their donations were used.

On the other hand, the Committee introduces simplifications in the CAS to ease certain reporting burdens, such as removal of the need to assess impairment for property, plant and equipment and intangible assets, 3rd balance sheet no longer required when the charity makes a retrospective change to accounting policy or restatement of prior year accounts.

Similarly, removal of accounting policy choices such as borrowing costs/development expenses capitalised (only expense when incurred), removal of assets approach for government grant accounting have also been proposed.

So When Will The CAS Be Available For Adoption?

A separate set of customised accounting standards for charities –Charities Accounting Standard (“CAS”) is now available to help charities manage and report a clearer link between the objectives, activities and results to their stakeholders. In April 2011, the Accounting Standards Council and the Commissioner of Charities held a pre-launch seminar to gather a final round of feedback on the staff draft of the CAS and the final standard was issued on 24 June 2011.

The plan is to have 2 phases in making the standard available:

- Phase I For financial periods beginning on or after 1 July 2011: Charity-companies limited by guarantee (“CLG’s”) and large IPC charities¹, without significant investees can choose to adopt the new

CAS1 or continue to use FRS. Those with significant investees are required to use only FRS.

- Phase II For financial periods beginning on or after 1 January 2015: All charities, other than those covered above, have a choice to comply with the FRS or CAS, at the later implementation date as stated.

Is The CAS A Fit For Purpose?

The Committee’s likely intent in making these recommendations is to simplify compliance activities and associated costs for smaller charity operators with limited financial and technical resources. Nonetheless, it remains to be seen if further simplifications are needed at a later stage, once CAS is adopted for the CLG’s/large IPC’s and relevant feedback provided.

As such, the directors of smaller charities are encouraged to watch the space on the future developments of the CAS so as to benefit from its reporting concessions. In conclusion, the CAS is indeed, a timely endeavour that could bring about greater trust from the public and result in increasing charitable giving and more charitable activity which may be a desirable or indeed a necessary, condition for a flourishing charity sector.

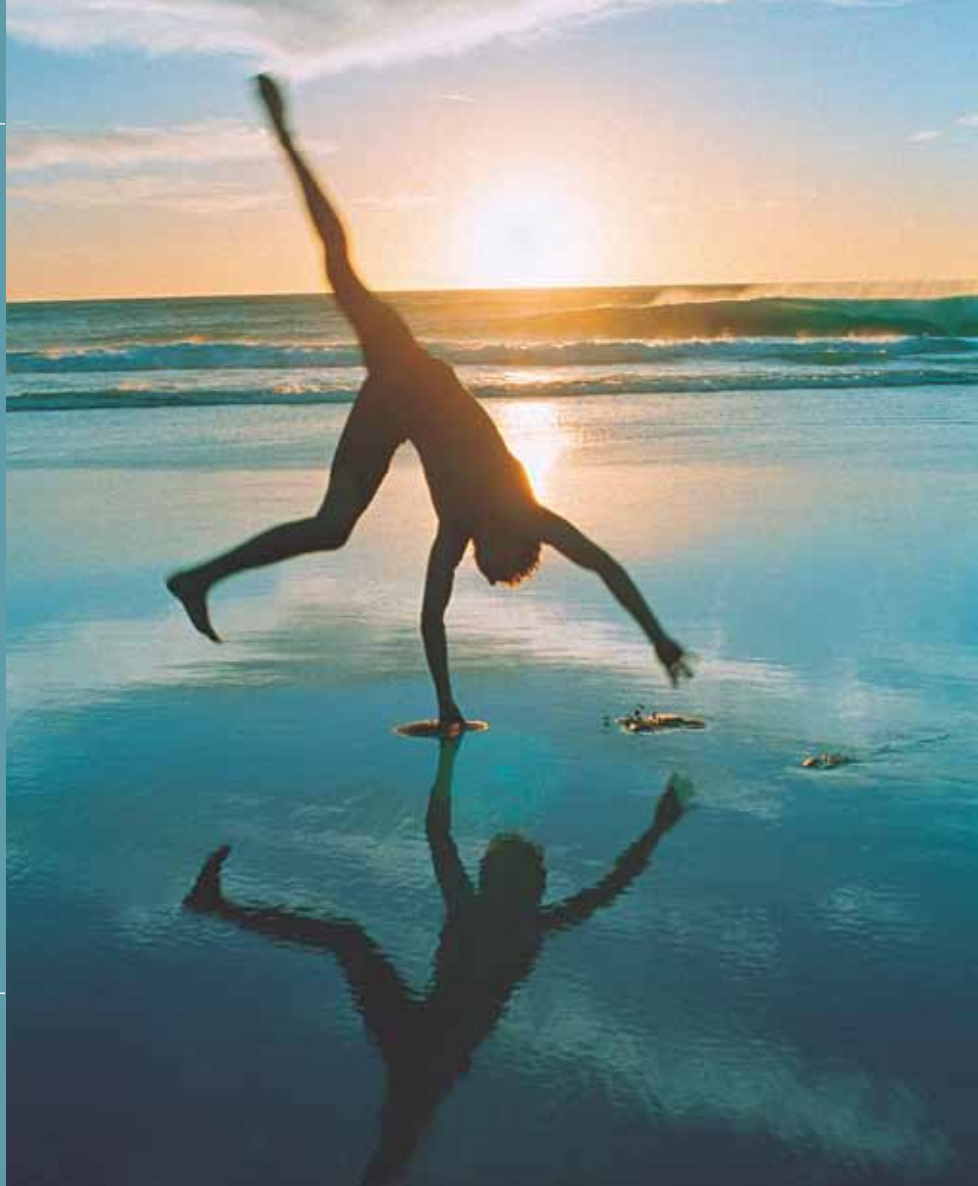
Endnotes:

1) A large IPC means an Institution of Public Character with gross annual receipts in each financial year of not less than \$10 million in the 2 financial years immediately preceding the current financial year of the charity.

2) Significant proportions of many charities’ income arise from funders who provide them for a specific purpose (restricted funds) and the charity is not free to spend as it wishes versus unrestricted funds that may be used for any charitable activity. Some parts of the unrestricted funds may be earmarked by governing board members for particular purposes in the future, these are described as designated funds.

Profits In Not For Profit Organisations

By Jim Lindell, CPA
 President
 Thorsten Consulting Group



Not for Profit organizations have one very powerful advantage over For Profit companies. That advantage is the mission statement. If you spend time in a NPO, it is obvious how employees and volunteers dedicate themselves to the missions and fulfilling the needs of their customers. Many For Profit companies will have mission statements posted throughout the organization, inserted in their literature and on the wall behind the CEO or in the reception area. I have had great fun when leading seminars by asking people to raise their hands if their company has a mission statement. When I ask someone from the For Profit sector to state what their mission is, 9 times out of 10 the response is similar to “well it sort of goes like this” or “to paraphrase, it is” ... The For Profit companies have missed the power of the mission statement to inspire, to drive decisions and to create culture.

One huge advantage that the For Profit companies have in spades that the NPO's fail to fully understand and implement is the drive to generate profits. There are many reasons and misperceptions why NPO's have failed to generate adequate profitability including:

- a. Government contracts which prohibit making money
- b. Perception that making money is wrong
- c. Misunderstanding that being mission driven is exclusive of being profitable
- d. Lack of management skills to drive profit mentality
- e. Lack of Board support to achieve profitability
- f. Lack of operational skills to generate profits within programs

One huge advantage that the For Profit companies have in spades that the NPO's fail to fully understand and implement is the drive to generate profits.

g. NPO's are not allowed to "make" money

h. All money (and profits) should be spent on the customers

Let's reconsider these items in light of the following:

- NPO's are allowed to generate profits based on the Internal Revenue Code. The concern is that the organization is not functioning just to make money but to serve a special purpose (i.e. fulfilling their mission statement).
- Money comes from only 3 sources: vendors, investors (stakeholders, contributors) and PROFITS! A rallying cry within the NPO world is "no margin (profits), no mission".
- NPOs need to be great stewards of their resources. This means that the resources that they are entrusted with should generate additional resources to continue to serve the mission years into the future. Remember how Jesus took the loaves and the fish from the young boy. Not only did he meet the needs of the crowd but they picked

up all of the leftovers. What do you think happened to the leftovers? Yes – resources used for another day!

- NPO's draw employees and Board members that are caring individuals: not cold hearted "make a buck" type of personalities. Employees must be trained to understand that profits are good, necessary and the vital means to continue to fulfill the organization mission.
- Profits are not evil and should not be spent immediately. NPO's must realize that they fulfill the mission with the finances that they have. The NPO's will never cure all the woes that they were created for. Unless the NPO has

a stated time of existence that dictates using all resources, then it is prudent to postpone some monies (profits) for future services and contingencies.

- It is true that many government contracts prohibit making money on the contract. However, it is possible to discuss the establishment of a reserve (PROFITS), to help support the program in future years. This becomes an easier proposition to accept if the organization will be funded by the same grantor for several years. DO NOT accept the statement as fact that the government will not allow an NPO to make money. Challenge that concept and find a creative solution that meets both the grantor and grantee's needs.

In conclusion, earning profits is not only appropriate; it is the right thing to do. Any NPO management team or Board of Directors that does not demand some level of profitability of the organization is doing a disservice to their customers.

In conclusion, earning profits is not only appropriate; it is the right thing to do. Any NPO management team or Board of Directors that does not demand some level of profitability of the organization is doing a disservice to their customers.

Jim Lindell, CPA, is the President of Thorsten Consulting Group. He has worked in Senior Management positions in the NPO industry as well as consulted with many NPO clients. He is a TEC Chairman and has 2 TEC Groups in Southern Wisconsin. In addition, Jim is a National Speaker/Trainer and an author for the AICPA and delivers Keynote addresses and seminars throughout the country. You can contact Jim by email at jim@thorstenconsulting.com or 262-392-3166. The company website is www.thorstenconsulting.com.

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Good Governance A Code For The Voluntary And Community Sector

By The Steering Group, Code of Good Corporate Governance, UK



Introduction

Lindsay Driscoll
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Steering Group

Good governance is essential for the success of any organisation and is now more important than ever. Board members play a vital role in serving their causes and communities. They bring passion and commitment as well as skills and experience to the organisations they lead.

Boards set the long term vision and protect the reputation and values of their organisations. To make a difference a board needs to have proper procedures and policies in place but it also needs to work well as a team and have good relationships within the organisation. The purpose of these principles is to assist board members to provide strong leadership, enhance their decision making and demonstrate their

accountability. This will in turn assist the people and causes their organisations were set up to benefit.

The principles set out good practice, but these are closely linked with the responsibilities of charity trustees and other legal requirements that may be imposed on board members. Under each principle we have highlighted the areas of law which we consider to be the most relevant.

The six high level principles are designed to be universal and applicable to all voluntary and community organisations. It is the practice and procedures which will vary according to the type and size of the organisation. To support the principles we have included good governance characteristics and set out why we consider the principles to be essential for good governance.

Underlying each principle is the

additional principle of equality – that of ensuring equality, diversity and equality of treatment for all sections of the community. We believe that this is fundamental and an essential element of all six principles.

The Principles – A Summary

An effective board will provide good governance and leadership by:

1. understanding their role
2. ensuring delivery of organisational purpose
3. working effectively both as individuals and a team
4. exercising effective control
5. behaving with integrity
6. being open and accountable.

Principle 1

An effective board will provide good governance and leadership by understanding their role.

Members of the board will understand their role and responsibilities collectively and individually in relation to:

- their legal duties
- their stewardship of assets
- the provisions of the governing document
- the external environment
- the total structure of the organisation and in terms of
 - setting and safeguarding the vision, values and reputation of the organisation
 - overseeing the work of the organisation
 - managing and supporting staff and volunteers, where applicable.

Why?

Board members have a duty to act within the legal and regulatory frameworks that apply to them and the organisation. A full understanding of their role and responsibilities, the purpose and structure of the organisation itself and the external environment will help them to fulfil their legal duties and to lead and govern the organisation effectively.

The board should consider how it will set the culture of the organisation. They should lead by example, ensuring that individuals representing the organisation in any capacity do so in a way that positively reflects its values. The ethos and culture of the organisation should underpin the delivery of its activities or services and the achievement of its objects.

Supporting material

For charity trustees, this must include:

- accepting ultimate responsibility for the way the organisation is directed and run in meeting its purposes

- being alert to those matters that cannot be delegated to individual board members or others
- acting at all times in the best interests of the organisation and its beneficiaries (see also Principle 5)
- ensuring the solvency and financial strength of the organisation
- safeguarding the organisation’s assets and using them only in furtherance of its purposes
- taking a considered, proportionate and balanced approach to risk management
- acting reasonably in their decision making and leadership of the organisation
- recognising and respecting that all board members are equally responsible in law for the board’s decisions
- complying with all relevant legislation and regulation applicable to the organisation and the activities it undertakes and making appropriate public statements to confirm that this is the case (see also Principle 4)
- ensuring that all board members are properly appointed and are not disqualified from so acting (see also Principle 3).

Other important things to consider include:

1. ensuring that the organisation provides every board member with all relevant information, including:
 - copies of key documents such as the governing document and financial information
 - a generic role description for board members and further descriptions for any specific roles or functions (e.g. chair, treasurer, secretary)
 - guidance produced by regulators and other organisations
 - handbook of other helpful information, including a code of conduct
2. understanding and ensuring independence of board decision making and action (regardless of how individual board members were appointed) and putting the needs of beneficiaries ahead of any other interests (see also Principle 5)
3. establishing and periodically reviewing statements setting out the vision, mission and values of the organisation. Ensuring that these statements are developed in consultation with the organisation’s stakeholders, that they accurately reflect the objects in the organisation’s governing document, and are effectively communicated and easily understood outside the organisation
4. ensuring that all board members understand their relationship with, and responsibilities towards (as applicable):
 - beneficiaries or service users
 - staff, particularly senior staff

Board members have a duty to act within the legal and regulatory frameworks that apply to them and the organisation. A full understanding of their role and responsibilities, the purpose and structure of the organisation itself and the external environment will help them to fulfil their legal duties and to lead and govern the organisation effectively.

- members
 - volunteers
 - committees, working groups and advisory groups
 - central office, branches, and local or regional offices
 - subsidiary trading companies
 - other organisations with which the organisation formally collaborates
5. being clear about what matters are strategic and what matters are operational in relation to board oversight of the organisation. Avoiding inappropriate involvement in operational matters but taking responsibility for challenging and holding to account senior managers (e.g. the chief executive, senior management team) or other persons, organisations or agencies to whom they have delegated implementation of their strategic decisions
 6. where the organisation has a chief executive, following proper and formal arrangements for the chief executive's appointment, supervision, support, appraisal and remuneration. Being clear which board members are responsible for day to day communication with, and supervision of, the chief executive. Ensuring that the relationship between the board and the chief executive retains an appropriate balance of support, scrutiny and challenge
 7. where board members also act as volunteers or employees, being clear about the capacity in which they are acting at any given time
 8. ensuring that individual board members do not act on behalf of the board without authority
 9. strategically reviewing all aspects of the organisation's work and functioning to ensure its overall effectiveness.

The organisation's aims or purposes are its reason for existing; it should aim to secure the optimum means of fulfilling them. To do otherwise would be failing its beneficiaries, funders and supporters. If board members are committed to the organisation's purpose, this should drive them to aim to do better for the organisation's beneficiaries or service users.

Principle 2
 An effective board will provide good governance and leadership by ensuring delivery of organisational purpose.

The board will ensure that the organisation delivers its stated purposes or aims by:

- ensuring organisational purposes remain relevant and valid
- developing and agreeing a long term strategy
- agreeing operational plans and budgets
- monitoring progress and spending against plan and budget
- evaluating results, assessing outcomes and impact
- reviewing and/or amending the plan and budget as appropriate.

Why?
 The organisation's aims or purposes are its reason for existing; it should aim to secure the optimum means of fulfilling them. To do otherwise would be failing its beneficiaries, funders and supporters. If board members are committed to the organisation's purpose, this should drive them to aim to do better for the organisation's beneficiaries or service users. The board should always bear this in mind, and make decisions in the best interests of the people or cause it aims

to help. The board must also ensure that the organisation remains focussed on delivering its purposes and avoids "mission drift".

Supporting material

This must include:

- ensuring that all activities, services and functions, particularly new ones, match the stated objects of the organisation as defined primarily in the governing document
- for registered charities, having regard to the Charity Commission's guidance on public benefit and reporting on the organisation's public benefit in the statutory Annual Report.

Other important things to consider include:

1. identifying and considering the range of data and information from both internal and external sources to help meet the needs of beneficiaries in line with the organisation's stated purposes
2. setting short, medium and long term goals and ensuring that organisation-wide strategies are in place to monitor and implement these
3. ensuring that the organisation's stakeholders are supportive of, and committed to, achieving these goals
4. aligning management reports of organisational activities to the



- appropriate powers and objects in the governing document
5. assessing service provision against relevant comparators (e.g. similar organisations, suitable quality standards), undertaking periodic reviews of services, and seeking stakeholder feedback where appropriate
 6. providing board members with timely and regular management accounts, ensuring that all board members are in a position to read and understand them, in order to make informed decisions
 7. the board and senior management team (where applicable) remaining alert to external and environmental factors that could result in the board having to consider whether –
 - the needs of beneficiaries are being met by the state, or the organisational purpose has been achieved in some other way, and therefore the organisation can be wound up or the purposes changed
 - the purposes could be better achieved through collaboration, or where appropriate, merging with one or more other organisation(s) with similar objectives
 - different ways of working may be required to meet the opportunities and challenges presented by developments

- within the field of operation, including the risk of missing opportunities
8. having systems in place to measure outcomes, assess impact and enable the board to ensure the organisation delivers its purpose and identify:
 - successes that the organisation can celebrate
 - areas for improvement
 - new opportunities.

Principle 3

An effective board will provide good governance and leadership by working effectively both as individuals and as a team.

- The board will have a range of appropriate policies and procedures, knowledge, attitudes and behaviours to enable both individuals and the board to work effectively. These will include:
- finding and recruiting new board members to meet the organisation’s changing needs in relation to skills, experience and diversity
 - providing suitable induction for new board members
 - providing all board members with opportunities for training and development according to their needs

- periodically reviewing their performance both as individuals and as a team.

Why?

To work in the best interests of the organisation and its beneficiaries, the board needs to recruit individuals who:

- together have a mixture of knowledge, skills and experience that is relevant to the organisation’s circumstances and needs
- have the requisite characteristics and skills to work as a committed, effective and supportive team, whilst retaining independence of thought and the maturity and ability to challenge constructively
- embody diversity in its widest sense, strengthening decision making by bringing a broad range of backgrounds and perspectives.

Supporting material

This must include:

- complying with any qualifications and all requirements in the governing document concerning who/how many may be appointed as board members, terms of office and manner of appointment
- complying with any requirements in the governing document concerning board meetings
- ensuring that board members are, and remain, eligible to act and that appropriate checks have been carried out (this may include minimum age, statutory disqualification, and CRB checks where applicable; and requiring new board members to sign a declaration of eligibility and willingness to act).

Other important things to consider include:

1. ensuring that the board meets often enough to be effective, that board members are well-prepared and committed to attending and

- contributing constructively, and that meetings have a well structured agenda and good chairmanship
2. adhering to a code of conduct which sets out expected standards of behaviour and the consequences of inappropriate behaviour, ensuring that any potential sanctions are in line with the governing document
 3. maintaining a strategy for board renewal that will meet the organisation's changing needs. This will cover maximum terms of office and succession planning, particularly for the chair and other key positions/skills
 4. ensuring that beneficiaries and other stakeholders can contribute appropriately and meaningfully to decision making
 5. ensuring that the board:
 - collectively provides a mixture of skills, experience, qualities and knowledge appropriate to the organisation and its beneficiaries' needs, using skills audit and other relevant tools as appropriate
 - takes an active and intelligent approach towards diversity, understanding the term in its widest sense, avoiding tokenism and using board diversity to support its effectiveness
 - is big enough to provide the skills and experience needed, but not so large that decision making becomes unwieldy
 - invests sufficient time in developing positive working relationships amongst themselves and (where applicable) between the board and senior staff, particularly the chief

executive

- acts quickly and positively to deal with any relationship strains or breakdowns, using external facilitation or mediation where appropriate
6. (where it is permitted by the governing document), using a range of ways to recruit board members (such as advertising) to encourage diversity; including formal recruitment procedures and making appointments based on merit, objectively measured against the agreed skills audit and role description
 7. using provisions in the governing document for appointing board members effectively and intelligently, so that (where applicable) elections by members and nominations by external bodies are informed by the skills needs identified by the board, and any power of co-option is used to fill key gaps in board skills
 8. where staff are permitted to become board members by the governing document or other legal power, ensuring that:
 - staff are only appointed as board members where this can be shown to be in the interests of the charity
 - conflicts of interest are identified and properly managed
 - there is clarity about individuals' roles as staff members and board members
 9. setting aside time to reflect on performance and functioning of the board and its committees as teams, and identifying and dealing with any areas for improvement

10. supporting board members in their training and development, and to facilitate this, periodically reviewing the performance and development needs of each board member.

Principle 4

An effective board will provide good governance and leadership by exercising effective control.

As the accountable body, the board will ensure that:

- the organisation understands and complies with all legal and regulatory requirements that apply to it
- the organisation continues to have good internal financial and management controls
- it regularly identifies and reviews the major risks to which the organisation is exposed and has systems to manage those risks
- delegation to committees, staff and volunteers (as applicable) works effectively and the use of delegated authority is properly supervised.

Why?

The board are ultimately responsible for the decisions and actions of the organisation. Board members need to be assured that everyone acting in the organisation's name is complying with the board's directions and the requirements of law or regulation. Boards should provide direction, leadership and oversight without inappropriate involvement in operational matters. Delegation needs to be effectively supervised and monitored.

Supporting material

This must include:

- ensuring, through appropriate policies, procedures and reporting mechanisms, that the organisation understands and complies with all legal and regulatory requirements which apply to the organisation,

The board are ultimately responsible for the decisions and actions of the organisation. Board members need to be assured that everyone acting in the organisation's name is complying with the board's directions and the requirements of law or regulation.

including where applicable:

- charity law and the requirements of charity regulators in any country where it operates
- trust law
- company law and the requirements of Companies House and other regulators (e.g. CIC regulator)
- industrial and provident society law¹
- employment law
- health and safety regulations
- data protection legislation
- equality legislation
- legislation applying to particular activities, such as fundraising, protection of children or vulnerable adults, provision of health or care services, provision of financial advice, housing and tenancy law
- complying with relevant provisions in the governing document and relevant law concerning the exercise of powers of delegation by the board
- acting prudently to protect the reputation, assets and property of the organisation
- ensuring that the organisation's assets and property are used only to deliver its stated objects and aims.

Other important things to consider include:

1. regularly reviewing the range and impact of risks the organisation faces, including the risk of missed opportunities and the potential of small risks to snowball into higher impact risks. Considering the impact of each identified risk on beneficiaries or service users, staff and volunteers, long term plans and income generation, and putting in place strategies to manage those risks. This will include having and regularly reviewing a risk register and appropriate risk policy outlining

the board's appetite for risk and how it will manage and limit the impact of identified risks

2. maintaining and regularly reviewing the systems of financial controls, internal controls, performance reporting, policies and procedures, with the board periodically taking steps to assure itself of their effectiveness and relevance to the activities the organisation undertakes and the risks it faces
3. recognising and maximising the value of diversity within the board as a means of identifying and managing risks, especially as a way of challenging institutional assumptions and thinking
4. having clear written terms of reference for committees of the board, advisory groups and panels, and for all delegated authority, which provide sufficient delegated authority and clear boundaries to allow officers, committees, staff, volunteers, consultants and agents to discharge their duty effectively and which are regularly reviewed and updated
5. periodically reviewing the organisation's committee, advisory group and panel structure to ensure that it continues to meet the organisation's governance needs
6. allowing the proper exercise of delegated authority by the chief executive and/or other staff and volunteers without inappropriate interference, whilst being sufficiently involved and engaged to properly supervise, hold to account and retain ultimate responsibility for decisions and actions taken, through appropriate systems of monitoring and reporting back
7. taking appropriate professional advice where necessary before making important decisions, especially those involving material risk.

Principle 5

An effective board will provide good governance and leadership by behaving with integrity.

The board will:

- safeguard and promote the organisation's reputation
- act according to high ethical standards
- identify, understand and manage conflicts of interest and loyalty
- maintain independence of decision making
- deliver impact that best meets the needs of beneficiaries.

Why?

The board, both individually and collectively, have ultimate responsibility for the organisation's funds and assets, including its reputation. They take the lead in setting and championing the values and ethos of the organisation (see Principle 1). It is vital, therefore, that they maintain the respect of beneficiaries, other stakeholders and the public at large, by behaving with integrity both when acting as trustees and more generally. To behave otherwise risks bringing the charity and its work into disrepute.

Supporting material

This must include:

- having in place and scrupulously following governing document provisions, policies and procedures for identifying, declaring and managing conflicts of interest and conflicts of loyalty. Where board members have a material conflict of interest, managing this may include:
 - not voting on, or participating in, discussion of a matter
 - not being counted towards the quorum

The board, both individually and collectively, have ultimate responsibility for the organisation's funds and assets, including its reputation. They take the lead in setting and championing the values and ethos of the organisation.

- withdrawing from that part of the meeting at which a matter is discussed
- if the organisation is a company, ensuring that it complies with company law on the management of conflicts of interest and conflicts of loyalty
- ensuring that the organisation complies with the requirements of 'whistleblowing' legislation
- managing relations and boundaries between the organisation and any subsidiary companies, especially where individuals act as board members for both entities
- always taking decisions in the best interests of the organisation and its beneficiaries, ensuring that
 - the decision is within the board's powers
 - the board is acting in good faith
 - the board has adequately informed itself and is basing its decision on a range of data and information that provides sound understanding of all relevant factors
 - the board is not allowing itself to be swayed by irrelevant factors
 - the decision is within the range of reasonable options open to the board and can be justified as such to stakeholders and regulators
- complying with laws against bribery, including implementing policies and clear guidelines concerning hospitality or gifts, the declaration and recording of offers of gifts or hospitality, and in what circumstances such offers may be accepted or must be refused.
- complying with any statutory or

regulatory requirements concerning reporting or disclosure of payments, expenses or other benefits that board members receive from the organisation

Other important things to consider include:

1. ensuring that the organisation's values and ethos are enshrined in its policies and practices
2. including standards of ethical behaviour, for example the Nolan Principles,² in the code of conduct for board members (see Principle 3)
3. fostering a working environment that supports constructive challenge and welcomes different points of view
4. maintaining a register of interests and declaring an interest even if the board member is unsure of its relevance and potential impact
5. being open and honest in all matters presented to the board where a personal or business relationship may be perceived to impact adversely on (or simply influence) the work of the board or the organisation
6. where possible, seeking to diversify income streams to help ensure that no single funder can exercise undue influence over the actions and decisions of the board
7. where board members or others act as spokespersons for the organisation, ensuring that their personal views are never confused with, or represented as being, those of the organisation
8. Board members and other representatives of the organisation should never accept gifts or

hospitality where this could be perceived as being likely to influence their decisions

9. ensuring that any statement made on behalf of the organisation is consistent with its mission, vision and values
10. where board members are nominated or appointed by other bodies, being clear that the responsibility as a board member of this organisation is to act and make decisions in the interests of this organisations and its beneficiaries, and not as a delegate or representative of the appointing body
11. ensuring that all board members understand and accept the need to be transparent and honest in all dealings with or on behalf of the organisation, to avoid any public perception of improper conduct. This will include the establishment of an expenses policy and procedures to claim legitimate expenses incurred (see also Principle 6)
12. having in place appropriate policies and procedures for whistleblowing, including safeguards to protect individuals who whistleblow.

Principle 6

An effective board will provide good governance and leadership by being open and accountable.

The board will lead the organisation in being open and accountable, both internally and externally. This will include:

- open communications, informing people about the organisation and its work
- appropriate consultation on significant changes to the organisation's services or policies
- listening and responding to the views of supporters, funders, beneficiaries, service users and others with an interest in the organisation's work

- handling complaints constructively, impartially and effectively
- considering the organisation's responsibilities to the wider community, e.g. its environmental impact.

Why?

Making accountability real, through genuine and open two-way communication that celebrates successes and demonstrates willingness to learn from mistakes, helps to build trust and confidence with stakeholders and to demonstrate legitimacy when representing them.

Supporting material

This must include:

- fully complying with any legal requirements to produce annual reports and accounts. These should present a balanced and accurate assessment of the organisation's performance
- holding an annual meeting for members or other stakeholders if required by the organisation's governing document
- complying with equality legislation
- complying with any applicable legal or regulatory requirements concerning membership records.

Other important things to consider include:

1. identifying those with a legitimate interest in the organisation's work (users or beneficiaries, staff, volunteers, members, and other stakeholders) and ensuring that there is a strategy for regular and effective communication with them about the organisation's achievements and work, including the board's role and the organisation's objects and values
2. ensuring that these people have the opportunity to hold the board to account and know how to do this appropriately, and that their views inform the organisation's planning, decision making and strategic reviews
3. demonstrating that the organisation learns from mistakes and errors and how that learning is used to improve organisational performance and internal decision making. This could be by having clear and effective complaints procedures, implementing them constructively and using the process as a valuable source of management information
4. ensuring that the organisation upholds principles of equality and diversity in every sphere of activity, going beyond the legal minimum where appropriate. Information

and meetings should be accessible to all sections of the community e.g. by using plain language, offering communications in formats such as audio and Braille and in languages commonly spoken in the communities served

5. in organisations where board members are appointed by a wide membership, ensuring that the organisation:
 - has clear policies on who is and is not eligible for membership of the organisation
 - has clear and accurate and up-to-date membership records
 - keeps members informed about the organisation's work
 - actively seeks, values and takes into account the views of members on key issues
 - encourages members to participate in the governance of the organisation, clearly informing them about the responsibilities of board membership
6. recognising and acting on broader organisational responsibility towards communities, wider society and the environment, in so far as this does not divert the organisation from achieving its objects.

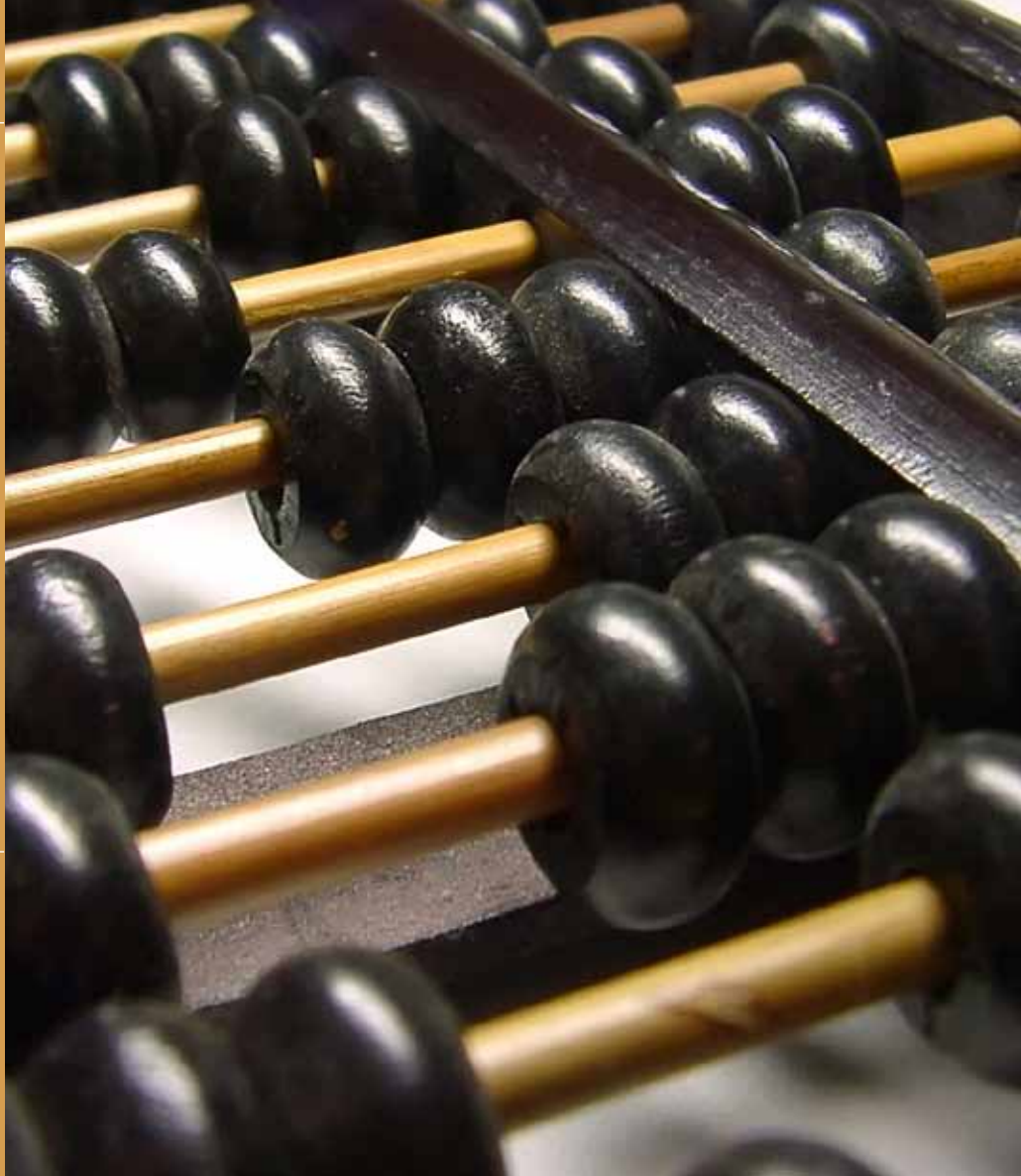
The Code Steering Group provides stewardship for the Code. It is made up of representative of the original founders, the Association of Chief Executive Officers (ACEVO), Charity Trustee Networks (CTN), the Institute of Chartered Secretaries and Administrators (ICSA), the National Council for Voluntary Organisations (NCVO) with support from the Charity Commission and an independent chair.

The Governance Code Steering Group would like to offer their thanks to all those that kindly contributed to the development of this second edition.

Permission to reprint granted by the steering group for the Code of Good Governance.

Defining An Effective Internal Audit Though Not Mandatory, It Is Important To Have A Best Practice Guide

By Sovann Giang
Executive Director
Singapore Institute of Directors
& Uantchern Loh
President
Institute of Internal Auditors,
Singapore



THE Code of Corporate Governance 2005 Guideline 11.4 (d) requires the Audit Committee (“AC”) to review the effectiveness of a company’s internal audit function. However, what is an “effective” internal audit for a listed company? Today’s regulatory environment places an ever higher duty and responsibility on the boards of listed companies, and particularly on the independent directors. Many of these requirements are beyond the scope of a statutory audit. The board, especially the non-executive directors, must therefore rely on the internal audit function to ensure compliance with these regulatory requirements.

However, since there is currently no mandatory requirement for internal audit, the scope of work, the standard and the responsibilities of the internal audit function (either in-house or outsourced) varies from company to company depending on the available budget, the quality of the internal audit staff or the outsourced provider, and the extent of the AC’s supervision. Recent high profile cases of internal control breakdowns and governance lapses clearly demonstrate that even in the case

of larger entities with a sizeable in-house internal audit team, control deficiencies in high risk areas can remain undetected, resulting in a significant loss of money or corporate reputation.

Internal audit is traditionally used to review certain high risk or high value transactions to ensure compliance with policies and regulations, to investigate incidences of suspected fraud, or to improve efficacy of operations. The work of the internal audit and its

findings can be a matter internal to the entity. However, in the context of a listed company, the internal audit function is indirectly relied upon by and may be material information that is required to be disclosed to the investing public. Therefore, to the extent that it sheds light and has an impact on the adequacy of the company’s internal controls, the effectiveness of the internal audit function is no longer merely the company’s internal matter but may be a matter of public interest. It is therefore

important to have a framework (or best practice guide) in place to ensure the adequacy and accountability of the internal audit function. In particular, this framework should provide guidance for the scope of the internal audit, the quality of the persons in the team and the performance standards to be observed.

Essential elements

An “effective internal audit” for a listed company, whether in-house or outsourced and irrespective of the size of the company, should address internal controls over financial reporting and governance processes. The following is an example of the scope of work that should be performed:

- The first phase is to identify key business processes and cash or cash-like transactions within the listed company. These processes and transactions should be summarised and documented, updating them annually to reflect any changes in the company’s business, processes and corporate and organisation structure. Management should provide written representation that it has provided all relevant information to the internal auditors for this purpose.
- The second phase is to ascertain whether management has implemented appropriate and adequate controls over these processes and cash or cash-like transactions.
- With this comprehensive understanding, the internal auditor can then analyse the risks to the organisation and identify key controls for testing. The testing of these key risk areas may be performed annually or by rotation, after consultation with the AC. However, key risk areas should be tested at least once every two to three years.
- The internal auditor should also perform an annual review of the state

of the company’s compliance with the principles and guidelines of the Code of Corporate Governance. Any deviations should be reported to the AC in its report.

- The board and board committees may also instruct the internal auditor to review other critical items or regulatory compliance issues from time to time.
- Annually, the internal auditor should sign off on this work scope and issue his reports to the AC and the board. No attestation or assurance on the figures is required from the internal auditor as the objective of this prescribed internal audit process is the identification of deficiencies for the AC and the board to act on.

The practice of internal auditing is guided by the International Professional Practices Framework (“IPPF”). The IPPF, which is issued by the Institute of Internal Auditors and adopted via Guideline 13.2 of the Code of Corporate Governance, provides authoritative guidance on internal auditing standards, practices and ethics.

Benefits

This proposed framework for the internal audit process and its elements differs from the requirements under the Sarbanes-Oxley Act (“SOX”) in that companies are not required to follow the rigid ‘one size fits all’ form of the Committee of Sponsoring Organisations of the Treadway Commission (“COSO”) framework when designing their internal control systems and are also not required to go through the costly SOX Section 404 reporting. As is so rightly pointed out in the King Code of Governance for South Africa 2009 (King III Report), “SOX - with all its statutory requirements for rigorous internal controls - has not prevented the collapse of many of the leading names

in US banking and finance”. In fact, unwarranted reliance on a Section 404 report might have distracted boards and regulators from exercising vigilance and scepticism while reviewing the accounts of these institutions.

Instead, the responsibility still rests with the AC and the board to address the issues raised by the internal auditor in his reports. This approach is consistent with the “comply or explain” regime of our Code of Corporate Governance. It also allows the AC the flexibility to direct the work of the internal auditor into specific risk areas from time to time, while maintaining an overall supervision of the company’s internal controls over financial reporting and governance process.

It is more prescriptive than the King III Report so as to prevent companies from paying mere lip service to the internal audit requirement. While this framework should apply to all listed companies, smaller companies with less complex operations will find it much easier to comply than larger companies with diverse businesses, so the cost of the internal audit function should be proportionate with the size and complexity of the business.

Implementation

It is timely that CDAS (The Committee to Develop the Accountancy Sector) has recommended the development of a specialisation pathway in internal audit, including the development of professional qualifications, a job-specific competency framework, certification programme and a regional examination centre. This would address the qualifications, attributes and resource and talent elements as highlighted above. The Code of Corporate Governance is being revised and is perhaps timely for the Code to address the scope of internal audit elements as mentioned above.

Annual Golf Tournament



SID was honoured to have Emeritus Senior Minister Goh Chok Tong grace the Annual Golf Tournament on 12 June 2011 at the Serapong Course, Sentosa Golf Club. At 1.30pm, the shot gun tee off marked the start of 34 flights of the tournament.

Just like previous years, this event was fun-filled for the 136 present. Special thanks go out to all sponsors and participants for making the event a success. Congratulations to all the winners too!



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ANNUAL GOLD TOURNAMENT



Overall Winner	
Richard Ng	
“A” Division	
Winner:	Steven Ong
1st Runner-up:	Darryl Wee
2nd Runner-up:	Glenn Ang
3rd Runner-up:	Clinton Ang
“B” Division	
Winner:	Lee How Sheng
1st Runner-up:	Mark Ebbinghaus
2nd Runner-up:	Peter Lim
3rd Runner-up:	Ng Kee Choe
Nearest to Pin	
Hole #2:	Sovann Giang
Hole #8:	Winstedt Chong
Hole #14:	Jason Chua
Hole #17:	Winstedt Chong
Nearest the Line	
Hole #5:	Wayne Goh
Ball Sweep (“A” Division)	
1st Nine:	Darryl Wee
2nd Nine:	Lim Kei Hin
Ball Sweep (“B” Division)	
1st Nine:	Ng Kee Choe
2nd Nine:	Mark Ebbinghaus
Best Lady Golfer	
Cathy Yeap	
Keppel Challenge Trophy	
<i>Best Flight/Team Winner</i>	
Leonard Tham	Louis Yeung
Peter Lim	Jason Chua
<i>Best Flight/Team – Runner-up</i>	
Alan Chiow	Chia Lek Kiang
Foo Chek Puat	Goh Chee Kong



Building Lasting Shareholder Value

A Lunch Presentation
By McKinsey & Company



SID together with McKinsey & Company jointly organised a luncheon event on 20 May 2011 at Marina Mandarin Singapore. The talk was given by Mr Chinta Bhagat, Partner, McKinsey & Company. Mr Bhagat spoke about the Four Cornerstones of Corporate Finance – offering boards and CEOs a stable basis for making sound, courageous, and sometimes unpopular strategic and financial decisions.

SID thanks McKinsey for the presentation and members and guests for attending the event.





Corporate Social Responsibility Sustainability & Reporting



SID, jointly with WongPartnership and KPMG Climate Change & Sustainability Services, organised a half-day seminar on 24 May 2011 at Marina Mandarin Singapore. The speakers were Mr Simon Tay, Ms Rosabel Ng, Mr Teo Shen-Ru and Ms Annabelle Yip from WongPartnership; Mr Sharad Somani from KPMG; Mr Micheal Kwee from Banyan Tree Global Foundation and Ms Esther An from City Developments Ltd.

The speakers, who are all experts in the industry, also used case studies and a panel discussion session to better explain the drivers for CSR and Sustainability Reporting, global trends, the SGX Policy Statement and Guide to Sustainability Reporting for Listed Companies and how companies can embrace and gear itself up for Sustainability Reporting.

SID thanks WongPartnership and KPMG for their kind collaboration with SID and members and guests for attending the event.



Data Analytics: Assisting The Board In Uncovering Fraud Beyond Audits

A Lunch Presentation By KordaMentha



On 27 May 2011, SID and KordaMentha jointly organized a luncheon event at Marina Mandarin Singapore. Mr Andre Menezes and Ms Penelope Lepeudry, Executive Directors of KordaMentha, spoke about using data analytics tools and techniques to explore a company's data to detect and quantify frauds, leading to early detection and unchallenged convictions.

SID thanks KordaMentha for the presentation and members and guests for attending the event.



Whistleblowing Policy That Works

A Lunch Presentation By Deloitte & Touche



On 2 June 2011, SID and Deloitte & Touche jointly held a luncheon event at Marina Mandarin Singapore. The luncheon speaker was Ms Dione Schick from Deloitte & Touche who explored what the barriers are to staff speaking up and whether companies should in fact be more encouraging for staff to raise their concerns and provide information on corporate wrong doings.

SID thanks Deloitte & Touche for the presentation and members and guests for attending the event.





Board Appointment Service (BAS) Networking Event

An Evening Cocktail



On 28 June 2011, SID held a BAS Networking Event at Singapore Exchange Gallery. It was attended by about 100 members and guests. The event was part of the Institute's campaign to promote the BAS Service which had been launched in August last year. This service provides companies with access to search for suitable candidates from SID's database of members who are willing to serve as independent directors.

Participants at the event were members of SID who had registered their interest in the BAS scheme as well as representatives from various investment houses. The welcome speech was delivered by Mr John Lim, Chairman of SID. SGX was represented by Ms June Sim, who also addressed the gathering.

Mr Michael Griffiths from Aon Corporation spoke to the gathering about the newly launched Personal

D & O Insurance Policy developed by SID and Aon Singapore. The new Personal D&O Insurance provides the same protection as traditional D&O Insurance policies, but is taken out in the name of an individual director or officer rather than as an entire board of directors. Cover under the policy can

be provided for up to three separate directorships, and a policy limit of S\$1 million is available at an annual premium of only S\$1,000.

SID thanks all the participants for attending the event as well as SGX for the use of the auditorium.





Upcoming Talks/ Courses

Upcoming Events

SEPTEMBER 2011

- Wednesday, 14 September **SID Directors Conference 2011**
Heat & Hope: The New Realities In Corporate Governance
- Tuesday, 20 September **Effective Board Leadership Programme Module 1**
Effective Board
- Friday, 30 September **Effective Board Leadership Programme Module 2**
The Board And Fund Raising

OCTOBER 2011

- Tuesday, 4 October **LCD Director Programme Module 1**
Listed Company Director Essentials: Understanding The Regulatory Environment
In Singapore: What Every Director Ought To Know
- Tuesday, 11 October **Effective Board Leadership Programme Module 3**
Enterprise Risk Management
- Thursday, 20 October **Effective Board Leadership Programme Module 4**
Financial Governance
- Tuesday, 25 October **Effective Board Leadership Programme Module 5**
Investor & Media Relations

NOVEMBER 2011

- Wednesday, 16 November **LCD Director Programme Module 2**
Audit Committee Essentials
- Tuesday, 22 November **LCD Director Programme Module 3**
Risk Management Essentials
- Thursday, 24 November **LCD Director Programme Module 4**
Nominating Committee Essentials
- Tuesday, 29 November **LCD Director Programme Module 5**
Remuneration Committee Essentials

SID-SMU Executive Certificate in Directorship

MODULES	PROGRAMME DATES	ASSESSMENT DATE
Module 6: Strategic HRM For Directors	15 and 16 September 2011	Take home assessment
Module 2: Assessing Strategic Performance: The Board Level View	27, 28 and 29 September 2011	Take home assessment
Module 5: Leading From The Board Of Directors	5 and 6 October 2011	Take home assessment
Module 1: The Role Of Directors: Duties, Responsibilities & Legal Obligations	2, 3, 4 November 2011	10 November 2011

Welcome Aboard

April 2011

Cheong	Allen	Lim	Roger	Tan	Tuan Wee
Cocks	Nicholas Campbell	Loh	Kai Keong	Tham	Hock Chee
Fang	Steven	Middleton	Michael	Tong	Weng Leong
Fidock	Daniel	Ng	Kwang Seng Steven	Wong	Yu Loon
Hadley	Michael	Ong	Chye Hong	Wong	Leong Jeam
Lim	Kian Kim	Ong	Liang Huat		
Lim	Boon Kiang	Tan	Wee Hong		

May 2011

Ang	Siew Hoon Janice	Hoon	Siew Kin Linda	Seah	Peter
Borrelli	Cosimo	Kardachi	Jason Aleksander	Sim	Yen Lee
Chan	Vincent	Khan	Muhammad Sameer	Siregar	Sherwin Parulian Tien
Cheang	You Kong		Yuosuf	Soong	Kok Meng
Chin	Kong Cheong	Lai	Tze Chang Stanley	Tan	Eng Looi
Chow	Chew Seng	Leong	Seng Keat	Veerasamy	Bhuvaneswaran
Chua	Swee Ann	Li	Qiang	Whitehead	Robert Dale
Chua	Siow Poh Alice	Liew	Sherri	Wong	Kean Shyong
Ebrahim	Tameem Adbulhusein	Olding	Andrew	Yadav	Anita
Fong	Choon Yew	Ong	Kai Hoe	Ying	Wei Hsein Leslie
Goh	Kian Sin	Salhotra	Sanjay		
Gupta	Piyush	Saville	Duncan		

June 2011

Ang	Eng Seng	Lim	Mei Nai	Tan	Jit Leng
Ang	Boon Richard	Mason	Peter	Tan	Soon Liang
Chan	Hung Kwan	McFarland	John Desmond	Tan	Chiang Huat Edward
Chan	Kok Wai	Melo	Rafael	Tung	Kum Hon
Friday	Anthony	Morailon	Frederic	Vertlieb	Harris Jay
Khan	Sami	Neo	Poh Kok David	Wee	Chee Yeong
Lee	Boon Huat	Ong	Boon Kwee Peter	Wong	Soon Yin
Lim	Wee Ming Philip	Puckett	Steve		

Call for articles, thoughts, snippets, etc.

The institute would like to hear from you. Send us articles, thoughts or even short snippets of issues that you are keen on, that you want to share about, or that keeps you awake at night. It only needs to relate to directors and/or corporate governance. For articles, keep it to 1200 to 1500 words at most. Send your materials by email to the Institute at secretariat@sid.org.sg

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