The Effective Not-for-Profit Board

A value-driving force

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Introduction

Nearly 20 years ago, we published the first edition of *The Effective Not-for-Profit Board* to provide Not-for-Profit Organizations (NPOs) with a discussion of the issues surrounding governance. Our objective was to assist them in forming their own coherent response to the challenges of implementing an effective governance system. Since then, governance practices have evolved considerably. Over the years, new requirements have been prescribed for publicly-listed companies and the leading edge practices once followed by only a few companies have now become the norm for most organizations.

As governance practices have evolved, stakeholders' expectations have grown and now extend to all organizations with public accountability, including NPOs. Today, many NPOs have moved beyond basic compliance with regulatory requirements, and have adopted governance best practices borrowed from publicly-listed companies, as well as those generated and promoted by the public and the NPO community itself.

This third edition of *The Effective Not-for-Profit Board* discusses NPO governance within the current regulatory and stakeholder environment. It focuses on the board of directors, since it is the board that bears the ultimate responsibility for the stewardship of an organization. We hope that the suggestions contained in this booklet will help readers to better understand their responsibilities as NPO board members and encourage them to lead their organizations towards more effective governance practices.

We have organized our discussion as follows:

- we begin by examining the meaning of good governance, and its relevance to NPOs
- then, we present the Deloitte Governance Framework, which reflects current and emerging governance best practices
- we have also provided a detailed discussion of each element of this multipart framework, including a set of suggested questions designed to help board members understand and address the issues within the context of their own organizations
- we consider challenges specific to NPOs, and provide some action steps for NPOs and their boards to consider when addressing those challenges, and
- finally, we provide some popular Deloitte tools to assist boards in discharging their responsibilities.

Main differences between private and public NPOs

This publication discusses governance practices in terms of a private not-for-profit organization. However, public sector NPOs, such as hospitals, colleges, etc., may also benefit by adapting these practices to their organization's governance structure.

The following table summarizes key differences between private and public NPOs:

	Private NPOs	**Public NPOs**
Examples of organizations	Charitable foundations, private schools, universities, clubs, associations, etc.	Public colleges and universities, hospitals, etc.
Primary sources of funding	Donors, members, government	Government, beneficiaries, donors
Stakeholders	Beneficiaries, donors, sponsors, members, volunteers, etc.	Beneficiaries, donors, members, general public, etc.
Governance body	Board of directors, elected by stakeholders	Board of directors, appointed by members or nominated by government
Director nomination	Directors elected by voting members	Directors appointed by members or nominated by government
Management	Reports to the board of directors	Reports to the board of directors

Although public NPOs typically have a wide group of stakeholders and may raise funds from a variety of sources, the majority of their funding comes from government. Where government is the organization's primary funder and stakeholder, it usually either has the right of approval of directors nominated to a public NPO board, or it appoints board members directly. The government may also exert direct oversight over a public NPO if it believes there is a failure in governance, management or both at the NPO.

While this relationship with government imposes some limits on the autonomy of a public NPO board compared to a private NPO board, the majority of practices outlined in this publication are relevant to both private and public NPOs.

Governance & the NPO Sector

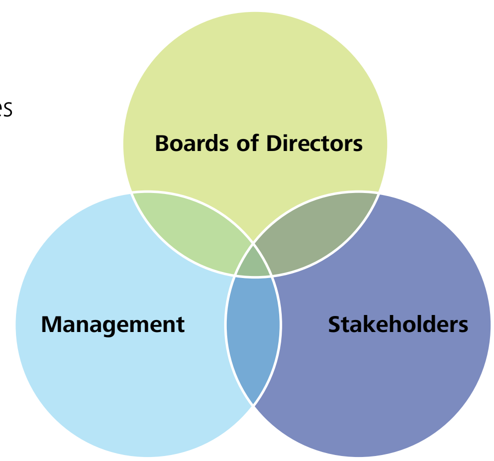
NPOs play an important role in our society, providing a wide range of services in areas such as health care, education, religion, social support, industry and professional programs, amateur sports, and fundraising for medical research and public awareness. All publicly accountable organizations, including NPOs, face numerous critical challenges in responding to the growing expectations of their stakeholders in an increasingly complex operating environment. Under these conditions, well-governed organizations have proven to be more effective, and more likely to succeed, than poorly governed ones.

To accomplish their goals successfully, NPOs require a robust system of governance, at the head of which must be an effective board of directors.

What is governance?

Governance refers to the processes and structures used to direct and manage an organization's operations and activities. It defines the division of power and establishes mechanisms to achieve accountability among stakeholders, the board of directors and management.

Good governance systems are designed to help organizations focus on the activities that contribute most to their overall objectives, use their resources effectively, and ensure that they are managed in the best interests of their stakeholders.



Why is governance so important to NPOs?

Today, NPOs must not only *be* well governed, but must also *be seen to be* well governed. This is of critical importance if they are to successfully meet the challenges created by:

- Reduced funding from traditional sources, such as governments, corporations and private donors
- Competition from other NPOs facing similar funding difficulties
- An increased demand for services, a result of downloading or program cuts by governments
- The need to manage more complex and sophisticated entities, as many NPOs grow in size and complexity
- Heightened accountability and expectations on the part of an expanding number of stakeholders, who may have conflicting expectations for the NPO
- Rapid dissemination of information through social media, which can quickly affect the way an organization is perceived, and
- Difficulty in recruiting quality board members, who may choose not to join the NPO's board for reasons of time constraints or concerns about liability.

The media has often reported cases of NPOs that have suffered from poor management, an ineffective board or both. However, the objective of good governance is not just to avoid embarrassing headlines. Governance deficiencies can damage an NPO's reputation, detract from its fundraising ability and hamper its ability to meet its objectives. Increasingly, governments and corporate and private funders are asking NPOs to provide information on their governance system in order to demonstrate that their donated monies are being well spent and used for the purposes they intended.

In summary, the objective of good governance is to ensure that the organization achieves its objectives by being able to put forth its best efforts to implement its strategies and make the best use of its resources.

Mandate & responsibilities

Boards of every organization must clearly understand and agree upon their responsibilities and mandate. This is particularly important for NPO boards, given their diverse nature and the various mechanisms by which NPOs are constituted.

Challenges for NPOs

In smaller NPOs, some board members may assist management with certain duties in line with their respective expertise. For example, a banker or accountant may serve as the NPO's treasurer or controller. In these situations, the board should ensure that these directors do not participate in the oversight of the activities they undertake for management in order to avoid any potential conflict of interest.

The board mandate

To help ensure that they discharge their stewardship responsibilities effectively, regulators recommend that boards of publicly-listed companies adopt a formal mandate that sets out the responsibilities of the board and its committees, in particular those decisions that require the prior approval of the board. NPO boards would similarly benefit from having a formal mandate.

The purpose of the mandate is to ensure that no expectation gaps exist between the board, management and other stakeholders with regard to the board's role. The mandate should clearly define the board's authority, responsibilities and accountabilities. It should also serve as a key component for various board activities. For example, the mandate is the basis of the board's "work plan," which is a translation of the board's agreed upon responsibilities (as outlined in its mandate) into agenda tasks to ensure that each responsibility is addressed appropriately. The mandate also provides a foundation for the board's self-evaluation of its effectiveness in carrying out its responsibilities.

Board committees should have their own mandates, often called "charters," that describe the way in which they carry out the duties and responsibilities delegated to them by the board.

Typically, a board mandate includes components that provide descriptions of the board's:

- Responsibilities
- Composition, including the size of the board, how board members are identified and criteria for board membership and board committees
- Key processes, including the number of board meetings, procedures for setting agendas, minutes, and
- Evaluations, accountabilities and required reporting.

Once approved, the board should publish its mandate so it is available to all members of the board, management and other stakeholders. A best practice is to include the board's mandate in the Annual Report and to post it on the organization's website.

Because the NPO's operating environment is dynamic, the board should review its mandate annually in order to reassess its responsibilities to ensure they are appropriate for the circumstances facing the NPO.

A sample board mandate and a sample audit committee charter are included in the appendices.

Board responsibilities

In profit-oriented organizations, the board's basic responsibilities are established by statute, regulation and case law. In addition, most boards also assume broad responsibilities for other areas that the board has identified as being critical to the organization's success.

NPO boards have similar responsibilities and must ensure that they fully understand their legal obligations as they are defined under the NPO's documents of incorporation and bylaws, and applicable federal, provincial and municipal laws and regulations. Reassessing the laws and regulations that apply to the NPO at least annually will help ensure that the board's responsibilities remain up-to-date.

Boards of NPOs should also consider carefully the responsibilities they will assume in addition to the minimum legal obligations. The board is ultimately responsible for the NPO, despite the fact that it usually delegates the authority for running the organization to a CEO[1] and a management team. The board's primary role is stewardship: overseeing management and ensuring that the NPO's affairs are being conducted in a way that achieves the organization's objectives.

[1] The title given to the senior management officer varies between NPOs. Some are referred to as Executive Directors or Presidents. In this booklet, we use the term CEO to refer to all of these positions.

Deloitte Governance Framework

An organization's infrastructure provides the underlying foundation for the Deloitte Governance Framework (the "Framework"). This infrastructure is the aggregate of operating models – the people, processes and technologies – that have been put in place to govern the organization's day-to-day activities, including the processes for accumulating information and reporting that information to the board and stakeholders. This underlying foundation is represented by the light blue band that encircles the Framework.

The board's role within the governance infrastructure may vary from one organization to another. Some boards oversee processes while others may be an active participant in them. For this reason, the Framework depicts the board's responsibilities for the oversight of the various elements as a flexible overlay, with the level of the board's participation in the related operating model decreasing from top to bottom. Risk and culture are at the Framework's core since they influence and impact the effectiveness of all elements of governance.

For elements depicted in the bottom of the Framework, most boards act as a monitor, delegating the day-to-day responsibility for those processes to management. The board's role is to understand the operating models that are in place, determine that these models are adequately developed and resourced, and monitor their output and any issues identified in the process. In most organizations, four elements of the governance system fall into this category – programs that provide controls over the planning, operations, reporting (both internal and external), compliance and risk management.

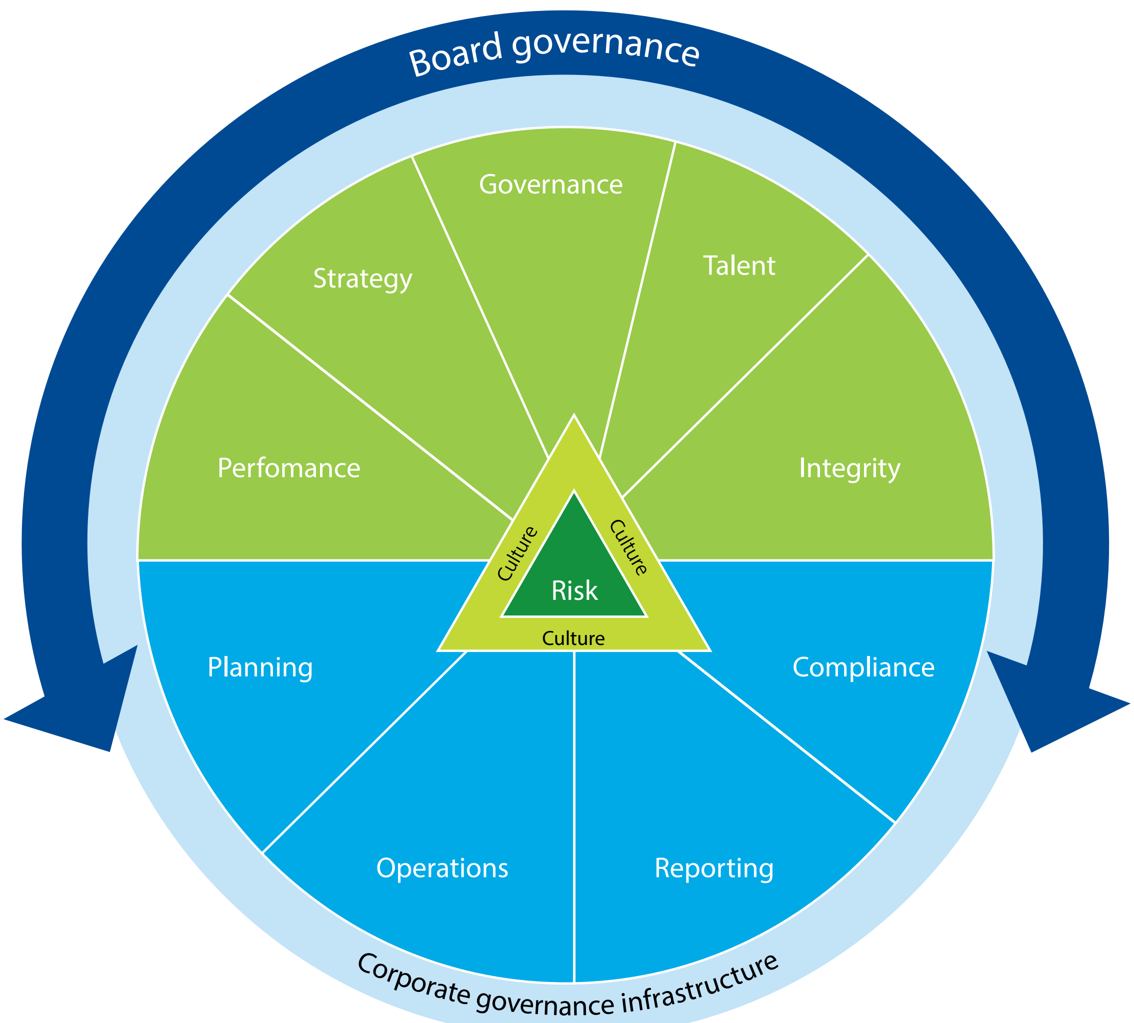
Challenges for NPOs

Although directors of NPOs serve as volunteers, their responsibilities – and associated liabilities – are generally no different than those of compensated directors of for-profit organizations.

NPO directors should ensure that they fully understand their role, responsibilities and liabilities. If they are unable or unwilling to devote the required time and effort to diligently carrying out their duties as a director of the NPO, they should resign from the board.

Generally, boards take a more direct role for the elements at the top of the Framework, each of which is discussed below.

Deloitte Corporate Governance Framework



A robust and dynamic risk management system enables an organization to withstand crises that can arise out of nowhere and at any time.

An effective board must verify that the system in place helps to identify both high and low risks, which might prove disastrous for an organization. It must also provide for appropriate measures to mitigate the consequences of each of those risks. By adopting a crisis management plan, the board will ensure a quick and effective response by executing the planned strategy.

Robert Panet-Raymond, ICD.D., chairman of the audit committee
Université de Montréal

Risk and Culture

Risk and culture are at the Governance Framework's core since they influence and impact the effectiveness of all elements of governance. Managing risk, therefore, is one of the board's most important responsibilities.

Every organization faces a range of risks – strategic, financial, operational, compliance and more. Some of these risks may be identifiable, while others could be unknown and unanticipated. The failure to effectively manage any of these risks could harm the NPO's reputation, and perhaps even its ability to achieve its objectives. For this reason, boards should ensure that management puts in place appropriate systems for the timely collection, analysis and reporting of risk-related information so that appropriate action may be taken to manage risks.

Each activity an organization undertakes to achieve its objectives contains an element of risk. For example, a new information system that improves fundraising contains the risk of generating inaccurate data, having its security breached or failing altogether. An important component of risk management, therefore, is risk tolerance – knowing when and how much risk the organization should assume in order to pursue an opportunity.

An organization's risk tolerance is based on many factors, including its financial resources, its donors and other funding sources, the expertise and abilities of its staff and volunteers, how well regarded it is in its community and so on. Generally, the stronger the organization is in terms of these factors, the greater its capacity for taking on risk.

Another important element of risk tolerance is risk appetite. Individuals and organizations with a more conservative attitude toward risk are usually less comfortable and less willing to take on risk than those with more aggressive risk appetites.

An important element of the board's oversight of risk management is to determine the NPO's risk tolerance to ensure an appropriate balance between the opportunities and their inherent risks.

Risks are also dynamic and, therefore, organizations need to keep their risk profiles aligned with changes in their operating environment. As a best practice, organizations should assess the inventory of risks to be monitored at least annually. The occurrence of significant events (e.g., a natural disaster, loss of an important donor, a new IT application, a new shared service arrangement, or new regulations) should result in the immediate re-evaluation of the NPO's risk profile and its implications for its risk management strategy.

“NPOs and boards need a better understanding of today’s donors. They cannot assume that current levels of philanthropy will remain unchanged in the future. Many will need to make fundamental changes to their fundraising strategies to ensure their continued financial viability. ”

Yuri Fulmer, Chair
United Way of the Lower Mainland

Although, management has the primary responsibility for assessing risk, the board is responsible for overseeing the process management puts in place for identifying, assessing and mitigating risks to the organization. The board should ensure that management:

- Determines the specific risks that might arise as a consequence of the organization’s business model, strategy and operations, thereby identifying and prioritizing risks in the context of its unique characteristics and operating environment
- Assesses the potential impact of each identified risk on the integrity of financial reporting, as well as on the organization’s strategy, operations and compliance activities
- Aligns each risk with the organization’s objectives for creating and preserving value, including specific processes or functional areas in which that risk may occur
- Assigns responsibility for monitoring, responding to, and controlling each risk, or set of risks, to the appropriate individuals
- Monitors and reports on changing risk conditions, and
- Establishes formal communication and escalation protocols regarding risk response, control performance, and changes to the organization’s risk profile.

Strategy

Board members need to understand the key factors responsible for the organization’s success since one of the board’s primary responsibilities is to ensure that the organization has developed a strategy that aligns its mission with the short- and long-term vision of its stakeholders.

The board does not need to develop a strategic plan for the NPO on its own. Instead, its responsibility is to satisfy itself that a planning process has been established for the organization, that the process is used to develop a strategic plan and that the plan is being implemented effectively. Usually, boards delegate the responsibility for carrying out these planning activities to management. In smaller organizations, however, strategic planning is often a collaborative effort between the board and management.

The board’s role is to provide an independent challenge of management’s key objectives and assess whether management’s strategy is reasonable in relation to the risks involved, the resources required, and the benefits to be achieved. Boards should ensure that management’s strategic plan is aligned with the organization’s mission and values, that it effectively addresses the associated risks and that the risk/opportunity balance is appropriate given the NPO’s risk tolerance. In this regard, boards should focus both on the risks *to the strategy* and whether the NPO has an appropriate strategy that takes calculated risks to create value. In addition, boards should also ensure there is an understanding and awareness of the risks *of the strategy*, including those risks associated with the assumptions on which the strategy is based, and that those risks are appropriate given the board's agreed upon risk appetite for the NPO.

Once the board has approved management's plan, it should establish a process to monitor its implementation, including the provision for amendments in response to changing circumstances.

The strategic plan should take into account, among other things, the opportunities and risks of the organization. Therefore, it is important that board members have a clear understanding of the role and purpose of the NPO as a whole, which are set out in the NPO's mission, goals, documents of incorporation, by-laws and policies. The board must also be cognizant of the expectations of the NPO's stakeholders, which should be considered in the NPO's planning.

Integrity

Good governance is more likely to thrive within organizations with strong ethical and behavioural attributes, such as open communication, commitment to the organization, accountability for actions and results, integrity and respect for individuals' rights and privacy. That is because good governance requires an environment where board members don't feel inhibited. They openly ask questions, confront issues and say "no" when necessary, in a constructive manner. Often, the test of this environment comes in times of stress; when things go wrong, is the culture one in which the priority is to fix the problem or attribute the blame?

Culture is not always easy to identify or define. To the extent that an organization articulates its culture, it does so through things such as codes of conduct and statements of values. For example, policies regarding the treatment of employees or confidentiality of donor information can be effective tools in helping to establish and monitor a culture that is supportive of effective governance.

If such a code of conduct does not already exist for the NPO, the board should consider whether the lack of such a code might inhibit the NPO's ability to ensure the ethical behaviour of board members and management.

Tone at the top

Boards and senior management set the "tone at the top." Their behaviour has a pervasive effect on the NPO as a whole and upon its stakeholders' perceptions of it. For example, is the board seen to be open, upfront and honest in its dealings with its own members and with others in the organization? Do individual board members share a sense of accountability to other members of the board and to the organization's stakeholders? Do the board and management stress the importance of the organization's values and live up to the organization's codes of conduct in their behaviour and actions?

While the board can affect the culture of the organization, it is also affected by it. That is because the board depends upon the entire organization to provide it with the information it needs in order to function. Clearly, the board will be able to place a higher reliance on the integrity of this information when it is generated in an environment that is supportive of positive governance.

Code of ethics

Many organizations articulate their culture through a code of ethics or code of ethics. Since each organization's culture is unique, its Code will also be unique and tailored to its specific circumstances. Generally, however, an organization's Code should include the following elements:

- An introduction from the organization's CEO that clearly indicates management's support and endorsement of the Code, the importance of good ethical behaviour, and the expectation for each employee and volunteer to comply with the Code
- The NPO's vision and mission statement, along with other values and principles that set out at a high level the organization's commitment to ethics and integrity
- Resources for employees – for example, a website that lists the Code and additional information around ethics, helpline information, examples of activities that would be considered acceptable and unacceptable behaviour, etc.
- Reporting framework – name of the organization's chief ethics and compliance officer, identification of a hierarchy for reporting ethical breaches (e.g., immediate supervisor, department head, etc.)
- "Whistle-blower" guidance – protocols for employees to follow to report suspected breaches of the organization's code, including protocols for reporting problems anonymously
- Accountability and enforcement information – general rules around disciplinary actions to be taken in situations of unethical behaviour

Performance

As part of their oversight of the organization's strategy, many boards take an active role in reviewing the annual operating and financial plans designed to achieve strategic objectives. Since the organization's strategic plans are based on assumptions about the organization's operating environment and other factors that may change at any time, a growing number of boards take time at each meeting, or every other meeting, to monitor the organization's ongoing performance towards achieving its operating objectives.

In its review of the organization's annual plans and the ongoing execution of them, boards should ensure that the appropriate resources are being applied to achieve the objectives, associated risks are being managed effectively, and that the organization is making progress towards achieving its annual goals. To do so, the NPO needs to have implemented well-designed controls and information systems that enable management – and the board – to evaluate operational effectiveness and efficiency, compliance with laws and regulations, and the reliability of management and financial information.

Challenges for NPOs

Traditional financial measures and ratios are not always applicable to NPOs that need to measure performance in terms of donations, memberships, grants, total expenses and a variety of non-financial measures.

NPOs need to explain their performance to stakeholders beyond pure financial results. Integrated reporting is part of the solution.

Integrated reporting is designed to collate all the relevant data about an organization's strategy, risks and opportunities, risk management, environmental and societal impacts, as well as its financial data and results.

Organizations should present this information in a report that is transparent, focused on long-term value creation as well as short-term contribution to wellness, and explain how all these elements form a coherent whole.

As the reporting requirements of NPOs continue to grow, NPO's need information systems that are capable of generating information at the required level of detail and with appropriate timeliness. Reports should give the board the ability to understand whether the organization delivered results in line with expectations and, implicitly, how well management has understood the organization's stakeholders' expectations, executed its strategy and managed the organization's resources, risks and relationships.

The reports should also enable the board to focus on the critical performance measures and indicators that management uses to assess and manage the organization's performance against stated objectives and strategies, question any exceptional results and adjust strategy and plans accordingly.

Talent

Since the board delegates the task of running the NPO to management, it is the board's responsibility to ensure that the right CEO and management team are in place. Ideally, boards should formally define their expectations of management, which includes setting clear objectives for the CEO, defining the CEO's responsibilities, setting out performance measures and targets, monitoring the CEO's performance against those targets, and setting out the CEO's remuneration. While the board should support its management team, its basic role is to question, scrutinize and actively monitor management's decisions, operations and compliance with plans and policies. Board meetings should include time for the board members to constructively question, test and challenge management's views and proposals.

Challenges for NPOs

NPOs typically have fewer financial resources when competing for talent. As a result, many NPOs typically emphasize the non-financial benefits intrinsic to their workplaces.

As part of these responsibilities, most boards develop and monitor a strategy for longer-term management succession. Except for very small NPOs with few paid staff, most of these strategies include ensuring that a "leadership pipeline" exists within the organization to help develop future leadership candidates.

In most organizations, talent is the essential resource that distinguishes the organization from its competitors. Without the right people to execute and deliver its strategy and objectives at all levels, the organization will fail to reach its full potential. For this reason, many boards have extended their oversight of the organization's talent beyond the management team and leadership development process to include all aspects of talent.

Boards should pay close attention to the organization's talent-related risks and the way those risks are being addressed by management. Talent-related risks may include a lack of succession planning; planned or sudden loss of key personnel; lack of return on leadership investment or senior external hires; and failure to attract, develop and retain talent. Ineffective talent planning can also affect the NPO's ability to support capital investments and achieve its business strategy.

Directors should provide management with the benefit of their own insights to help in identifying and reducing talent risks and to ensuring that the organization's talent strategies are integrated effectively with its business strategies.

Issues for boards to consider

Governance

- Does the board understand the key elements essential to the NPO's success (for example, reputation in the community, status as a charitable organization, active support of volunteers, key employees, funding and the continuing need for its services)?
- Is the board actively involved in approving objectives for the management team and in monitoring management's performance?
- Has the board identified the NPO's various stakeholders, the expectations each stakeholder group has for the NPO and the appropriate methods of communication to and from each?
- What internal controls exist over the use of resources, approving expenditures and investing funds? Is the board responsible for reviewing and approving budgets? What decisions need board approval?
- Has the board articulated its responsibilities in a formal mandate and published its mandate so it can be read and understood by management and the NPO's stakeholders?

Risk and Culture

- What are the organization's policies and processes for assessing and managing major risk exposures on an integrated, enterprise-wide basis?
- What are the key risks, vulnerabilities and plans to address them?
- Has the organization defined its risk appetite with the board's input and approval?
- Does the board consider the relationship between strategy and risk?
- Is the board getting the information it needs from across the organization to enable it to make key decisions?

Strategy

- Does the board provide "active oversight" in developing the strategy?
- Does the board possess a good understanding of the risks to the strategy – those that may limit value creation or even cause the strategy to fail – and the risks of the strategy – those associated with each scenario of the strategy?
- Does the board ask probing questions, including those that challenge assumptions of the strategy presented?
- Does the board assess potential new risks the strategy can create? Can those be managed?
- Does the board prepare for a scenario where its strategy fails? What risks and rewards do other paths represent?

Integrity

- What is the board's role and responsibility for setting the organization's values and its philosophies?
- Does the NPO have a code of conduct that governs the behaviour of board members, management, staff and volunteers? Is the code understood and reflected in the NPO's policies? Is there a policy regarding whistle blowing?
- Is the board satisfied that stakeholders' concerns have been adequately addressed and that their interests have been incorporated in the NPO's code of conduct and other value statements?
- Does the organization encourage an environment in which information is exchanged freely within the NPO, while respecting confidentiality? Does an atmosphere exist in which people feel they can ask questions openly?
- Do the board and management set an example in exhibiting their commitment to the organization and its success?

Performance

- How often does the board review the organization's performance and its progress towards achieving its annual goals?
- Does the board receive the appropriate information in terms of scope, level of detail and timeliness, necessary for directors to understand the organization's performance?
- Are the organization's annual goals realistic and achievable or does the organization often need to make mid-year adjustments to its target objectives?
- Is the board satisfied that the organization is using its resources appropriately and that stakeholder objectives are being met?
- Does the board communicate its analysis of the organization's performance to its stakeholders in a clear and transparent manner with an outlook where it discusses its expectations of the next short to medium term?

Talent

- Does the board clearly understand the skills and expertise required to manage the NPO?
- Is the board actively involved in approving objectives for the management team and in monitoring management's performance?
- Does the organization have a robust "leadership pipeline" in place? What strategies does management follow for recruiting, retaining and developing future leaders for the organization?
- Which demographic trends are affecting – and are likely to affect – the organization and its ability to execute its plans? Is the board aware of other talent-related risks facing the organization? How are they being addressed?

Organization & resources

The way in which the board is structured can affect its ability to provide effective stewardship. The board should be independent of management so it can be objective when monitoring and assessing management's activities. As part of its mandate, the board should describe its structure, responsibilities and authority, and those of each of its committees.

Qualifications of board members

The board should consider the qualifications it requires of individual board members in order for them to contribute effectively to carrying out the board's responsibilities.

As demands placed on boards increase, boards face a growing challenge to recruit directors with the experience and expertise the board needs to fulfill its mandate. The board should develop a board skills matrix that clearly describes the role and expectations of directors, and their required expertise and commitments. Undertaking a skills gap analysis helps to identify areas of required expertise that may be missing among the current board members. (Appendix D presents a sample skills matrix that NPOs may use to perform such an analysis.)

Boards need directors who are willing to devote the time required to effectively carry out their role as a director; and have expertise in various areas – fundraising, networking, risk, talent, technology, finance, sustainability, social media and more – that may impact the organization. In addition, many boards need directors who can assist the organization in communicating with stakeholders and educating, developing, coaching and mentoring the organization's people, including management. Depending on the organization and its circumstances, some boards may need directors with unique experience, such as expertise in dealing with regulatory agencies.

Challenges for NPOs

Recruiting and retaining qualified independent directors is challenging for any organization, particularly for NPOs where directors normally serve as volunteers. Nevertheless, NPOs need balanced, diversified and fully committed boards.

One strategy for building such a board may include recruiting younger professionals looking to acquire directorship experience and to share their knowledge. Many such professionals are socially conscious and want to contribute to their community. Consider approaching local professional or industry associations to advertise any directorship positions.

One important skill set sometimes overlooked by NPOs is financial literacy. Directors who sit on the audit or finance committee should be financially literate. These directors should be able to read and understand financial statements, understand accounting policies, estimates and judgments when presented by management and the independent auditor, and understand how the organization's activities may impact its accounting policies.

One of the most important requirements is that the majority of the board's members be independent (in other words, free from any interest, business or other relationship with the NPO that could, or could be perceived to, interfere with the person's ability to act in the NPO's best interest, and also be independent of management). When a director is not independent of a specific issue, he or she should refrain from being part of any related decision. While some NPO boards are required to reflect particular constituencies among their members, all board members are accountable to all of the organization's stakeholders, and not to specific interest groups (such as those from a particular geographic area, or individual stakeholders or specific groups within the NPO).

Challenges for NPOs

Smaller NPOs may have difficulty attracting sufficient numbers of qualified directors from outside their organizations. As a result, their boards may include members of management and others from within the NPO. These directors should only participate in board meetings in a non-voting capacity.

When assessing its membership, the board should consider the following factors, which are usually included in its charter:

- The methods it uses to assess current competencies among its members and identify gaps in director experience and board needs
- Roles and relationships between the board and management and the extent to which the board provides – and management uses – advice and guidance
- Required board level expertise related to the organization's industry, products, services and business processes
- Processes the board – and boards of peer organizations – use to ensure that board members have the required expertise, experience and skills, and
- Performance benchmarks that enable board and committee members to gauge their effectiveness and whether they are improving.

In addition, board members are expected to be:

- Accountable for their actions and those of the organization
- Aware of the operations of the organization
- Giving of their expertise
- Assertive in questioning issues and in challenging management and other directors
- Available, in terms of their time, to attend meetings and help carry out the business of the board, and
- Cognizant of the NPO's environment and its risks.

"Director candidates should clearly define why they want to be a board member and what they can bring to the board. They should have a true interest in the board's and organization's activities and bettering the outcomes. Boards can avoid inviting candidates who only want to build their resume by having an open discussion about the candidate's motivation."

Gord Holloway, President
Institute of Chartered Accountants of British Columbia

The board chair

The choice of who will chair the board is one of the most important decisions a board will make since the effectiveness of the board and its chair is generally synonymous.

The board chair must possess all of the traits and capabilities of a good board member. In addition, the chair must be able to provide leadership and convey the board's "vision" to management and the NPO's stakeholders. It is also important that the board chair have the authority and force of personality to be able to control the board's agenda and its meetings, and the determination to hold management accountable for its actions.

Size of the board

NPO boards should periodically review their size and membership to ensure that they are conducive to effective decision-making. For example, if the board is too large, individual members may lose a sense of personal accountability for board decisions, or decision-making can become unwieldy. On the other hand, a board that is too small may mean that board members are stretched too thin to be able to address all of their responsibilities to the appropriate depth. If the board is required to reflect particular constituencies (such as national NPO boards, which often must have a representative from each province or region), are meetings organized so that these members can participate by telephone or electronically?

There is no "one size fits all" answer to the challenging issue of ideal board size. However, experience suggests that a board of 12 to 15 persons seems to work well. That being said, certain circumstances warrant smaller or larger numbers. If a very large board is necessary to reflect a broad constituent base, then a strong, empowered executive committee may be the answer.

Board committees

Today, boards conduct an increasing amount of their work through committees. In the corporate world, regulators have promoted this practice. For example, they have placed more responsibilities on audit committees and compensation committees.

In many instances, members of key board committees may have a degree of responsibility above those of other board members, in light of the role these committees play in the governance process. This might be the case for members of an executive committee that has the authority to make decisions on the board's behalf between board meetings.

Each NPO board should carefully determine the committees it needs and be sure that the roles, responsibilities, membership, etc. of those committees are appropriate and clearly defined.

Audit committee

The audit committee is now a vital element in corporate governance. NPOs with an audit will also benefit from an audit committee, ideally comprised of three or more independent board members who have experience in financial reporting. The audit committee's responsibilities include:

- Helping to ensure that the audit is conducted in an efficient and cost-effective manner
- Overseeing the NPO's financial systems and internal controls
- Recommending to the board approval of the NPO's annual audited financial statements and
- Recommending to the board the independent auditor for appointment or replacement, approving and overseeing the independent auditor's activities, and approving the appropriate fee.

Although a governance best practice is to have separate audit and finance committees, in smaller NPOs the finance or resources committee often assumes the audit committee's responsibilities.

Nominating committee

Most public company boards have a nominating committee responsible for proposing new members to the board. Many NPO boards will likely also find it useful to have a nominating committee. For example, in some NPOs, board members are elected by the NPO's membership at large. While this is highly democratic, it may not produce the mix of directors needed to form an effective board. Boards need members who work well as a team, bring the necessary expertise to the board, and are able to best represent the interest of the NPO as a whole and not just a particular constituency.

A formal nominating committee also helps the board to plan the terms and rotation of its members. This can provide continuity among the board members as a whole.

Governance committee

An increasingly common practice among corporate boards is for them to have a governance committee. NPO boards could also benefit from this practice and many have already done so.

The governance committee is responsible for ensuring that an appropriate governance model is in place and for coordinating the evaluations of the board, its committees and individual board members. The governance committee is also responsible for ensuring the compliance of the board, management and others with the policies and procedures of the board and the organization.

Some boards integrate the responsibilities for governance oversight and director nominations in the mandate of a governance committee or a combined governance and nominating committee.

Orientation and continuing board education

Orientation and education programs are a best practice that help speed the time it takes for new directors to become productive members of the board. NPO boards should establish a formal orientation program to help ensure that new board members clearly understand their responsibilities and the role, structure and processes of the board, ensure that they are familiar with the issues facing the organization, and accelerate their ability to contribute to the board's business and the matters currently under consideration by the board. Among the essential program ingredients are a practical briefing book and a discussion with the board chair regarding issues and expectations.

Another governance best practice is the provision of continuing board education, either during an annual board retreat or throughout the year as part of, or in conjunction with, board meetings. The objective of these sessions should be to keep board members up-to-date on emerging issues, such as relevant new laws, regulations and governance best practices.

Challenges for NPOs

Finding the time, money and expertise for structured learning for directors may not be possible for many NPOs.

Instead, these NPO boards should look for free or inexpensive learning resources available through the Internet. The NPO's business advisor may also help the board to identify its learning needs and to find low cost education of quality available on the Net or offered locally by associations or other organizations.

Issues for boards to consider:

- Does the board’s mandate describe the structure (number and qualifications of members, board leadership, responsibilities, etc.) for the board and each of its committees? Does the board periodically review this documentation for accuracy and relevance?
- How long does a person normally serve on the board? If there is a high turnover of members from year to year, what processes facilitate the continuity of policies and actions? Is there a succession plan for the board?
- How are new board members selected? Is there a nominating committee? Does the volunteer nature of board membership affect its ability to attract and retain board members, particularly in an increasingly litigious environment?
- Does the NPO have an audit and, if so, is there an audit committee? If the NPO has a combined finance/ audit committee, what steps are taken to see that this committee devotes sufficient time to its audit responsibilities?
- Does the board have an orientation program for new members to enable them to more quickly get up to speed and be able to participate effectively on the board? Is there a continuing education program?

Information & processes

The board's responsibilities and organization are both important. However, without the appropriate information and processes to support the board's activities, "effective governance" is only an intention and not a reality.

Board information

Boards must ensure that they have the information they need to assess the activities of the NPO and its management. The quality of discussion at the board's meetings will depend, in large part, on the quality of the information provided to the board. This information must be complete, yet not so detailed that it is too focused on operational matters or becomes too unwieldy for board members to absorb. The appropriate level of detail should be determined by the board, together with management, based on a common understanding of the reasons why the board requires the information and its uses for that information.

The board chair is responsible for ensuring that the board's information needs are met. Normally, it is management's role to produce the required information in a timely and meaningful way. The chair should clearly communicate the board's expectations to management and review the material provided by management prior to its distribution to the board. In setting the board's expectations for management with regard to its information needs, the board should consider the:

- Issues and activities about which it needs to be kept informed by management. For example, the board may wish to receive periodic reports and assurances from the CFO on the NPO's investment activities, that the NPO is in compliance with all applicable tax obligations including payroll withholding, sales tax, timely filing of returns and that the NPO's activities do not contravene those permitted under the tax regulations
- Timing of the delivery of information to the board
- Quality of the information, including the expected level of detail
- Format of the information (written or through presentations made by management or others)
- Expectations of the board chair with respect to meeting agendas, and
- Requirements of the board chair for reviewing information material before it is distributed to the board as a whole.

By making clear their expectations regarding their information needs, boards can better ensure that they are able to hold effective discussions about key issues among themselves and with members of management.

Audit and other information

While management is primarily responsible for providing the board with the information it requires, there will be instances when that task falls to others. Some of these matters will be routine. For example, in NPOs with audits, the board (or its audit committee) will receive a report from the independent auditor on their audit activities. Because this is a recurring reporting relationship, the board may wish to set out its specific expectations for the independent auditor regarding its information needs.

On occasion, the board may wish to seek outside advice on issues where there is not sufficient in-house expertise. Examples of such special needs may include a lawsuit, a significant reorganization, a major financing transaction, or the need for assistance with information systems.

The board's work plan

The board's written mandate or charter, together with the organization's strategic plan, should be translated into a work plan for the board. This will ensure that the board carries out all of the responsibilities and duties outlined in the mandate and remains focused on the organization's objectives.

Preparing a board work plan is a straightforward process. The board chair, in consultation with management, should allocate each responsibility identified in the mandate to a specific meeting agenda and the date at which the item will be discussed. The work plan should also identify the board's information requirements for each item and identify who should be accountable for providing the board with that information.

To facilitate this effort, the board may wish to consolidate responsibilities of a similar nature, for example, environment, conflict of interest, appropriate board expenditures, financial, personnel/human resources, human rights, diversity, discrimination, etc.

Board meetings

The practical aspects of board's meetings are important, and can have a big impact on the board's effectiveness.

The board chair and the CEO should agree on the agenda for each board meeting, which should devote appropriate time for discussion of each of the board's primary responsibilities. When necessary, there should be time allocated for additional matters not included in the board work plan that management, the independent auditor or others may wish to put before the board. Board members should also be able to provide input to the board's agenda.

Board meetings should also be scheduled to include time at the end of each meeting for the board members to hold an *in camera* session (i.e., without management present) to give the board an opportunity to discuss sensitive issues in a timely and confidential manner. *In camera* sessions should also be held periodically with the independent auditor, the head of internal audit, the in-house legal counsel and the external legal advisors, where applicable.

If board members are unavoidably absent from a board meeting, they should receive sufficient information to enable them to understand the decisions that were made. They should also have the opportunity to record their dissent should they disagree with any action taken.

Minutes

In NPOs where board members serve for comparatively short terms, there can be a danger of the board losing its "collective memory" of past decisions. (This occurs when none of the members that made a particular decision is still on the board when that decision is reviewed in later years.) Boards should document their discussions and decisions in sufficient detail in a way that makes them easily accessible and understandable by future boards. For example, resolutions should be captured in a board policy document. Clear, detailed and organized minutes will also support directors' due diligence defence should a liability claim arise.

Issues for boards to consider:

- Has the board determined the information it needs in order to fulfill its responsibilities? Does this information permit the board to assess the NPO's performance on key success factors, other than just financial ones? Has the board conveyed to management its expectations regarding its information requirements?
- How are board meetings structured? Has the board translated its mandate into an effective work plan? Is sufficient time provided for an appropriate discussion of important topics? Who sets agendas? Are meetings too long, too short or too infrequent? Do all board members have the opportunity to participate fully at board meetings? How well are meetings attended? If a board member is absent from a meeting, can he or she record dissent with any decisions?
- Does the board maintain formal minutes of its meetings with adequate documentation of decisions and the reasons for them? Does the board have access to this material from past years?
- Are resolutions and policies of a similar nature consolidated and updated on a regular basis?

Monitoring & accountability

To ensure that it continues to function effectively, the board should monitor its own performance and that of its committees and board members by conducting a formal assessment on a periodic basis. The board should also report regularly to the organization's internal and external stakeholders on its activities. Both of these efforts should complement the NPO's activities in monitoring and reporting on the organization's overall performance.

Performance assessment

A corporate best practice is for the board, its committees and individual board members to be periodically assessed in terms of their effectiveness in carrying out their responsibilities. This is an activity that would also be of benefit for NPO boards. The quality of the assessment, and the way in which it is used, will contribute to the board's ability to continually improve its performance.

Self-assessment against planned targets, third-party reviews, benchmarking and confidential peer reviews are four popular assessment methods. Regardless of the chosen approach, there are two fundamental issues for the board to address in assessing its performance:

- Is the board satisfied that it has effectively discharged its responsibilities as set out in its mandate?
- What suggestions do board members, management and others have that would enable the board to improve its operating efficiency and effectiveness?

When boards evaluate their qualifications and performance, they should consider the specific skills required for the board, its committees and individual directors to carry out their responsibilities effectively. In their assessment, boards need to determine the extent to which those skills exist and whether they have been properly exercised or if there is a need for any skills improvement. Then the board, or a subset of the board, can craft a plan to address the board's talent needs. For example, new directors with required experience and expertise might be recruited to succeed board members whose terms are coming to an end. Continuing board members' skills needs may be addressed through board education programs.

Instituting term limits for directors is another way to round out the composition of the board and replenish boardroom talent. Director term limits allow boards to manage a constant inflow of new talent to the board. Without these types of policies forcing director turnover, boards might face the need to replace a large number of directors and their expertise and knowledge all at one time, and could suffer from not having new talent bring new ideas and experiences to the role.

Appendix C presents a sample board performance evaluation form.

> "An effective board member is someone who can critically assess information that is presented to him/her, understand the difference between "governance" and "operations," and add to the diversity of skillsets around the board table. He/She also understands the environment in which NPOs operate, adding value to board's discussions."

Joshua Dougherty, Chair, Governance Committee
Victorian Order of Nurses of Canada

Public accountability and liability

Corporate boards of directors are accountable for their actions or omissions, and NPO boards and board members are also exposed to a growing personal and collective liability. This risk can result from the actions of the board or the organization as a whole. Even though NPO board members are volunteers, their liability is the same as that of remunerated members of corporate boards. To demonstrate that they have acted responsibly, directors must consistently:

- Act in good faith, in the best interests of the NPO
- Avoid conflicts of interest
- Be diligent with regard to board meetings and obtaining information, and
- Obtain a degree of confidence in monitoring the CEO's integrity and ability.

The potential liability risks can affect an NPO's ability to attract good board members, and may inhibit the effectiveness of those already on the board. If they have not already done so, NPO boards should consider purchasing liability insurance for board members and key management officers. Board members should be fully briefed about the policy and its coverage to ensure they are aware of any limitations or additional exposure that may arise through their membership on particular board committees. In many cases, boards can institute measures to mitigate these residual risks.

Communication

A governance best practice is for the board to take responsibility for determining the organization's communications with its stakeholders. Boards should determine how the NPO will communicate with stakeholders, the kind of information it will disclose, and the conditions under which disclosures will be made. It should also determine the individuals within the NPO to whom the board will delegate the authority to speak publicly for the organization. This may include a policy under which the board itself will liaise directly with a group of stakeholders, such as major donors or long-time volunteers. The board should also consider the way in which stakeholders can best provide feedback to the NPO, and how that information is used.

NPO boards should approve the content and distribution of the NPO's financial statements and its annual report. This includes any required disclosures to regulatory authorities or funding bodies, including reporting to tax authorities.

As part of their accountability to shareholders and others, publicly listed companies are required to report publicly on their governance practices. Although no such mandated reporting requirement exists for NPOs, their boards should nevertheless determine their own policies for disclosing their corporate governance practices. Forthright, voluntary information on governance may enhance the likelihood of support from a funding agency or donor. Some major funders already demand governance information in the application forms. Such disclosures may include publishing the mandates of the board and its committees.

Issues for boards to consider:

- How does the board currently assess its own performance and that of its committees and individual board members?
- Which individuals or groups are involved in the assessment process? Is it documented?
- How does the board deal with the issues raised in its assessments in order to foster continuous improvement?
- Are directors briefed periodically on their potential liabilities? Has the board taken out directors and officers liability insurance?
- Has the board determined whether reports on its performance, and on the governance processes of the NPO as a whole, should be provided to the key stakeholders?

Building a more effective board

To fulfill its responsibilities, the board must have well-recognized structures and operating procedures. This publication presents many issues for boards to consider in addressing the effectiveness of these structures and processes. Boards that wish to strengthen their effectiveness need to formulate a systematic plan for improvement.

We propose a four step process:

Step 1. Develop a base line

The best place to begin is where you are now. The board should conduct a self-assessment using the questions provided throughout this booklet to determine its current strengths and identify areas for improvement. Concurrently, it should gain a good understanding of the organization itself, including its legal responsibilities and the expectations of its stakeholders. At the conclusion of this step, the board should have a clear understanding of what it currently does well, what it needs to improve, and which of its activities may need to be adjusted to reflect the NPO's role and purpose.

Step 2. Ensure shared purpose and direction

Using the information compiled in step 1, the board must then agree upon a governance vision that is aligned with the NPO's mission. This includes the state of effectiveness it wants to achieve and its strategy for getting there. It also involves developing well thought out mission and goals statements for the NPO, and clear and comprehensive mandates/charters for the board and its committees.

Step 3. Get the culture right

As discussed earlier, good governance flourishes in a supportive environment, which cannot be taken for granted. An examination of the nature of the NPO's culture should be included in the baseline assessment.

The board must take a leading role in ensuring the existence of a culture that is conducive to good governance. In part, this can be achieved by ensuring that the board's own culture is appropriate for good governance, including a commitment to continuous improvement, a striving for excellence among its peers, etc. The board should also review management's policies and actions (for example, those pertaining to individual rights and confidentiality of personal information, etc.) that help shape the organization's culture.

Capitalism as we know it is becoming increasingly challenged; growth at all costs no longer seems to be the ultimate goal. New behaviours are evident: heightened social conscience, balance between profitability and social contribution, responsible investment, fair governance, wealth-sharing, etc. This new trend could lead to a greater number of volunteers and donations or even alliances between organizations, which would foster the sharing of services and resources. Not-for-profit organizations cannot afford to ignore this trend and need to maximize the benefits that can be gained.

Gilles Chevalier, Ph.D.,
Chair of the Governance and Financial Governance Committees and Executive Committee member
Mental Illness Foundation

Step 4. Make it happen

The final step is to turn the governance strategic plan into a set of manageable targets and actions, including a timetable for the attainment of each activity (i.e., a board work plan). The detailed actions necessary to attain each element of the plan should be delegated to the appropriate board committee, an individual board member or, in some cases, a member of management. Time should be allocated at each board meeting to review the progress made towards implementing the action plan.

The board should conduct a self-assessment at least every two years. This will measure the progress made during the previous period and will provide the required information to make any adjustments to the board's work plan.

Conclusion

The role of NPOs and the demand for the services they provide continues to grow. While they face many challenges to achieving their mission and meeting their stakeholders' expectations, NPOs with a robust system of governance and a strong, effective board of directors have a greater likelihood of success than poorly governed organization.

This publication discusses important issues for NPOs and their boards to consider when building their governance systems. The Governance Framework presented in this publication presents the key areas of governance to assist the board in fulfilling its own responsibilities, including providing effective oversight to management. Each organization is unique, however, so NPOs and boards should tailor the Governance Framework as necessary to match their organization and its circumstances and needs.

For more information about the Framework and the issues discussed in this publication, please contact one of our experts listed at the end of this publication. They have a broad range of expertise and are able to offer a range of solutions – whether it be technical accounting, governance or technological skills – that can be customized to meet your organization's specific needs. They will assist you in developing a strategy to turn the board's obligations into value generators for your organization.

Appendices

We have assembled some of our most popular tools that may help you in adopting some of the best practices discussed in this publication.

If you prefer to access an electronic version of these tools, simply scan this QR code with your cellular phone to access the NPO corporate governance area in our Centre for Corporate Governance where you will be able to download these tools. Alternatively, enter this address in your Web browser: www.deloitte.com/ca/NPOBoard.

To download a QR code reader (required for your cell phone to recognize this code, please visit: http://getscanlife.com).

Appendix A
Sample mandate for an NPO board

Structure

The board consists of a minimum of eight members and a maximum of 15 members. Board members are appointed for a two-year term.

At the first meeting of the board following its annual meeting, the board shall elect a chair to preside at all meetings of the board. The board chair must be independent.

Meetings

The board meets at least five times each year. The board may choose to hold additional meetings if it considers them necessary for it to carry out its responsibilities effectively.

At each meeting, time is to be allocated for the board to meet without the presence of management (including any board member who is a member of management).

Decisions of the board are to be evidenced by resolutions passed at meetings of the board. These are to be recorded in the minutes of the meeting.

The secretary of the NPO is to act as the secretary of the meetings. The secretary is to provide a copy of the draft minutes of each meeting of the board to each board member within 14 days of the meeting.

Responsibilities

The board bears the ultimate responsibility for the NPO. The board carries out this responsibility through a stewardship role. The board delegates the day-to-day management of the NPO to the CEO and management team. To fulfill its stewardship role, the board has responsibility for:

1. Overseeing the development and implementation of the strategic, financial and operating plans.
2. Overseeing the development by management of a process to identify, manage and monitor the principal risks faced by the NPO.
3. Requiring management to implement and maintain appropriate internal controls and management information systems.
4. Appointing a chief executive officer and other officers of the NPO, defining management's duties and limits of authority, overseeing management's performance and approving its compensation.
5. Overseeing management succession and management development plans.

6. Requiring management to maintain an effective stakeholder communication program, including a process by which stakeholders and other interested parties may communicate directly with the board or with individual board members.
7. Overseeing and approving the NPO's annual report and its distribution to internal and external stakeholders.
8. Appointing an audit committee comprised of three board members who are independent of management and have financial expertise to be responsible, on the board's behalf, for the oversight of the NPO's independent auditors.
9. Appointing other committees that the board considers necessary to enable it to carry out its responsibilities effectively, and to delegate to those committees any of the powers of the board it deems appropriate.
10. Adopting, amending or repealing by-laws of the NPO and monitoring the NPO's compliance with those by-laws and with its statutory and fiduciary obligations.
11. Adopting or amending the NPO's code of ethics and monitoring the NPO's compliance with that code.
12. Other decisions that are required to be made by the board of directors, or as may be reserved by the board of directors, to be made by itself and are not otherwise delegated to a committee of the board of directors or to management.

Board performance

The board will conduct a formal assessment of the performance and effectiveness of itself, its committees and individual board members every two years.

The board will review its mandate on an annual basis to ensure that it remains appropriate to the circumstances of the NPO and of the board.

Appendix B
Sample charter for an NPO audit committee

Structure

The audit committee consists of a minimum of three members, all of whom are members of the board of directors, are independent of management and are financially literate.

Committee members are appointed for a two-year term.

The board shall appoint one of the committee members to be the committee chair.

The committee meets at least five times each year. The committee may choose to hold additional meetings if it considers them necessary for it to carry out its responsibilities effectively. If members cannot participate in person, they may participate in the meeting via the telephone.

The independent auditor is to be provided notice of every meeting and is entitled to attend and participate in each meeting.

At each meeting, time is to be allocated for the committee to meet separately with management and with the independent auditor.

Minutes of each meeting must be prepared and circulated to the board of directors within 14 days of the committee's meeting.

Responsibilities

The audit committee reports to the board of directors. The audit committee has responsibility for:

1. Oversight of the reliability and integrity of the accounting principles and practices used by the NPO.
2. The NPO's financial statements and other financial reporting, including:
    a. Reviewing and discussing with management and the independent auditor the NPO's annual and quarterly financial statements
    b. Recommending to the board of directors approval of the audited financial statements
    c. Reviewing major issues regarding accounting principles and financial statement presentation
    d. Reviewing all critical accounting policies and practices, including all alternative treatments of financial information etc.

3. Disclosure principles and practices followed by management.
4. Oversight of the independent auditor's qualifications, independence and performance, including:
    a. Recommending the independent auditor for appointment or replacement to the board of directors
    b. Recommending compensation of the independent auditor to the board of directors
    c. Reviewing and pre-approval of all audit and non-audit services to be performed by the independent auditor
    d. Reviewing the overall scope of the independent audit plan at least annually
    e. Receiving all reporting from the independent auditor (i.e., the independent auditor reports to the audit committee)
    f. Periodically reviewing the status and findings of the independent auditor's audit program
    g. Confirming the independent auditor's independence, including reviewing the NPO's hiring policies for employees or former employees of the independent auditor.
5. Overseeing management's establishment of an adequate system of internal controls and procedures and effective performance of those internal controls and procedures.
6. Establishing a whistleblower policy and oversight of the receipt, retention and treatment of complaints received regarding questionable matters.
7. Overseeing the performance of the internal audit function.
8. Other decisions delegated to it by the board of directors (for example risk management or investment policy).

Committee performance

The performance and effectiveness of the audit committee and its individual members will be assessed annually as part of the board's evaluation process.

The board will review the committee's charter on an annual basis to ensure that it remains appropriate to the circumstances of the NPO and of the board.

Appendix C
Sample board performance evaluation form

The following questionnaire is based on emerging and leading practices to assist in the self-assessment of an individual director or the full board's performance. It is not intended to be all-inclusive.

When completing the performance evaluation, consider the following process:

- Select a coordinator and establish a timeline for the process.
- In addition to board members completing the form as a self-evaluation, ask individuals who interact with the board members to provide feedback.
- Ask each board member to complete an evaluation by selecting the appropriate rating that most closely reflects his/her performance and the board's as a whole related to each practice.
- Consolidate into a summarized document for discussion and review by the board.

For each of the following statements, select a number between 1 and 5, with 1 indicating that you strongly disagree and 5 indicating that you strongly agree with the statement. Select 0 if the point is not applicable or you do not have enough knowledge or information to rank the organization's board on a particular statement.

Select the appropriate rating for each statement	0	1	2	3	4	5
Composition and Quality						
Qualified board members are identified by sources independent of management (e.g., independent board members assisted by an independent firm in the search for candidates).	○	○	○	○	○	○
Board members have the appropriate qualifications to meet the objectives of the board's charter, including appropriate financial literacy.	○	○	○	○	○	○
The board demonstrates integrity, credibility, trustworthiness, active participation, an ability to handle conflict constructively, strong interpersonal skills, and the willingness to address issues proactively.	○	○	○	○	○	○
The board demonstrates appropriate industry knowledge and includes a diversity of experiences and backgrounds.	○	○	○	○	○	○
Members of the board meet all applicable independence requirements.	○	○	○	○	○	○
The board participates in a continuing education program to enhance its members' understanding of relevant risk, reporting, regulatory, and industry issues.	○	○	○	○	○	○
The board monitors compliance with corporate governance regulations and guidelines.	○	○	○	○	○	○
The board reviews its charter annually to determine whether its responsibilities are described adequately.	○	○	○	○	○	○
New board members participate in an orientation program to educate them on the organization, their responsibilities, and the organization's activities.	○	○	○	○	○	○
The board chairman is an effective leader.	○	○	○	○	○	○
The board, in conjunction with the nominating committee (or its equivalent), creates a succession and rotation plan for board members, including the board chairman.	○	○	○	○	○	○

Legend

0	Insufficient knowledge
1	Strongly disagree
5	Strongly agree

Select the appropriate rating for each statement	0	1	2	3	4	5
Understanding the Business, including Risks						
The board takes into account significant risks that may directly or indirectly affect the organization. Examples include: • Regulatory and legal requirements • Concentrations (e.g., suppliers and customers) • Market and competitive trends • Financing and liquidity needs • Financial exposures • Business continuity • Organization reputation • Strategy execution • Management's capabilities • Management override • Fraud control • Organization pressures, including "tone at the top"	○	○	○	○	○	○
The board considers, understands, and approves the process implemented by management to effectively identify, assess, and respond to the organization's key risks.	○	○	○	○	○	○
The board understands and approves management's fraud risk assessment and has an understanding of identified fraud risks.	○	○	○	○	○	○
The board considers the organization's performance versus that of its peers in a manner that enhances comprehensive risk oversight by using reports provided directly by management to the board or at the full board meeting. These may include benchmarking information comparing the organization's performance and ratios with industry and peers, industry trends, and budget analysis with explanations for areas where significant differences are apparent.	○	○	○	○	○	○

Select the appropriate rating for each statement	0	1	2	3	4	5
Process and Procedures						
The board develops a calendar that dedicates the appropriate time and resources needed to execute its responsibilities.	○	○	○	○	○	○
Board meetings are conducted effectively, with sufficient time spent on significant or emerging.	○	○	○	○	○	○
The level of communication between the board and relevant parties is appropriate; the board chairman encourages input on meeting agendas from committee and board members, management, the internal auditors, and the independent auditor.	○	○	○	○	○	○
The agenda and related information are circulated in advance of meetings to allow board members sufficient time to study and understand the information.	○	○	○	○	○	○
Written materials provided to board members are relevant and concise.	○	○	○	○	○	○
Meetings are held with enough frequency to fulfill the board' s duties and at least quarterly, which should include periodic visits to organization locations with key members of management.	○	○	○	○	○	○
The board maintains adequate minutes of each meeting.	○	○	○	○	○	○
The board and the compensation committee regularly review management incentive plans to consider whether the incentive process is appropriate.	○	○	○	○	○	○
The board meets periodically with the committee responsible for reviewing the organization's disclosure procedures.	○	○	○	○	○	○
The board respects the line between oversight and management.	○	○	○	○	○	○
Board members come to meetings well prepared.	○	○	○	○	○	○

Legend

0	Insufficient knowledge
1	Strongly disagree
5	Strongly agree

Select the appropriate rating for each statement	0	1	2	3	4	5
Oversight of the Financial Reporting Process, including Internal Controls						
The board considers the quality and appropriateness of financial accounting and reporting, including the transparency of disclosures.	○	○	○	○	○	○
The board reviews the organization's significant accounting policies.	○	○	○	○	○	○
The board makes inquiries of the independent auditor, internal auditors, and management on the depth of experience and sufficiency of the organization's accounting and finance staff.	○	○	○	○	○	○
The board reviews the management recommendation letters written by the independent and internal auditors and monitors the process to determine that all significant matters are addressed.	○	○	○	○	○	○
The board ensures that management takes action to achieve resolution when there are repeat comments from auditors, particularly those related to internal controls.	○	○	○	○	○	○
Adjustments to the financial statements that resulted from the audit are reviewed by the audit committee, regardless of whether they were recorded by management.	○	○	○	○	○	○
The board is consulted when management is seeking a second opinion on an accounting or auditing matter.	○	○	○	○	○	○
Oversight of Audit Functions						
The board understands the coordination of work between the independent and internal auditors and clearly articulates its expectations of each.	○	○	○	○	○	○
The board appropriately considers internal audit reports, management's responses, and steps toward improvement.	○	○	○	○	○	○
The board oversees the role of the independent auditor from selection to termination and has an effective process to evaluate the independent auditor's qualifications and performance.	○	○	○	○	○	○
The board considers the independent audit plan and provides recommendations.	○	○	○	○	○	○
The board reviews the audit fees paid to the independent auditor.	○	○	○	○	○	○
The board comprehensively reviews management's representation letters to the independent auditor, including making inquiries about any difficulties in obtaining the representations.	○	○	○	○	○	○

Select the appropriate rating for each statement	0	1	2	3	4	5
Ethics and Compliance						
Board members oversee the process and are notified of communications received from governmental or regulatory agencies related to alleged violations or areas of non-compliance.	○	○	○	○	○	○
The board oversees management's procedures for enforcing the organization's code of conduct.	○	○	○	○	○	○
The board determines that there is a senior-level person designated to understand relevant legal and regulatory requirements.	○	○	○	○	○	○
The board oversees the organization's hotline or whistleblower process, reviews the log of incoming calls that relate to possible fraudulent activity, and understands the procedures to prohibit retaliation against whistleblowers.	○	○	○	○	○	○
Monitoring Activities						
An annual performance evaluation of the board is conducted and any matters that require follow-up are resolved and presented to the full board.	○	○	○	○	○	○

Overall evaluation

Use the space below to conclude on the overall results taking into account the quantitative results of this self-assessment and qualitative factors not considered above:

Legend

0	Insufficient knowledge
1	Strongly disagree
5	Strongly agree

Appendix D
Sample board skills matrix questionnaire

This tool is designed to help boards assess the level of experience each director has in various skill areas, as well as the overall composition of the board as they relate to diversity.

Directions: In the Skills/Experience Section, rate each board director using a scale of High (3) to Low/Not Applicable (1) to reflect the level of experience possessed in a particular area. In the Demographic Background Section, enter the qualifications as they relate to each director. Continue to the next section ("Matrix Analysis").

	Board of Directors					
	Name	Name	Name	Name	Name	Overall rating
Term Expiration Date						
Enter Month Year						
Skills & Experience						
Belief in/Support of Mission						
Board of Director Experience						
CEO Succession Planning						
Community Affiliation/Access						
Compensation						
Financial						
Fundraising						
Grant Writing						
Human Resources						
Industry Knowledge						
Leadership						
Legal						
Lobbying						
Marketing/PR						
Organizational Management						
Risk Management						
Strategic Planning						
Technology/IT						

	Board of Directors					
	Name	Name	Name	Name	Name	Overall rating
Demographic Background						
Gender						
Male						
Female						
Age						
25-40						
41-55						
56-70						
Over 70						
Ethnicity						
African American/Black						
Asian, Hawaiian, or Pacific Islander						
White/Caucasian						
Hispanic/Latino						
American Indian						
Other						

Priority Legend
3: High
2: Medium
1: Low/NA

In this Matrix Analysis, a board may be able to identify existing capabilities as well as areas where board development or additional qualifications are needed. Transpose the overall rating from the first section ("Matrix") in the second column below and ultimately relates that information to determine recruitment priorities for the board.

Directions: Rate the level of importance for each skill and experience and demographic area as it pertains to your board. Then, see how that compares to your current board representation. Finally, determine recruitment priorities based on this comparison. Ratings to be used for level of importance and priority are a scale of High (3) to Low/Not Applicable (1).

	1 Level of Importance	2 Current Board Representation	3 Recruitment Priority
Skills & Experience			
Belief in/Support of Mission			
Board of Director Experience			
CEO Succession Planning			
Community Affiliation/Access			
Compensation			
Financial			
Fundraising			
Grant Writing			
Human Resources			
Industry Knowledge			
Leadership			
Legal			
Lobbying			
Marketing/PR			
Organizational Management			
Risk Management			
Strategic Planning			
Technology/IT			

	1 Level of Importance	2 Current Board Representation	3 Recruitment Priority
Demographic Background			
Gender			
Male			
Female			
Age			
25-40			
41-55			
56-70			
Over 70			
Ethnicity			
African American/Black			
Asian, Hawaiian, or Pacific Islander			
White/Caucasian			
Hispanic/Latino			
American Indian			
Other			

Priority Legend
3: High
2: Medium
1: Low/NA

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Additional resources

Authoritative guidance

National Instrument 58-101, *Disclosure of Corporate Governance Practices*

National Policy 58-201, *Corporate Governance Guidelines*

National Instrument, 52-110, *Audit Committees*

Canada's Not-for-Profit Act – Part 9 Directors and Officers

Thought leadership

20 Questions Directors of Not-for-profit Organizations Should Ask about Governance (CICA)

20 Questions Directors of Not-for-profit Organizations Should Ask about Risk (CICA)

2012 Board Practices Report Providing insight into the shape of things to come (Society of Corporate Secretaries and Governance Professionals and Deloitte U.S.)

A State of Change (Deloitte, a monthly newsletter)

Audit Committee Resource Guide (Deloitte U.S.)

Centre for Corporate Governance (Deloitte)

Charities and Giving (Canada Revenue Agency)

Creating the board your company deserves The art – and science – to choosing directors (Deloitte U.S.)

Proposed Good Governance Principles and Guidelines for Not-for-Profit Organizations (Australian Institute of Company Directors)

Risk Committee Resource Guide for Boards (Deloitte U.S.)

Selected examples of codes of conducts, charters, job description, etc. (Institute of Corporate Directors)

Suggested Guidelines for Writing a Code of Ethics/Conduct (Deloitte U.S.)

The Board's Role in Aligning Strategy With Risk (Deloitte U.S.)

The Mission Driven CFO (Deloitte U.S.)

The Not-for-Profit (NPO) Directors Series (CICA)

The Talent-Intelligent Board (DTTL)

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