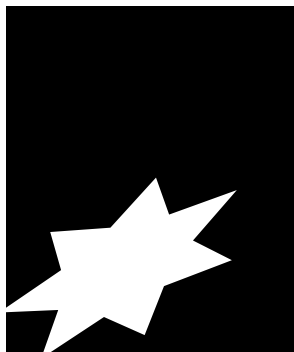


**CORPORATE GOVERNANCE PRINCIPLES:**

**A GUIDE FOR**

**OCCUPATIONAL ASSOCIATIONS**

**DRAFT**



**PROFESSIONAL  
STANDARDS  
COUNCIL**

# CONTENTS

## THE CHAIRMAN'S STATEMENT ON CORPORATE GOVERNANCE

<b>1</b>	<b>INTRODUCTION</b>	<b>4</b>
1.1	Meaning and Importance of Corporate Governance	4
1.2	Objectives of the Guidelines	4
<b>2</b>	<b>A GUIDE TO GOOD CORPORATE GOVERNANCE PRINCIPLES</b>	<b>5</b>
2.1	Introduction	5
2.2	Principle 1: An Association should be accountable, transparent and should report on its Performance	5
2.3	Principle 2: The Board should know its roles and responsibilities clearly and should have an appropriate mix of skills and experience for discharging those responsibilities competently	6
2.4	Principle 3: The Board should set, implement, review and modify its strategic and business plans	7
2.5	Principle 4: The Board should monitor an association's financial and operational performance and take remedial actions whenever necessary	8
2.6	Principle 5: The Board should self-evaluate its performance for improvement	9
2.7	Principle 6: The Board should develop Code of Conduct for its members, CEO and management and monitor compliance with the Code of Conduct by all parties	9
2.8	Principle 7: The Board should have a risk management plan	10
2.9	Principle 8: An Association should have communications plan for its internal and external stakeholders	10
2.10	Principle 9: The Board should be appropriately structured to suit an Association's size and business that is conducive to an effective decision-making	10
2.11	Principle 10: An Association should set up working parties and/or committees whenever necessary	11
<b>3</b>	<b>SELF-ASSESSMENT OF AN ASSOCIATION'S CORPORATE GOVERNANCE</b>	<b>13</b>
3.1	PREPARATION FOR SELF-ASSESSMENT	13
3.2	METHODOLOGY	13
<b>4</b>	<b>A RECOMMENDED LIST OF ACTIVITIES FOR DEVELOPING CORPORATE GOVERNANCE</b>	<b>15</b>
<b>5</b>	<b>APPENDICES</b>	<b>18</b>
5.1	AN EXAMPLE OF ASSOCIATION'S SELF-ASSESSMENT CHECKLIST	18
<b>6</b>	<b>A LIST OF REFERENCES</b>	<b>20</b>

# The Chairman's Statement on Corporate Governance

The Professional Standards Council is committed to the improvement of Professional Standards and consumer protection. The Council believes in and adheres to the highest standards of selflessness, honesty, integrity, openness, and accountability and expects similar behaviours from all stakeholders in Cover of Excellence™ Schemes. Part of that commitment includes ensuring that associations with a scheme regulate themselves better to achieve the objective of improving professional standards of their members to protect consumers.

This document provides a guide to corporate governance principles for occupational associations that should exist in associations to assist their capacity and accountability for their good governance.

The guidelines will be used to assess an association's corporate governance when approving and to review schemes under the Professional Standards Act.

The purpose of this Draft Guidelines is to facilitate further feedback before they are finalised by the Council.

We welcome any feedback on the Guidelines. If you have any queries about the draft guidelines, please contact the secretariat on (02) 9228 8060, toll free 1300 555 772 or e-mail [psc\\_excellence@agd.nsw.gov.au](mailto:psc_excellence@agd.nsw.gov.au).

Any **comments or submissions** should be made in writing by **28 February 2005**. Submission will be treated as public unless its confidentiality is specifically requested.



Warwick Wilkinson AM  
Chairman

November 2004

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# 1 INTRODUCTION

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## 1.1 MEANING AND IMPORTANCE OF CORPORATE GOVERNANCE

- 1.1.1 'Corporate governance' refers to "the processes by which organisations are directed, controlled and held to account. It encompasses authority, accountability, stewardship, leadership, direction and control exercised in the organisation" (Australian National Audit Office, p.6, 2003). "CG addresses the issues arising from the interrelationships between boards of directors, such as interactions with senior management, and relationships with the owners and others interested in the affairs of the entity, including regulators, auditors, creditors, debt financing and analysts (AS 8000-2003, p. 8). Thus, for the purpose of the Guidelines, CG refers to both structures and processes, giving rise to the entire gamut of interactions between directors, CEOs, senior management and other stakeholders in the course of directing, controlling and holding to account an organisation.
- 1.1.2 According to AS 8000-2003, good corporate governance should, as a minimum, satisfy structural, operational and maintenance elements. As its name implies, a structural element consists of factors such as an organisation's commitment to corporate governance by people at all levels (Board, CEO and senior management), formulation of a corporate governance policy incorporating good corporate governance principles, management awareness, assumption and promotion of governance responsibilities. Similarly, an operational element covers identification of governance issues, integration of corporate governance into organisation's operating procedures, implementation, complaints handling system, record-keeping, internal reporting. Finally, a maintenance element includes education and training, visibility and communication, monitoring and assessment, review, liaison and accountability.
- 1.1.3 An association's capacity to properly conduct its business, serve its members, manage its risks and protect consumers depends largely on the soundness of its governance. Since the Council promotes self-regulation of associations, it is imperative that associations apply good corporate governance principles to:
- Improve professional standards and quality of service
  - Be accountable for professional conduct
  - Become more flexible in the way they work and in the services they offer.

## 1.2 OBJECTIVES OF THIS GUIDELINES

- 1.2.1 The Guidelines is designed to outline general principles of corporate governance for an association to apply to its governance.
- 1.2.2 The Council proposes to use the Guidelines to evaluate an association's application for a new scheme as well as for the renewal of an existing scheme.

## 2 A GUIDE TO THE GOOD CORPORATE GOVERNANCE PRINCIPLES

### 2.1 INTRODUCTION

- 2.1.1 A set of good corporate governance principles for occupational associations has been identified from desk research and survey of not-for-profit organisations including charities and professional associations. It is acknowledged that the sub-principles embodied in a broad principle cannot be compartmentalised under a watertight compartment. For example, the statement ‘succession planning is important for the Board’ under “Board responsibilities and skills” can well be placed under “Strategy Setting and Planning”. Similarly, the broad principle “Strategy Setting and Planning” can well be subsumed under another broad principle “Board’s Roles, Responsibilities and Skills”. An association should develop its broad corporate governance principles and identify elements corresponding to these principles appropriate for its structure and business. A smaller association, for example, may not be able to afford to provide its Board members access to independent advice for decision-making on some issue, especially if it involves high costs. Thus, this section is designed to provide occupational associations with a general guide as to what elements should be considered for implementation of corporate governance principles. The identified elements however provide the basis for computing an association’s checklist for measuring its periodic performance on corporate governance.
- 2.1.2 A guide is also provided for associations to evaluate the robustness of their corporate governance by computing the Corporate Governance Standard Index (CGSI). The maximum CGSI score is 100. The greater the composite score, the better the association’s accomplishment on its corporate governance. The method of computing CGSI is given in Section 6.
- 2.1.3 An association should annually complete a checklist of elements under corporate governance principles with some sort of ranking to measure its performance on corporate governance. It is suggested that a ranking system reflecting the level of achievement may be used and a composite score calculated to assess the robustness of a corporate governance principle.

### 2.2 Principle 1: An Association should be accountable, transparent and should report on its performance

- 2.2.1 The Board and the management should ensure that the following principles and practices relating to accountability, transparency and reporting are in place:
- The Board should ensure compliance with applicable laws and key policies.
  - The Board has a process in place to continuously monitor any changes to legislation, communicate this to the Board and take action necessary to comply.

- An Association should publish an Annual Report with its objectives, operating and financial results, members of the Board and key executives and major policy changes. It should also report on the performance of their self-regulation in improving members' standards.
- An association must have external accountability and reporting structures in place that make its dealings and performance openly visible.
- The lines of reporting should be clear and simple.
- Data collection and information management systems should be adequate to support reporting needs.
- The management should report to the Board on strategic matters with current, relevant and useful information that aids in educated decision-making by the Board.
- There should be formal reporting of compliance for critical compliance obligations and exception reporting for other compliance obligations.
- Any decisions made by the Board should be clearly documented and understood by all members of the association.
- The majority of the Board should be independent of CEO and management team and also independent of any commercial dealings with the organisation.
- Board members should have access to independent professional advice to enable them to discharge their duties.
- The Board should fully understand and continually assess its contractual requirements under the terms and conditions of service agreements with key stakeholders.
- Appropriate policies and procedures should be in place within an organisation to identify and deal with potential conflicts of interest.

### **2.3 Principle 2: The Board should know its roles and responsibilities clearly and should have an appropriate mix of skills and experience for discharging those responsibilities competently.**

2.3.1 It is essential for the board to adequately perform that board roles and responsibilities are clearly defined and skills appropriate to the exercise of these responsibilities are available to the board. Organisational effectiveness is positively related to the extent to which members of governing bodies felt informed about their responsibilities and duties (Herman and Tulipana, 1985, cited in Friedman et. al, p.19). The Board should know its roles and responsibilities clearly and should have an appropriate mix of skills and experience for discharging those responsibilities competently

2.3.2 An association should consider the following concerning Board's roles, responsibilities and skills:

- An association should have appropriate procedures in place for appointing a Chairperson.
- Authority, responsibility and accountability should be clearly defined for providing clarity as to who (Board, CEO, management, specific committees) should do what and to coordinate the decisions and actions of different lines of responsibility.

- The Boards should establish committees, where appropriate, to assist their effective operations and have proper accountability mechanisms for their officers.
- The Board should appoint the CEO and evaluate his/her ongoing performance against predetermined criteria.
- The responsibilities identified above should be clearly communicated to the Board, Chief Executive Officer and management.
- An organisation should have processes governing policy development, implementation and review, which accommodate the approval of new policy by the Board.
- The Board should ensure that, collectively, it has the appropriate level of skills and experience (eg. knowledge of technical, financial, legal and regulatory requirements) required to properly fulfil its responsibilities. Where the small size of the entity precludes this outcome, the Board should make arrangements for ready access to such skills where they are not available.
- Directors should undertake appropriate induction training on appointment.
- Continuous education and professional development programmes should be made available to directors, as necessary.
- There should be succession planning for Board members, CEO and key skills.

## **2.4 Principle 3: The Board and management should set, implement, review and modify its strategic and business plans**

- 2.4.1 Strategy setting and planning allows the organisation to think through all facets of its business, examining strategies and their implications. By writing down a plan, the organisation is forced into thinking about details and focus on the big picture rather than day to day to issues. Strategy involves making decisions on the direction of the association, based on the Strengths, Weaknesses, Opportunities and Threats (SWOT) analysis. According to AS 8000-2003, "the board should be responsible for the strategic direction of the entity. The Board should review and approve the entity's proposed strategy. The objectives of the entity need to be clearly documented in a long term corporate strategy (3 year minimum, updated annually) and an annual business plan together with achievable and measurable targets and milestones." The Australian National Audit Office (ANAO), 2003, p.24) states in its Public Sector Governance Better Practice Guide that a well governed organisation will include, among others, effective corporate and business planning, in its governance structures and processes (ANAO, 2003, p. 24).
- 2.4.2 "Boards of effective organisations were more involved in policy formulation, short-term strategic planning and long-term strategic planning than were the boards of less effective organisations. They were also more likely to monitor programmes and services and be more involved in assessing organisational performance and communicating the organisation's mission to their constituencies" (Friedman, A. and Phillips, M. 2003, p.16). The Australian Stock Exchange (ASX) also emphasises that the company's framework should be designed to enable the board to provide strategic guidance for the company and effective oversight of

management (ASAX, 2003, p.15). The Board should provide input into and final approval of management's development of corporate strategy and performance objectives (ASAX, 2003, p.16). It is also worth noting that Chief Executives who work in partnership with their governing body are likely to be regarded as effective (Herman and Heimovics, 1987, cited in Friedman et. al. p. 19).

2.4.3 The Board and the management should ensure that the following principles and practices relating to strategy setting and planning take place:

- The association should have a Corporate Plan at least for the next three years. Therefore, it should self-assess its corporate governance by, among others, whether it had the corporate plan for the last three years.
- There must be a common understanding between the CEO and the board on the strategic direction of the organization.
- The Board and management should jointly develop and review corporate plan.
- The corporate plan is updated annually, based on experience and current and future trends.
- The association has the annual budget-supported business plan, based on the corporate plan.
- The Board should approve the association's business plan, annual budget and updated corporate plan.
- The Board should allocate adequate budget to carry out its important activities, including the administration of the Cover of Excellence™ Scheme.
- The Board should devote most of its meeting time discussing critical, complex and strategic issues.
- The association should develop policies on key issues.
- The corporate objectives should be well communicated to internal and external stakeholders.

## **2.5 Principle 4: The Board should monitor an association's financial and operational performance and take remedial actions whenever necessary.**

2.5.1 The Board should undertake a regular review of the financial statements, and make further enquiry from that review, if necessary. The Board members should also keep themselves informed about the activities of the organisation and should generally monitor the corporate affairs of the organisation.

2.5.2 Associations should consider the following corporate governance principles underlying their financial and operational performance:

- There should be appropriate financial and non-financial performance measures to monitor and evaluate strategy, policies, plans and legal obligations affecting an association's business.
- An association's information system must be capable of generating performance measurement data timely and adequately.
- The Board should initiate necessary action following the review of performance measures.
- There should be regular board meetings to table an association's financial and operational performance.

- An association should form an appropriate committee to help it to monitor financial and operational performance. For example, an audit committee may be set up with responsibilities, among others, to:
  - oversee the existence and maintenance of internal controls and accounting systems;
  - oversee the financial reporting process;
  - nominate external auditors;
  - review the existing external audit arrangement

There should be a sound system of procedural and financial delegations within an organisation approved by the Board.

## **2.6 Principle 5: The Board should self-evaluate its performance for improvement**

- 2.6.1 The Board's performance monitoring and self-evaluation requires carefully designed Board processes, which should be evaluated at least periodically for its effectiveness. The Board's self-evaluation creates ownership over its own evaluation.
- 2.6.2 The following principles should be considered concerning the Board's performance monitoring and evaluation.
- Mechanisms should be in place to monitor the performance of the Board, the individual Board members and committees.
  - Mechanisms should be in place for taking action against non-performing Board members.
  - There should be periodic evaluation of the CEO's performance.
  - Necessary action should be taken following the performance review of the CEO.

## **2.7 Principle 6: The Board should develop Code of Conduct for its members, CEO and management and monitor compliance with the Code of Conduct by all parties.**

- 2.7.1 For good corporate governance, it is necessary for Board members, CEO and management to comply with an organisation's Code of Conduct. "The Code of Conduct should set out ethical and behavioural expectations of both directors and employees. It is critical that both the Board and the senior management team demonstrate, through both their words and actions, absolute commitment to that Code and consistency in its execution. Only in this manner can a culture of good governance be established within the entity" (AS 8000-2003).
- 2.7.2 The following broad corporate governance principles should be considered for the Code:
- The Board should approve a written Code of Conduct.
  - Adherence to the Code of Conduct should be periodically evaluated and intermediate action taken, where necessary.
  - The Code of Conduct should be communicated and understood by Board members and management.
  - The Code of Conduct should be available to stakeholders on request.

## **2.8 Principle 7: The Association should have a risk management plan**

2.8.1 Risk is ever-present in any organisation. So, effective corporate governance requires that risk must be integrated into the culture and overall plan of the organization. This requires a holistic approach to risk management, encompassing the whole range of major risks faced by the organization.

2.8.2 The following principles relate to Risk Management:

- The board should ensure that risks facing an association have been identified, assessed and prioritised for treatment.
- The Board should have clear strategies for treatment of high priority risks.
- Risk management strategies should be reviewed and updated by the Board and management.

## **2.9 Principle 8: An Association should have communications plan for its internal and external stakeholders**

2.9.1 Since corporate governance involves, among others, transparency and accountability in managing relationships with various stakeholders, it is critical that associations develop good communication strategies in relation to clients and stakeholders. These strategies should then be communicated to these stakeholders.

2.9.2 The broad principles are as follows:

- A communication plan should be in place for internal and external stakeholders.
- Communication processes must be in place for implementing the communication plan.
- A Communication Plan should be monitored to ensure that effective communication occurs.
- A Communication Plan should be integrated into an association's strategic plan.

## **2.10 Principle 9: The Board should be appropriately structured to suit an association's size and business that is conducive to an effective decision-making**

2.10.1 The right board structure is conducive to good corporate governance and to long-term sustainability of an organisation. Boards' performance can suffer under the impact of imbalance of structure such as lack of independence. Associations vary in size concerning their Board membership. It is necessary to have a board size large enough to attract necessary skills but still manageable for effective decision-making. One of the problems affecting professional associations is the large size of the Board. Large governing bodies tend to be more effective in terms of representation, but less so in terms of decision making and setting strategy. It is recommended that the board size should not exceed 15 (Belbin, 1981 and The Commission on the Future of the Voluntary Sector, 1996, cited it Friedman et. al, p.21, 2003).

2.10.2 The size of Boards average about 13, which tends toward the optimal maximum. The temptation to inject more people into the Board should be resisted – "A common problem is created by trying to resolve composition dilemmas by adding more people. Experience in many settings has shown that large boards are generally ineffective. Once numbers rise much above

12-15, discussion and debate becomes more difficult. What generally happens is that an inner caucus emerges that takes the key decisions and presents them to the board for ratification. This leaves the board with responsibility but not power and is generally ineffectual. While some have gone further and set up two-tier structures of a council and an executive committee, the result is rarely satisfactory and cannot withstand the tensions of a crisis"-The Commission on the Future of the Voluntary Sector (1996, cited in Friedman et. al. p.21).

2.10.3 Many governing body members get caught up in detail because this is what is within the range of their competence. This may be because the Board may be too large to make decisions and act strategically as a body and/or members may not have the right skills to carry out their role or members are not communicated well about their responsibilities (Friedman et. al., p. 23).

2.10.4 The Board structure should take into account the following:

- The Boards should adopt the most effective structure that best assists the governance process.
- The Board size should be manageable for decision-making purpose. Generally, it should not exceed 15 members.
- The Board should compose a majority of non-executive directors with a mix of technical, financial, legal and regulatory knowledge required for the association, including lay persons.
- Each Board member should be subject to re-election at least once every three years.
- The composition of the Board members should be such that members devote time to frequent off-line interactions with other Board members and management.
- The Board regularly reviews the membership of the Board and take appropriate actions.

## **2.11 Principle 10: An Association should set up working parties and/or committees<sup>1</sup> whenever necessary**

2.11.1 Committees and other sub-groups are an essential element of the governance structure of most professional associations. "Governing bodies of most professional associations are unable to handle all aspects of the association's governance and business requirements, either due to time constraints, expertise requirements or because it is considered desirable to involve outside expertise and perspectives. Advisory responsibilities and, in some cases, decision-making, are therefore devolved to a variety of committees" (Friedman and Phillips, p.157, 2003).

2.11.2 The role and accountability of any committee should be formalised in written Terms of Reference (TOR) and reporting-back procedures, which should be agreed by the governing body. The TOR should include, among others, the name and purpose of the committee, frequency of meetings, the quorum, the obligations of the committee to report regularly and appropriately to the Board and the Board's mechanism to monitor the performance of the committee.

2.11.3 As the committee is established to do a specific job, it is necessary to ensure that members have the necessary expertise to do the job. For example, the members on the audit committee

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<sup>1</sup> This part relies heavily on the book "Governance of Professional Associations: The Players and Processes by Andrew Friedman and Mary Phillips, PARN, 2003.

must in the least, be financial literate. The committee members should as far as possible be independent members.

- 2.11.4 Some of the Committees associations might set up are audit committees, risk management committees, ethics and discipline committees, remuneration committees, corporate governance committees. The Committee's principal focus is ensuring that the Association maintains the highest standards of corporate governance at all times. In this regard the Committee reviews the Association's existing corporate governance policies in light of recent commercial, legal and ethical developments with a view to ensuring that the Association's policies are up to date and effective.
- 2.11.5 Working parties or task groups can be a worthwhile alternative to committees. They should be considered when a well-defined problem is presented that requires resolution within a given time-frame. They are therefore task-oriented and time-limited. They have the advantage of being highly flexible as they can be created when required and wound up when work is complete (Friedman and Phillips, p.167, 2003).
- 2.11.6 Advisory panels are another alternative. They are committees without decision-making powers and can be useful when a Board requires expert advice on a subject but does not wish to delegate responsibility for taking final decisions. They can bring specific expertise and perspective into the association without becoming an additional or alternative decision-making body. Members of advisory panels give their time voluntarily and have no real power within the association's governance, so it is important that their recommendations are given due consideration if they are to feel valued.
- 2.11.7 The Boards should, therefore, establish committees/working parties/advisory panels, where appropriate, to assist their effective operations.

## 3 Self-Assessment of An Association's Corporate Governance

### 3.1 Preparation for Self-Assessment

3.1.1 An association can self-assess its corporate governance performance at any time. The first requirement for self-assessment is that it should decide on the most important corporate governance principles and the elements under each principle relevant to its business. It should also rank each principle in terms of the weights in percentage terms such that the total weights work out to be 100 per cent. Thus the highest score possible on corporate governance principle is 100. But actually, most associations will have a score of less than 100. The identification of corporate governance principles and their elements, together with the assignment of weights to corporate governance principles can be done, among others, by a survey of the internal and external stakeholders, including the Board, CEO and management. Alternatively, the Board, CEO and senior management can consensually agree on the broad principles and elements under each broad principle together with the weights of broad principles and a score on each of the elements. If the Board does this, the self-assessment will be based on one completed self-assessment checklist. If however stakeholders assign different weights and scores, the weights and scores can be averaged to compute Corporate Governance Standard Index (CGSI). An example of self-assessment checklist is given in Appendix 7.1.

### 3.2 Methodology

3.2.1 Each principle has a number of elements and the way the form is structured, the maximum total score for each principle is the number of elements times 4 (as 4 is the maximum score one can assign to an element). Let us also assume that the survey shows the following weights to corporate governance principles:

• Strategy Setting and Planning	15%
• Communication with Clients and Other Stakeholders	15%
• Board Roles and Responsibilities	20%
• Internal Controls	15%
• Committees	15%
• External Reporting	20%
<b>Total</b>	<b>100%</b>

3.2.2 Let us further assume that for Strategy Setting and Planning broad principle, the first element "Does the Board formulate the strategic direction for the organisation?" is given a score of 4, the second element 3, the third element 2 and the fourth element 1. The total score for Strategy Setting and Planning works out to 10. Let us assume that by repeating the same

process for other broad principles yields a total score of 8 for Communications with Clients and other Stakeholders, 20 for Roles and Responsibilities, 8 for Internal Control, 8 for Committees and 25 for External Reporting. The CGSI is computed using the following formula:

$$\frac{PA1}{PM1} \times W1 + \frac{PA2}{PM2} \times W2 + \frac{PA3}{PM3} \times W3 + \frac{PA4}{PM4} \times W4 + \frac{PA5}{PM5} + \frac{PA6}{PM6} \times W6$$

Where PA1=Total Actual score for Broad Principle 1 and so on

PM1=Maximum possible score for broad principle 1 and so on

W1=Weight for Broad Principle 1 and so on.

Substituting respective values into the equation above, the formula looks like:

$$CGSI = \left\{ \frac{10}{16} \times \frac{15}{100} + \frac{8}{16} \times \frac{15}{100} + \frac{20}{32} \times \frac{20}{100} + \frac{8}{12} \times \frac{15}{100} + \frac{8}{12} \times \frac{15}{100} + \frac{25}{32} \times \frac{20}{100} \right\} \times 100 = 65\%$$

3.2.3 The CGSI is 65%. Though this figure points out that the hypothetical association's corporate governance is reasonable (being more than 50%). We cannot categorically say that the association's corporate governance is good or bad because no standard has yet been established in this regard. However, for the purpose of making some crude judgment on corporate governance standard of associations, the following grading interpretations are proposed:

- Poor CGSI less than 50%
- Average CGSI 50% to 65%
- Good Above 65% but less than 85%
- Very Good 85% to 100%

3.2.4 Each association should, therefore, strive to increase its CGSI as high as it can. Again, this index may not be comparable among various organisations, especially if their characteristics are very different. Further, the more the self-assessment checklist is completed objectively, the more reliable is CGSI for measuring corporate governance standard of an organisation. The greatest advantage of the CGSI is that it gives a crude estimate of the corporate governance standard of an organisation.

## 4. A Recommended List of Activities for Developing an Association's Corporate Governance Principles

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- 4.1 This section provides associations with some general guidelines to the development of corporate governance principles. Good corporate governance should, as a minimum, satisfy the structural, operational and maintenance elements (AS8000-2003). Structural elements comprise commitment to corporate governance and existence of governance policy. Operational elements are identification of governance issues, operating procedures for governance, handling of governance breaches, record keeping and internal reporting. Maintenance elements are education and training, visibility and communication, monitoring & assessment, review and liaison.
- 4.2 It will be seen that various elements are incorporated in different corporate governance principles outlined above. For example, without management commitment to corporate governance, it is highly unlikely that the good corporate governance principles will ever be identified, monitored and evaluated. Once good corporate governance principles are identified, structural, operational and maintenance elements find their way into one or more of the principles. For example, matters reserved for the Board, a structural element, are likely to be incorporated in the Board's Roles principle. Similarly, internal reporting, an operational element may form one of the sub-principles under Reporting. By the same token, education and training, a maintenance element may be incorporated under the broad principle "Board Roles, Responsibilities and Skills".
- 4.3 The steps outlined below may not necessarily be sequential, in that the identification of governance issues, an operational element may precede the preparation of a governance policy, a structural element.
- 4.4 Therefore, the purpose of this section is not to detail what are the components of structural, operational and maintenance elements, but to provide general guidelines on developing corporate governance principles for an association.

### **Step 1: Commitment**

- It is necessary that people have commitment at all levels to good corporate governance, starting with the Board, the Governing Body, CEO and senior management.

### **Step 2: Identify broad corporation governance principles and elements to be included in each principle, based on the association's nature of business.**

- This is very critical, as the Governance Policy is based on a series of broad governance principles.
- Use one of the several methods available (such as brain storming, a survey of board members, CEO and senior management jointly or severally) to identify the corporate governance principles and elements therein, deemed important for your association.
- Using the method above, assign % weights to each of the broad principles so that the summation of weights is 100%.

### **Step 3: Self-assess your Corporate Governance Standard Index**

- Self-assess your current Corporate Governance Standard Index (CGSI), using a method similar to the one given in Section 3 of this Guideline.
- Deliberate among Board members, CEO and senior management and other stakeholders whether your association is satisfied with your CGSI, with reasons well documented.

### **Step 4: Develop a Governance Policy**

- Your association should develop and implement a Governance Policy to assist the Board and senior management to deal with the increasing governance demands. The Policy should include, among others, the following:
  - Board Charter
  - Board protocol (including guidance on conduct of meetings)
  - A statement of matters reserved for the Board.
  - Board delegations of authority
  - Letters of appointment for board members
  - The Broad Corporate Governance principles including the code of conduct
  - The Board composition and structure including committees
  - A director's rights, obligations and restrictions while dealing with other stakeholders
  - The role and powers of the Chairman, individual directors, the CEO and the Secretary
  - Responsibilities of the Board

#### **Step 4: Monitor and evaluate your association's performance on corporate governance**

- It is most likely that your association aims at increasing its CGSI because good corporate governance requires that a philosophy and strategy of continuous improvement be adopted. If so, develop strategies of doing so.
- Self-assess your CGSI at least once a year to monitor your association's CGSI against its benchmark.
- Identify strengths and weaknesses and develop strategies to capitalise on strengths and mitigate or eliminate weaknesses
- Factor valuable lessons learnt into the planning process for future corporate governance.

## 5. APPENDICES

### 5.1 An Example of Association's Checklist of Good Corporate Governance Principles

4 - Fully effective 3 - Satisfactory 2 - Marginal 1 - Not addressed

<b>Strategy Setting and Planning (Maximum Score=4X4=16)</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>
Does the Board formulate the strategic direction for the organisation?				
Is the corporate plan prepared with the active involvement of both management and the Board?				
Are annual measurable objectives set out in the annual plan approved by the Board?				
Is an annual budget prepared by management and approved (or rejected) by the Board?				
<b>Communication with Clients and Other Stakeholders (Maximum Score=4X4=16)</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>
Have you identified your stakeholders, their needs and the business risks associated with managing these?				
Have you established clear channels of communication with your agency's clients and other stakeholders?				
Have you implemented appropriate processes to ensure that such channels operate effectively in practice?				
Have you made an explicit commitment to transparency and openness as far as practicable in your agency's activities?				
<b>Roles and Responsibilities (Maximum Score=4X8=32)</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>
Is there a clearly defined division of responsibilities within your agency?				
Do you monitor agreed management outcomes?				
Does your agency provide regular and effective reports to individual managers on their governance responsibilities?				
Have you established a framework of strategic control that includes formal procedural and financial delegations to govern the conduct of the agency's business?				
Does the framework of strategic control include a formal schedule of those matters specifically reserved for decision by the executive?				
Are your management processes for policy development, implementation and review clearly documented, understood and adhered to?				
Have you established appropriate arrangements to ensure access to all such relevant information, to high quality advice and to the resources necessary to enable you to carry out your functions effectively?				
Do you have a senior executive responsible for ensuring effective management, coordination and delivery of information (including related technology)?				

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<b>Internal Controls (Maximum Score=4X3=12)</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>
Are your systems of internal control appropriate to your agency's corporate plan or business charter?				
Are your systems providing timely and useful management information?				
Do your systems include an effective internal audit function?				
<b>Committees (Maximum Score=4X3=12)</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>
Are you satisfied that your agency's committee structure works to maximise effective governance of your agency?				
Does your committee structure ensure effective linkages across business units?				
Are you satisfied that your Audit Committee takes responsibility for independent review of systems of internal control and maintenance of effective complementary links with the external audit process?				
<b>External Reporting (Maximum Score=4X8=32)</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>
Have you established appropriate mechanisms to identify your external reporting requirements?				
Are you satisfied that your data collection and information management systems are adequate to support your reporting needs?				
Are you satisfied that you have adequate arrangements to ensure the reports, which you produce, are effective in meeting their purposes?				
Does your agency ensure that performance reporting processes link objectives, strategies and business operations?				
Does your agency periodically review reported information to ensure that all stakeholders are receiving what they require to meet their obligations?				
Does your agency publish on a timely basis an objective, balanced and readable annual report?				
Does your agency include a statement of the major corporate governance practices in place in the agency?				
Does your agency include selected performance measures that are regularly used for internal assessment and operational purposes as well as for external performance information?				

Adapted from the Australian National Audit Office, accessed on 22 June 2004 at:

<http://www.anao.gov.au/WebSite.nsf/Publications/4A256AE90015F69B4A256975008291CA#Existing%20Publi>

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