

INSTITUTE OF CHARTERED ACCOUNTANTS OF ONTARIO
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Part II
Good Governance in Meeting the Duties of Directors of Charities and Not-for-Profits

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A. OVERVIEW OF TOPICS

- Why “Governance”?
- What Does “Governance” and “Good Governance” mean?
- How To Achieve Good Governance?

Note: For a more detailed discussion, see attached Appendix B. See also the book by Donald J. Bourgeois entitled “The Law of Charitable and Not-for-Profit Organizations, Third Edition”

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B. WHY “GOVERNANCE”?

- Is there life after Enron and Worldcom?
- Tougher corporate governance laws
- Accountability requires good governance

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C. WHAT DOES “GOVERNANCE” AND “GOOD GOVERNANCE” MEAN?

- Governance is not the same as Good Governance
- “Governance” in the voluntary sector is:
 - “the processes and structures that an organization uses to direct and manage its general operations and program activities”
- Good Governance
 - Achieving desired results and achieving them in the right way

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- The United Nations - a list of characteristics of good governance:
 - Participation in decision making and reaching broad consensus on what is in the best interest of the organization
 - Accountability and transparency
 - Responsive, effective and efficient performance
 - Equity and sound rule of law
 - Strategic planning

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- Elements of “Good Governance”:
 - Vision - envisioning the future
 - Direction - setting goals
 - Resources - securing resources
 - Monitoring - reviewing periodically
 - Accountability - ensuring efficient use of resources and reporting progress

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D. HOW TO ACHIEVE GOOD GOVERNANCE?

- **Responsibility of Directors**
 - **Directors have a duty to manage the charity**
 - **Duties of directors**

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- **Due Diligence Is the Key**
 - **In order to achieve good governance, the directors must exercise due diligence**
 - **Directors must understand:**
 - **Objects and activities of the charity**
 - **Statutes, regulations and policies under which the charity operates**
 - **Regulators who have jurisdiction over the charity**
 - **Financial position of the charity**

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- **Eight Areas That Are Key to Effective Governance:**
 - **Mission and strategic planning**
 - **Transparent and communication**
 - **Organizational structures**
 - **Board's role**
 - **Fiscal responsibility**
 - **Human resources**
 - **Assessment and control systems**
 - **Succession and diversity of the board**

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1. Mission and Strategic Planning

- **Carrying out the mission of the charity**
- **Mission statement and organizational goals must be consistent with the law, e.g.,**
 - **Letters patent**
 - **Constitution**
 - **By-laws**
 - **Trust deed**
 - **Other restrictions**
- **Periodic review**

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2. Transparency and Communication

- **Communicating to members, stakeholders and the public**
- **The board should:**
 - **Establish policies for communication and feedback**
 - **Establish code of ethics for the board**
 - **Establish complaint and grievance procedure**
 - **Meet regularly**

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- **Focus on ensuring accountability**
- **Keep proper minutes and corporate records**
- **Respond appropriately to requests for information**
- **Develop a privacy policy**

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- 3. Organizational Structures**
- **Developing appropriate structures for the organization**
 - **Basic organizational structure documents include:**
 - Letters patent
 - Constitution of the charity
 - By-laws of the charity
 - Trust deed
 - **Proper and legal procedures for directors and members meetings**
 - **Audit committee for finance and legal liability**

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- 4. Board's Role**
- **Understanding of the board's role**
 - **Understanding the duties of directors**
 - **Developing a board governance policy**
 - **Developing a code of conduct for board members**
 - **Developing a conflict of interest policy for directors and officers**

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- 5. Fiscal Responsibility**
- **Maintaining fiscal responsibility by the board**
 - **Establishing a budget; monitoring and controlling expenditure; maintaining proper accounting books and records**
 - **Proper issuance of charitable donation receipts**
 - **Preparing and auditing financial statements**
 - **Proper management and protection of the assets of the charity**

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6. Human Resources

- **Effective management team to oversee human resources**
- **With respect to employees:**
 - **Ensuring compliance with employment legislation and workplace safety regulations**
 - **Establishing policies and procedures**
- **With respect to volunteers:**
 - **Screening volunteers**
 - **Establishing policies for recruitment and oversight**

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7. Implementing Assessment and Control Systems

- **Establishing a code of ethical conduct**
- **Establishing a framework of internal regulation**
- **Establishing periodic review and audit procedures**
- **Establishing an audit committee**
- **Establishing legal risk management procedures**
- **Establishing a legal risk management committee**

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8. Planning for Succession and Diversity of the Board

- **Orientation of new directors and diversity of the board**
- **Continuous education of directors**
- **Periodic internal review and audit**

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