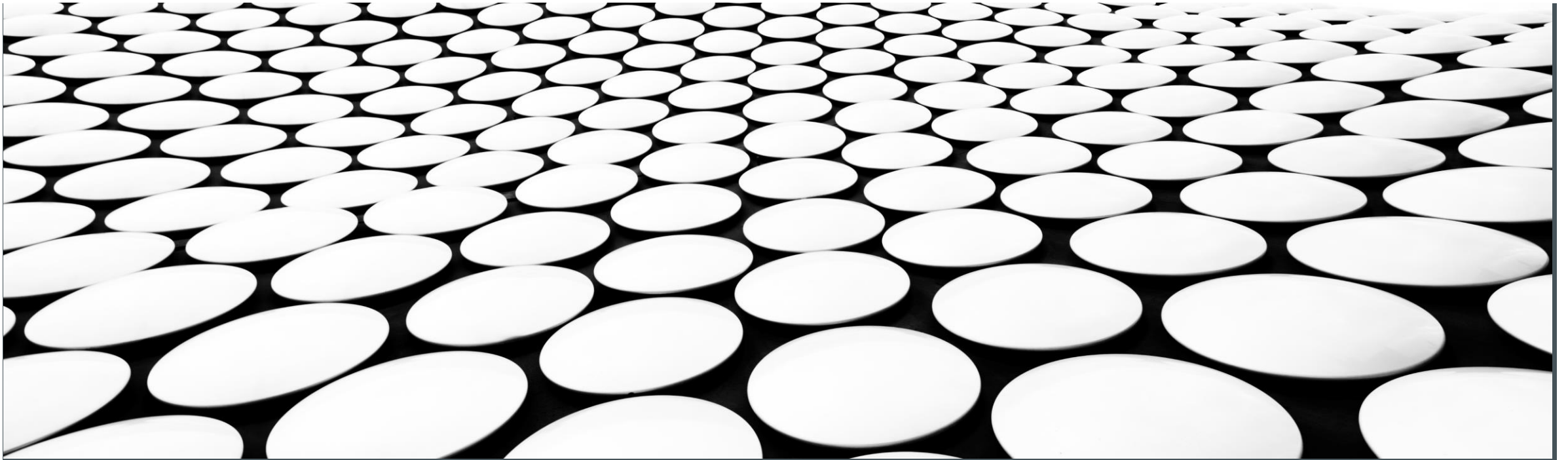

CORPORATE GOVERNANCE PROCESS OF NOT FOR PROFIT ORGANIZATIONS

BY B D CHATTERJEE *FCA, ACMA, ACS, DIP (IFR) ACCA – UNITED KINGDOM*



WHAT IS CORPORATE GOVERNANCE?

- ❑ Corporate Governance is the system of rules, practices and processes by which an organization is directed and controlled.

- ❑ Corporate Governance essentially involves balancing the interests of the many stakeholders in an organization company -
 - its shareholders,
 - management,
 - customers,
 - Funders and donors
 - Service providers,
 - financiers,
 - government and
 - the community.

NEED FOR CORPORATE GOVERNANCE

- Board room failure
- Approval of inaccurate financial results
- Inadequate financial disclosures
- Conflict of interest
- Curbing the independence of auditors
- Banking practices
- Insider trading
- Executive compensation

CORPORATE GOVERNANCE MECHANISM

To protect the shareholders from corporate crimes, *Sarbanes Oxley Act 2002*, in the US came up with some fundamental changes in every aspect of corporate governance such as:

- Internal control
- Auditors independence
- Conflict of interest
- Corporate responsibility
- Enhanced financial disclosures
- Enhanced quantum of penalties for defaulters.

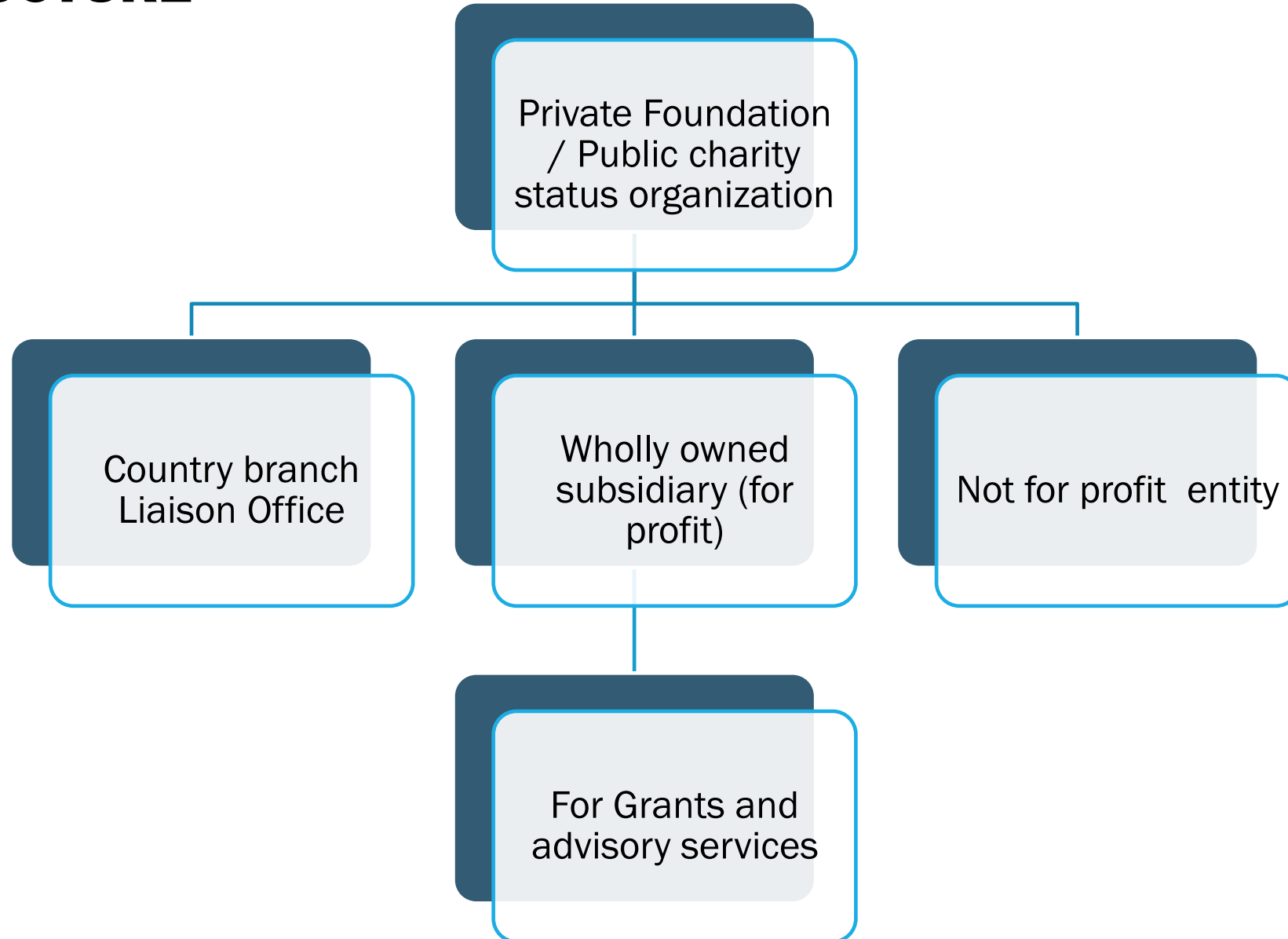
CORPORATE GOVERNANCE MECHANISM : SARBANES OXLEY GUIDELINE

- Disclosure of controls
- Improper influence on conduct of audits
- Disclosures in periodic reports (Off-balance sheet items)
- Assessment of internal control
- CEO / CFO certification of Financial statements and controls
- Criminal penalties for retaliation against whistle blowers

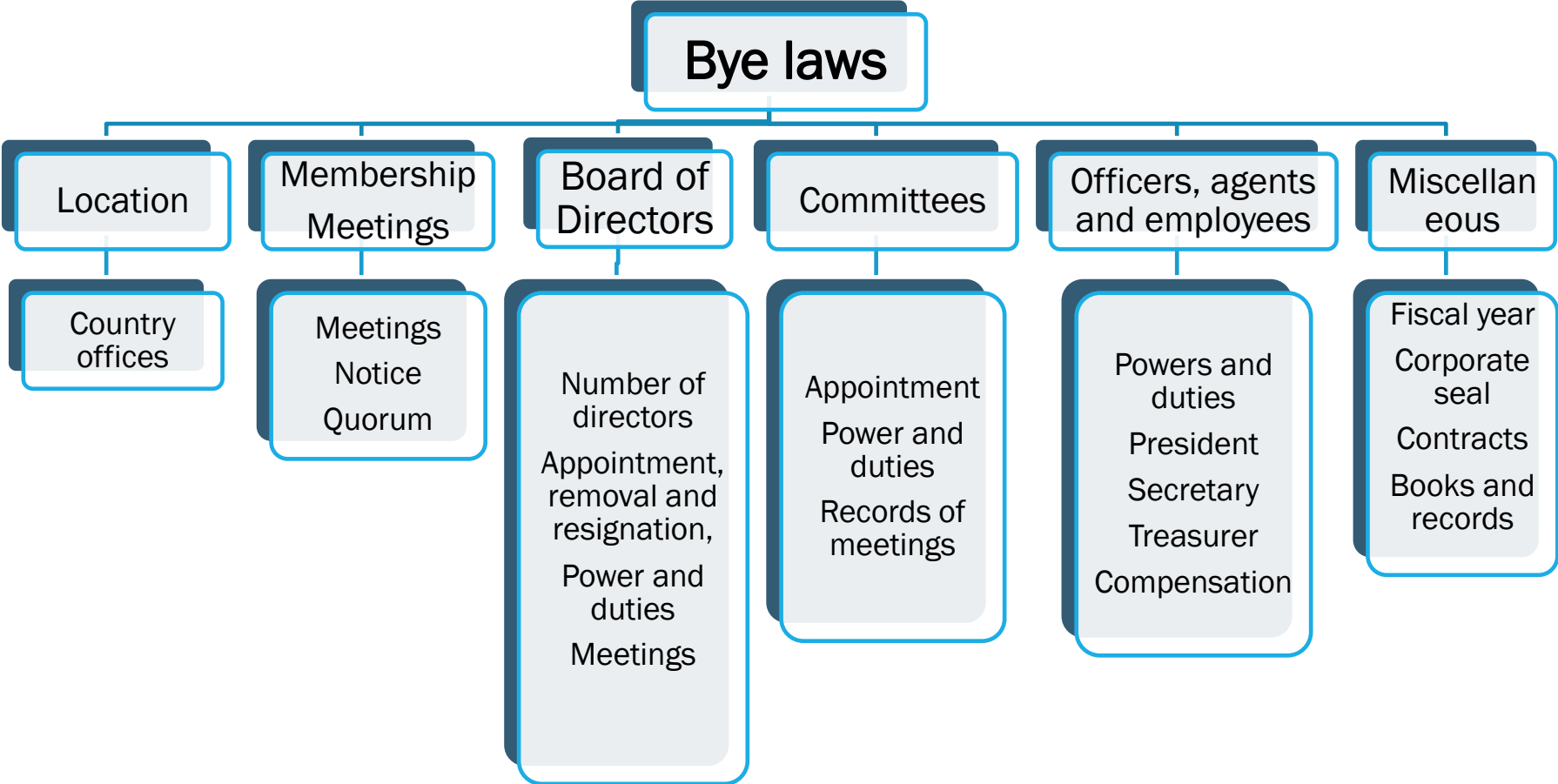
STEPS IN GOVERNANCE PROCESS

- Legal structure
- Setting up Bye Laws
- Governance structure and responsibilities
- Compliance tracking
- Convening of regular Board meetings
- Setting up control environment and robust internal control processes
- Credibility of financial results of the Foundation
- Independent audit of financial results
- Submission of tax returns to Revenue Authorities
- Prevention of conflict of interest in operations
- Develop and implement policy manual across organization

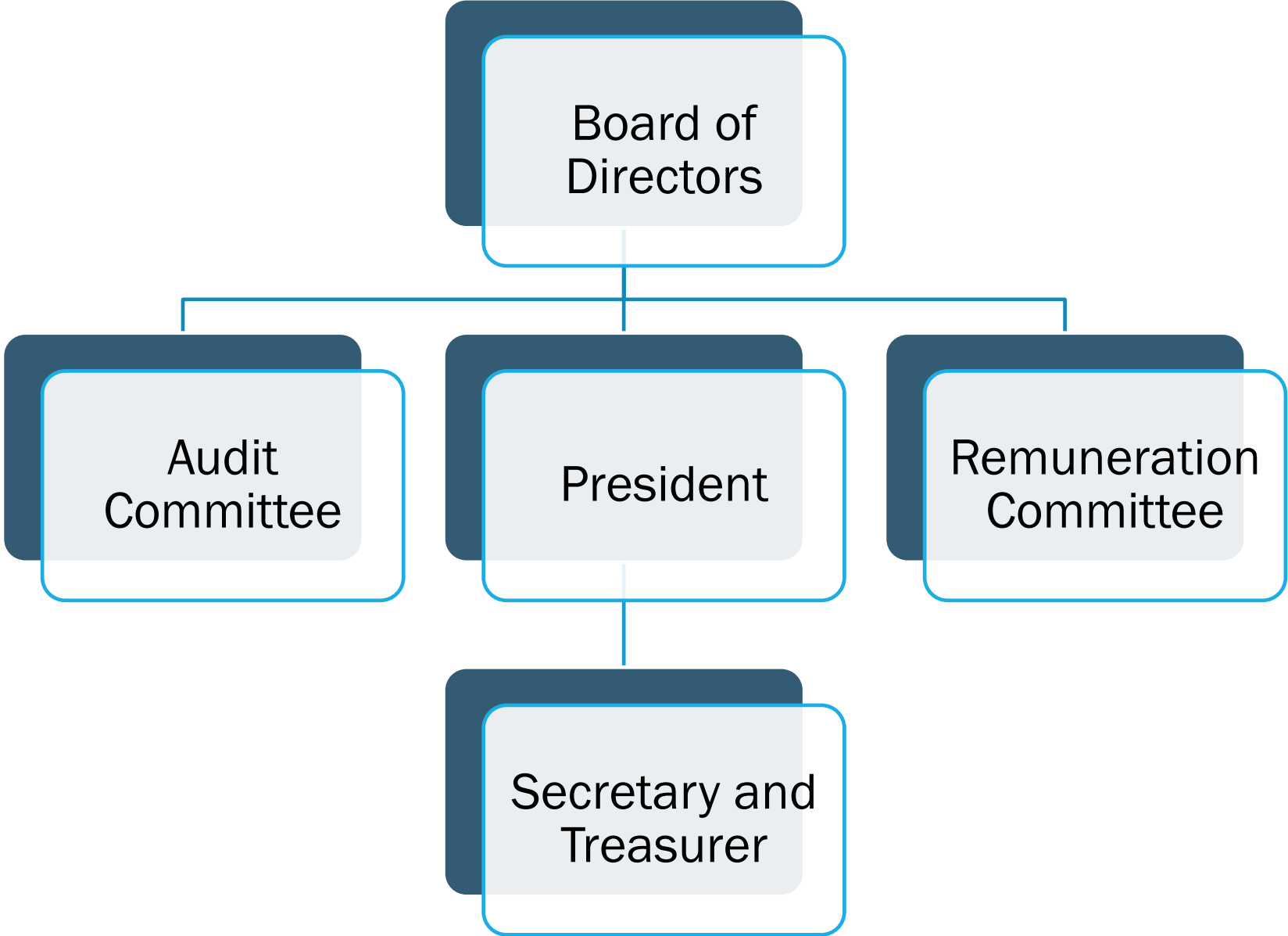
LEGAL STRUCTURE



SETTING UP BYE LAWS



GOVERNANCE STRUCTURE



BOARD OF DIRECTORS

Responsible for the financial management of all activities of the Organization and the specific responsibilities are:

- Approving and overseeing the annual budget.
- Approving signing authority for the bank accounts
- Appointments of staff where not delegated to the President, Executive Director or Country managers
- Approving expenditure above say \$100,000 if not included in the budget.
- Monitoring the financial position based on quarterly reports.
- Approving the annual accounts, auditor's appointment and report.
- Review annual filing of returns as per requirements in the countries of operation.

AUDIT COMMITTEE

Responsible for:

- Assisting and advising the Board with regard to its responsibility for the oversight of financial compliance;
- The review of independent registered public accounting firm's qualifications and independence;
- The review and performance assessment of the corporation's internal audit function and independent registered public accounting firm;
- The filing of Form 990, Return of Organization Exempt from Income Tax, to the Department of the Treasury Internal Revenue Service
- The review of Chief Financial Officer's responsibilities to assure that there is in place an effective system of controls reasonably designed to:
 - Safeguard the assets and income of the organization,
 - Assure the integrity of the organization's financial statements, and
 - Maintain compliance with the organization's policies, plans and procedures, and with laws and regulations.
 - Performing any other duties or responsibilities delegated to the Committee by the Board from time to time.

REMUNERATION COMMITTEE

Responsible for:

- Oversight of the Organization's compensation framework, particularly the study and evaluation of appropriate compensation mechanisms and criteria;
- Compensation levels and arrangements for Associates of the Foundation in accordance with the Bylaws;
- Approve performance management system in accordance with the Human Resource Policy;
- Approve performance based compensation for Associates;
- Performing any other duties or responsibilities delegated to the Committee by the Board from time to time.

PRESIDENT

Accountable to the Board on all financial matters to ensure that activities carried out are consistent with the Organization's financial and accounting policies, authorities and guidelines. Specific responsibilities include:

- Ensure that the accounts are properly audited and that accepted recommendations of the auditors are implemented.
- Make contractual commitments for bank loans and real estate lease or purchase as per the approved budget. If not, included in the approved budget the amount must not exceed say, \$50,000 per transaction.
- Enter into contracts for activities of the organization.
- Formally present accounts, budgets and financial statements at designated meetings of the Board, drawing attention to important points.
- Guide and advise the Board in the approval of budgets, accounts and financial statements.
- Advise the Board on the financial implications of strategic plans and key assumptions included in the operational plan and annual budget.
- Ensure that activities carried out are consistent with the financial and accounting policies and guidelines.
- Raise funds for the operations in collaboration with Country Directors, Managers and Executive Director of International Affairs
- Report the financial results of operations on a quarterly basis.
- Pay all obligations and file required reports in a timely manner.

SECRETARY AND TREASURER

Responsible for compliance with the policies of the organization, supervising the Financial Team and supporting the President. The responsibilities include:

- Manage the accounting procedures and key internal controls to assure the Board of the organization's financial integrity
- Prepare annual budget and present to the President followed by the audit committee prior to presentation to the Board.
- Manage expenses within the parameters of the overall approved budget, reporting to the Executive Director on variances and the reason for these variances.
- Authorize payments and contracts for a value not exceeding say, \$25,000.
- Account for grant specific, donor restricted and Board designated funds separately from general operating funds, and clearly define the restrictions applicable thereto
- Ensure Annual Financial Audits
- Ensure necessary returns and authorizations are filed appropriately as per laws in the country of operations.
- Oversee the compliance with the financial policy
- Oversee Compliance for country registration and all grants and donations of all entities under the Foundation.

COMPLIANCE TRACKING

S. No.	Compliance Requirement	Status
<u>ROC Annual Filing</u>		
1	Balance sheet and Profit and Loss Account (FY-2021-22) -Form AOC-4 to be filed by all companies	Completed
2	Annual Return-Form MGT-7 to be filed for companies having share capital	Completed
3	ADT-1 filing of intimation of Appointment of Auditor	Completed
4	Change of Registered office Address	Completed
5	Audit for the financial year 2021-22	Completed
6	Board Meeting Quarter ended March 2022	Completed
7	Board Meeting Quarter ended June 2022	Completed
8	Board Meeting Quarter ended September 2022	Completed
<u>Income Tax Compliance (ITR)</u>		
1	Furnishing of Income Tax Return AY 2022-23	Completed
2	FORM NO. 3CEB Report from an accountant to be furnished under section 92E relating to international transaction(s) and specified domestic transaction(s) AY 2022-23	Completed
4	Change of Registered office Address	Completed
5	Tax Audit Report and Income tax return For AY 2022-23	WIP
<u>Income Tax (Compliance related to Tax Deducted at Source)</u>		
1	Quarterly filling of TDS Return (Q1 FY 2021-22)	Completed
2	TDS Payment (August 2022)	Completed
3	Downloading TDS Certificates Q1	Completed
4	Change of Registered office Address	Completed
<u>GST Compliance</u>		
2	Gst Return for August 2022	Completed
3	Annual Gst Return for 2020-21	Completed
4	Change of Registered office Address	Completed
<u>Banking Compliance</u>		
1	Change of Registered office Address	Completed

CONVENING REGULAR BOARD AND COMMITTEE MEETINGS

- Fixing and date and time of Board meetings and Committee meetings
- Preparation of notice and agenda of each meeting
- Getting it approved by President and Chair
- Ensuring the meeting has quorum
- Convening the meeting physically or through video conferencing
- Creating the Minutes of Meeting.
- Ensuring that at least two board meetings and Committee meetings are convened during the year.
- Ensuring certification of CEO / CFO on the adherence of compliance matters during the period under review.

SETTING UP CONTROL ENVIRONMENT AND INTERNAL CONTROL PROCESS

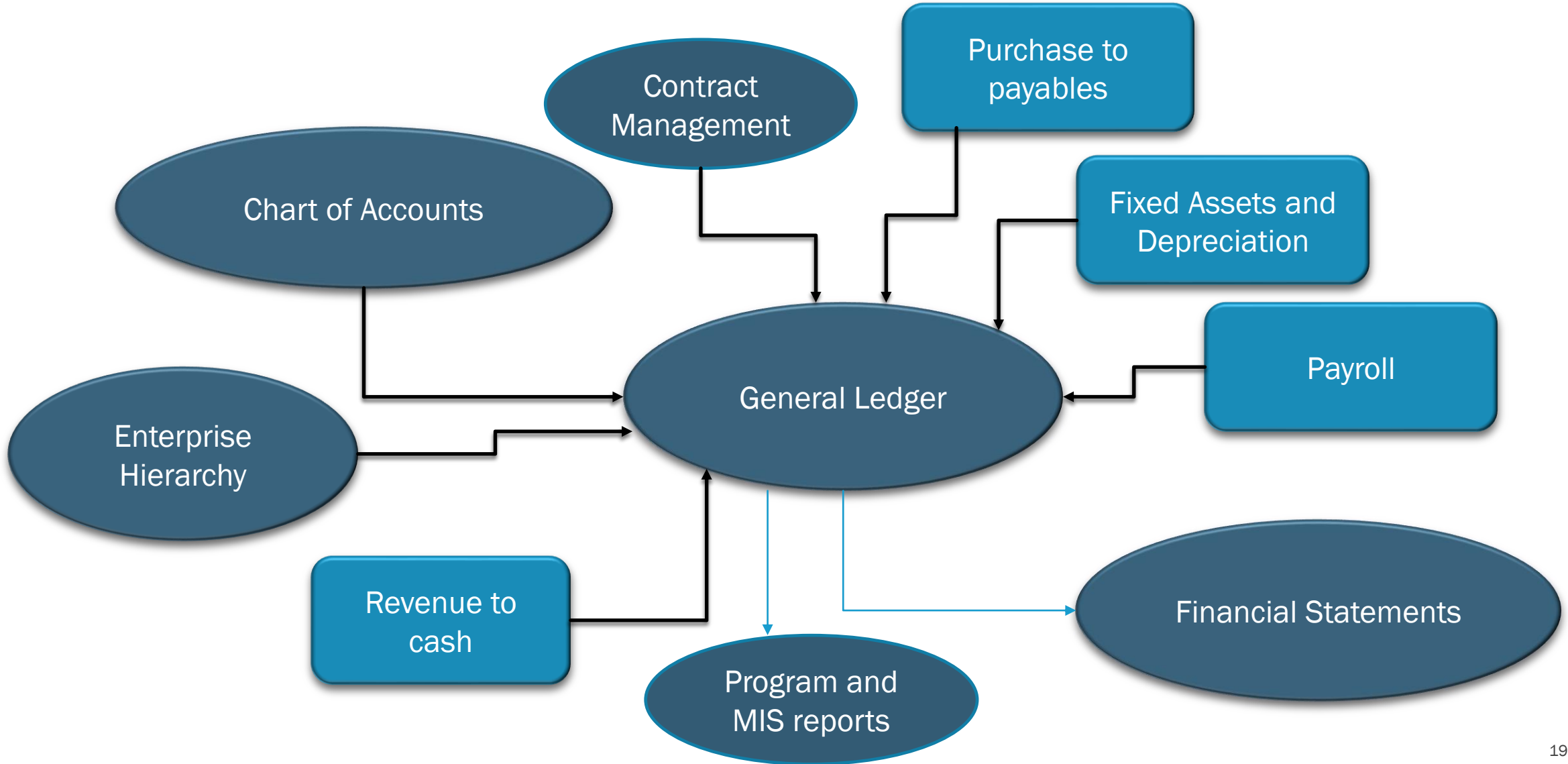
Internal control principles	Process Narrative
<i>(a) Establish Delegation of Authority</i>	Across organization hierarchy and value chain
<i>(b) Assign Accountability</i>	Assign each task to only one person and make him accountable
<i>(c) Segregate Duties</i>	Don't make one employee responsible for all parts of a process, preferably in the lines of segregation of custody, recording and approval functions
<i>(d) Restrict Access</i>	Don't provide access to systems, information, assets, etc. unless needed to complete assigned responsibilities; except for the power user/system administrator, no single user can have access to the entire system
<i>(e) Document Procedures and Transactions</i>	Prepare documents to show that activities have occurred; Develop audit trail of each activity
<i>(f) Independently verify</i>	Check others' work, introduce maker, checker and approver concept

DELEGATION OF AUTHORITY

Delegation of Authority is a set of structured financial authority limit approved by the Board of Directors based on executive roles and responsibilities as a part of the corporate governance process and control. An example of delegation authority matrix is shown below.

Item	Board of Directors	President	CFO	Regional Director	Program Lead
Expenditure if budgeted	-	All expenditure as per budget	Up to \$ 50,000	Up to \$ 50,000	Up to \$ 15,000
Expenditure if not budgeted	Above \$ 50,000 if not budgeted	Up to \$ 50,000 if not budgeted	-	-	-
Approval of grant proposals	-	Above \$ 50,000	Up to \$ 50,000	Up to \$ 50,000	Up to \$ 15,000
Program contracts	Above \$ 100,000	Up to \$100,000	Up to \$50,000	Up to \$50,000	Up to \$15,000
Employment contracts		Above \$50,000	Up to \$50,000	Up to \$50,000	Up to \$15,000
Expense reimbursement		Above \$50,000	Up to \$50,000	Up to \$50,000	Up to \$15,000
Sub grants		Above \$50,000	Up to \$50,000	Up to \$50,000	Up to \$15,000
International travel		All approvals by President			
Domestic travel			Approval on portal	Approval on portal -	Approval on portal -
Capital expenditure			More than \$ 250		
Petty cash			Up to \$ 100	Up to \$ 100	Up to \$ 100

GENERATING CREDIBLE FINANCIAL RESULTS



GENERATING CREDIBLE FINANCIAL RESULTS

- ❑ Implement bottom-up budgeting process with detailed allocation of expenses to each project rolled up to each vertical
- ❑ Perform financial closure every month and track budget versus actuals for each project including opening and closing balance tied to bank account balance
- ❑ Carry out a robust rolling forecasting process by comparing revenue traction with expense burn rate per month, identifying surplus or deficit in future months and creating an alert to the operations management if there is any pending deficit in any running project.
- ❑ Since the projects are not of commercial nature, the finance team needs to ensure that the deficit of one project is not cross funded from surplus from other projects and each project need to stand on its own feet.

INDEPENDENT AUDIT OF FINANCIAL RESULTS

- ❑ Ensuring conduct of independent audit of the Financial Statements of the organization consisting of :
 - Statement of Financial Position
 - Statement of activities – Revenue less expenses
 - Statement of Cash flows
 - Statement of Functional expenses – bifurcated between, program, overhead and fund raising activities
- ❑ Ensuring getting a clean opinion from the auditors
- ❑ If there is a qualified opinion, then the explanation may be sought from the Officers by the Audit Committee and the Board of Directors
- ❑ If any Fraud is detected in the organization, the auditors need to be informed separately on this along with action taken report related to the incident
- ❑ Present the audited financial results to the Audit Committee and the Board of Directors

SUBMISSION OF TAX RETURN TO REVENUE AUTHORITIES

- The Secretary and Treasurer needs to appoint a tax consultant to file the Tax compliance report
- The report needs to be finalized, reviewed by the functionaries of the organizations and filed with the Revenue Authorities.
- The assessment proceedings related to any taxable returns need to be conducted by the Secretary and Treasurer along with Finance team and legal counsel.

PREVENTION OF CONFLICT OF INTEREST IN OPERATIONS

- Secretary and Treasurer needs to assess conflict of interest of all functionaries in the organization.
- If any such case is detected it needs to be reported to the President, Audit Committee and Board of Directors.
- The Board of directors assisted by the Audit Committee may review the issue and take appropriate decision related to the detected conflict of interest.

DEVELOP AND IMPLEMENT POLICY MANUAL

The organization needs to develop and implement Policy manual approved by the Board of Directors
In the following areas:

- Delegation of Authority
- Financial Policies
- Human Resources Policies
- Information and Data Management Policy
- Gender Diversity Policy

Once the policies are approved by Board, it needs to be cascaded down the organization for Information and adherence.

BENEFITS OF ROBUST GOVERNANCE PROCESS

- Improves Corporate performance through effective strategy and execution capabilities
- Augments Accountability
- Enhances investor trust and confidence
- Combat corruption through robust enterprise control processes
- Builds trust from donors
- Opens doors to prospective funding opportunities
- Improves Enterprise Risk Management
- Assists quality of decision making



THANK YOU!