GOVERNANCE PRINCIPLES

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EXECUTIVE OVERVIEW OF EESA GOVERNANCE PRINCIPLES

This section provides an executive overview of "good governance principles" that the EESA needs to follow to meet its obligations. Further background to these governance principles can be found in the section "THE EESA GOVERNANCE PRINCIPLES IN DETAIL" starting on page 3.

Corporate governance refers to the policies, systems and processes put in place to control and monitor – or 'govern' – an organisation. Good governance is embedded in the good behaviour and the good judgement of those who are charged with running an organisation.

EESA is a Technical Society of Engineers Australia and we have a number of "partnership" responsibilities due to that relationship. The EESA is a registered NSW Incorporated Association and as such we have a standalone responsibility to meet the regulatory requirements of NSW Fair Trading and ASIC and thus members of the EESA National Council have certain governance statutory responsibilities to fulfil.

Good governance can offer a number of important benefits to organisations like EESA, including:

- Better organisational strategies and plans.
- Improved operational effectiveness.
- More prudent regulatory compliance, financial and risk management.
- Improved member and stakeholder engagement and communication flow.
- Increased likelihood and degree to which an organisation actually delivers on its purpose.

Effective governance structures allow organisations to create value, through innovation, development and exploration, and provide accountability and control systems commensurate with the risks involved.

No matter the size, purpose and maturity of the NFP, directors need to consider various issues including whether they have the right structures and current constitutions in place to:

- Exercise their authority appropriately.
- Ensure controls and the right depth of financial knowledge is being applied for the good of the NFP and their own individual protection.
- Members are being well serviced by the organisation
- That the right "perceptions" are created as well as the organisation is "doing the right thing" by all its members.

The following ten principles are seen to provide a useful starting point for "Not for Profit Boards" when considering what constitutes good governance in an organisation's particular circumstances. These 10 principles are based on "The Good Governance Principles and Guidance for Not-for-Profit Organisations" that were developed by the Australian Institute of Company Directors. (There is a link from each of the following headers to a more detailed explanation of the "governance principle."

1. **Roles and Responsibilities**

There should be clarity regarding individual director responsibilities, organisational expectations of directors and the role of the board.

2. **Board Composition**

A board needs to have the right group of people, having particular regard to each individual's background, skills and experience, and how the addition of an individual builds the collective capability and effective functioning of the board.

3. **Purpose and Strategy**

The board plays an important role in setting the vision, purpose and strategies of the organisation, helping the organisation understand these and adapting the direction or plans as appropriate.

4. **Risk - Recognition and Management**

By putting in place an appropriate system of risk oversight and internal controls, boards can help increase the likelihood that their organisation will deliver on its purpose.

5. **Organisational Performance**

The degree to which an organisation is delivering on its purpose can be difficult to assess, but this can be aided by the board determining and assessing appropriate performance categories and indicators for the organisation.

6. **Board Effectiveness**

A board's effectiveness may be greatly enhanced through:

- careful forward planning of board-related activities;
- board meetings being run in an efficient manner;
- regular assessments of board performance;
- having a board succession plan;
- the effective use of sub-committees, where appropriate.

7. **Integrity and Accountability**

It is important that the board have in place a system whereby:

- there is a flow of information to the board that aids decision-making;
- there is transparency and accountability to external stakeholders; and
- the integrity of financial statements and other key information (e.g., member information) is safeguarded.

8. **Organisation Building**

The board has a role to play in enhancing the capacity and capabilities of the organisation they serve.

9. **Culture and Ethics**

The board sets the tone for ethical and responsible decision-making throughout the organisation. (Again, this is about doing the right thing and the public/members also seeing that the board/organisation is "doing the right thing" (i.e. – the public perception).

10. Engagement

The board helps an organisation to engage effectively with stakeholders.

This document sets out the key Governance Principles that the National Council of the Electric Energy Society of Australia should commit to for the good governance of EESA for the greatest benefit to its members. National council members should consider all aspects of “the 10 principles” and how individual “directors” and the national council collectively should act to achieve good governance to ensure the success of EESA.

THE EESA GOVERNANCE PRINCIPLES IN DETAIL
This document sets out the key Governance Principles that the National Council of the Electric Energy Society of Australia should consider in its commitment to the good governance of EESA for the greatest benefit to our members.

Background
The EESA is a registered NSW Incorporated Association.

An incorporated association has its own legal identity separate from its members, providing protection to members in legal transactions. An incorporated association:
- is a 'legal entity'
- can enter into and enforce contracts in its own name
- can open a bank account
- can hold, acquire and deal with property in its own name
- can sue or be sued
- continues, even though its members may change.

While there are benefits to be gained from incorporation, there are also obligations. These include annual reporting obligations, maintaining minutes, proper financial and membership records and registers. The **EESA National Council** (sometimes called the **'committee of management'** or **'board'**) is responsible for managing the affairs of the association, in accordance with its constitution and the *Associations Incorporation Act 2009* (the Act).

Thus, the EESA National Council can be considered as the “Board of Directors” of EESA and in the following document the term director is regularly used.

The role of the EESA National Council
(This section is based on information provided by ASIC for the guidance of company office holders/directors running a “mutual” company.)

The role can be defined as:

- managing the association's financial affairs and maintaining its financial viability
- ensuring the association acts in accordance with its objects or purposes
- meeting all legal requirements.

National Council members/directors are elected and hold office according to the association's constitution. Each member of the Council should be familiar with the association's constitution and legal obligations. The constitution of an incorporated association must set out the composition and function of the Council. It must also make provisions regarding:

- the election of Council members
- the terms of office of the Council members
- the grounds on which, or reasons for which, the office of a Council member is to become vacant
- the minimum number of Council members required for a quorum; and
- the procedures at meetings of the Council.

What are the responsibilities of the Council members? Council members have specific functions and responsibilities under the Act, including:

- ensuring all documents in their possession that belong to the association are delivered to the public officer within 14 days after vacating office
- ensuring that the register of Council members contains all the required particulars
- disclosing an interest in a matter that conflicts with the performance of their duties
- ensuring information obtained as a Council member is not used dishonestly
- ensuring their position as a Council member is not used dishonestly
- carry out his or her functions for the benefit, as far as practical, of the association and with due care and diligence
- appointing a public officer and ensuring that any vacancy is filled within 28 days
- appointing additional authorised signatories and removing such appointments
- ensuring that annual general meetings are held within 6 months after the close of the association's financial year
- ensuring proper minutes and financial records are kept and financial statements prepared in accordance with requirements for either a Tier 1 or Tier 2 association. (Note that EESA is a Tier 1 organisation. The definition of a Tier 1 organisation is “if the gross receipts/total revenue of the association for the association's financial year exceeds $250,000, OR the current assets of the association for the association's financial year exceeds $500,000”. Tier 1 associations must have their financial statements audited and must lodge this form together with the documents listed under the heading Checklist on the form).
- lodging an annual summary of financial affairs with the prescribed fee within 1 month of the association's annual general meeting
- ensuring that the association's full name appears on all official documents and publications
- ensuring that the association does not incur debts that are not expected to be repaid
- ensuring that the association does not do any act with intent to defraud
- ensuring that documents addressed to the association are brought to the attention of the Council as soon as practicable
- complying with any additional duty set out in the constitution.

In addition, members of the Council should:

- be aware of the duties of the public officer and ensure they are properly carried out
- ensure that new Council members are aware of their statutory obligations and responsibilities to the association
- ensure that appropriate internal financial controls are implemented for all payments made on behalf of the association. As a matter of **good corporate governance**, the Council should provide oversight and authorise/approve payments regularly. As a minimum, this should be undertaken at each Council meeting.

What is Corporate Governance?
Corporate governance refers to the systems and processes put in place to control and monitor – or ‘govern’ – an organisation. Good governance is embedded in an organisation by the good behaviour and the good judgement of those who are charged with running an organisation.

Good governance can offer a number of important benefits to an organisation like EESA, including:

- Better organisational strategies and plans.
- Improved operational effectiveness.
- More prudent regulatory compliance, financial and risk management.
- Improved member and stakeholder engagement and communication flow.
- Increased likelihood and degree to which an organisation actually delivers on its purpose.

Effective governance structures allow organisations to create value, through innovation, development and exploration, and provide accountability and control systems commensurate with the risks involved.

The following ten principles provide a useful starting point when considering what constitutes good corporate governance in an organisation's particular circumstances. The 10 principles and supporting information are based on "The Good Governance Principles and Guidance for Not-for-Profit Organisations" that were developed by the Australian Institute of Company Directors. These 10 principles are set out in the following pages and have been adapted as far as possible to the context of EESA as an organisation and what is required for the successful operational of the EESA National Council.

1. ROLES AND RESPONSIBILITIES

There should be clarity regarding individual director responsibilities, organisational expectations of directors and the role of the board.

The role of "the board" (the EESA National Council) usually involves certain core elements, such as:

- Determining, reviewing and maintaining the vision, purpose and values of the organisation.
- Approval of short and long-term strategies.
- Approval of annual budgets.
- Approval of expenditure.
- Appointment, performance evaluation and (if circumstances necessitate) termination of the contract of the **Secretary/Executive Officer.** (Called the **EO** from now on).
- Risk oversight.
- Providing a check on the integrity of external financial and non-financial reports.
- Any additional monitoring of the activities of the organisation in order to satisfy itself that EESA is being properly managed.
- Supporting effective engagement with key stakeholders.

To ensure clarity of roles the board needs to have a charter and protocols which help define its role and set out particular types of decisions that are reserved for the board (e.g., by reference to expenditure limit).

The charter and protocols should cover how the chair and the board are expected to interface with the EO. The chair and EO roles need to be clearly defined. There need to be clearly documented delegations of authority from the board to the EO. Note that the normal protocols in a "company" are such that the EO normally only takes direction from the "Chair" with all other directors having to put any request for action by the EO via the Chair for approval. (This normally only applies to Policy matters and issues that require the use of significant resources. Requests for "day to day/normal" operational matters will generally be OK).

Some questions for consideration

- Does the board have a charter and protocols which help define its role and set out particular types of decisions that are reserved for the board (e.g., by reference to expenditure limit)?
- Do the charter and protocols cover how the chair and the board are expected to interface with the EO?
- Is the chair, treasurer, chapter chair and EO roles clearly defined?
- Are there clearly documented delegations of authority from the board to the EO?

An important issue for consideration is the actions of EESA's various stakeholder groups (e.g., members nominated by a state) "represented" on the board. This can help to promote an appropriate diversity of views and add to a sense of involvement by those groups "represented". Boards can experience difficulties, however, if individual directors regard themselves only as representatives of a particular group. It is important to remember that even though a director's election/appointment may be because he or she is associated with a particular group or might look like they represent certain "constituents", directors must in practice act in the interests of the whole organisation and apply an independent mind to the board's work and decision-making.

Some questions for consideration
- Are the roles and responsibilities of individual directors, the board, chair and management of the organisation clearly set out in the organisation's constitution and/or its governance charter?
- Are board members aware of their duties and what is expected of them?
- Do new board members receive a letter of engagement that sets out their role and responsibilities?
- Do new board members receive an orientation or induction regarding the organisation, their role and responsibilities and conflict of interest parameters?

2. BOARD COMPOSITION

A board needs to have the right group of people, having particular regard to each individual's background, skills and experience, and how the addition of an individual builds the collective capability and effective functioning of the board.

To be effective a board needs the right group of people, with an appropriate mix of skills, knowledge and experience) that fits with the organisation's objectives and strategic goals. Organisations look at selecting directors who bring skills including:

- Strategic expertise – the ability to guide and review strategy through constructive questioning and suggestion.
- Accounting and finance – the ability to read and comprehend the Not for Profit (NFP)'s accounts, financial material presented to the board (any financial reporting requirement) and some understanding of the organisation's financial drivers/funding and business model.
- Legal – the board's responsibility involves overseeing compliance with numerous laws as well as understanding an individual director's legal duties and responsibilities.
- Managing risk – experience in managing areas of major risk to the organisation.
- Managing people and achieving change.
- Experience with dynamics of "fundraising".
- Specific industry knowledge – passion for the cause, experience in similar organisations, sectors or industries including CIGRE, CIRED, Standards Australia, EA, API etc

There is also a need for directors to be able to give sufficient time and effort to their board role.

Thus - is there a well-defined and transparent process for board recruitment, including nomination and selection (to the extent that the election of directors is determined by EESA members with no direct from control the board)?

Has consideration been given to how the board is composed (and/or refreshed), including the potential use of tools like a “skills and experience matrix” to ensure the board has directors with:

- Appropriate skills, capability and capacity, having regard to the organisation, its purpose, operations and its needs.
- Sufficient diversity of relevant experience and perspective.
- Are potential board members able to commit the time required for their role?

The size of a board is a factor that can influence its effectiveness. The main point here is that bigger is not necessarily better.

- Is the board of a size that is sufficient to enable it to have the necessary knowledge, skills and experience for the organisation, but small enough to enable effective discussion and decision-making?
- Have circumstances changed such that the current size of the board should be reassessed?

Whilst this area does not apply to EESA under the current constitution, in some NFP organisations directors are sometimes appointed for a term (e.g., three or four years), which may or may not be renewable. The longer the term, the more difficult it is likely to be for a board refresh. Care should also be taken to help ensure that individual board terms are appropriately staggered, so that there is a continuity of appropriate knowledge, skills and experience on the board, as well as continuity on organisation and board-specific issues.

Thus - what is an appropriate length of term in the organisation’s circumstances? Is there a need for some in-built flexibility to permit valuable contributors to continue on the board beyond the standard term? Are terms of board members staggered in such a way so as not to cause undue disruption to the board and organisational activities upon resignation at term completion?

The chair occupies a pivotal role in determining the effectiveness of a board. The chair, amongst other things, serves as the primary interface between the board and the EO, presides at board meetings and annual general meetings, and often is the “face” of the organisation.

Attributes of a good board chair would include but not be limited to:

- Provides overall effective leadership to enhance the effectiveness of the board
- Has the confidence of the board
- Has a productive working relationship with the EO
- Has a good understanding of the organisation’s purpose and operational challenges
- Has the skills to ensure the board works as a cohesive team
- Is an effective “conductor” of board meetings [see Principle 6 later]

A core part of a board’s activities involves appointing and supervising the performance of an appropriate EO. Often the chair will serve as a sounding board for ideas or proposals considered by the EO. Some circumstances may also necessitate the board terminating an EO’s services contract.

Some questions for consideration

- Does the chair have demonstrated leadership qualities?
- Does the chair have the confidence of the board?
- Does the chair have the right balance between support and control in their relationship with the EO?
- Does the chair have the respect of the EO?
- Has the chair and board agreed a protocol on how the EO is to interact/ interface with the board (taking into account roles and responsibilities have been clearly defined)?
- How effectively does the chair "conduct" board meetings?

3. PURPOSE AND STRATEGY

The board plays an important role in setting the vision, purpose and strategies of the organisation, helping the organisation understand these and adapting the direction or plans as appropriate.

It is critical to define clearly for EESA:

- Why it exists
- What it does
- For whom it does things
- How it aims to do those things
- How it will measure its success

Key functions of the board typically include:

- Determining the vision and purpose of the organisation
- Setting strategic organisational objectives aligned with the purpose
- Working with management of the organisation to develop a set of plans that align with the vision, purpose and strategic objectives
- Supporting management in the implementation of the plans
- Monitoring and evaluating the degree of success against these plans and objectives

A vision by its nature is usually aspirational. It sets out what the organisation wants to accomplish into the future, and should be something that inspires members, staff, volunteers, financial supporters and others. Vision and statements of purpose go to the heart of many NFPs and as such they are often the product of a collaborative process involving considerable thought and debate.

It is considered good practice to have an organisation's vision, purpose, strategic goals and plans clearly articulated and outcomes measured in an appropriate and agreed way.

It is necessary to periodically review (e.g., every 3-5 years) the organisation's vision, purpose and strategies to determine whether they are still appropriate for the organisation or need amending. Another key element of an organisation's strategic planning is the values of the organisation. Values are discussed a little more in Principle 9, where the 'culture' of an organisation is examined.

Some questions for consideration

- Have the vision and purpose of EESA been well thought through, clearly articulated and set out in the organisation's constitution or other binding charter of existence?

- Have the vision and purpose of EESA been communicated throughout the organisation and among stakeholders?
- How frequently should the board review the EESA's purpose and strategies to assure their continuing relevance and effectiveness?
- Does the strategic plan align with the EESA's statement of purpose?
- Does the board accept responsibility for the manner in which the organisation is to deliver its purpose?
- Do all of EESA's actions/activities align with its strategy?
- What actions can the board undertake to help ensure the organisation has a clear idea of its vision and purpose and that there is an appropriate set of strategies and plans designed to help achieve these?
- Does the board have time set aside in its yearly calendar for focused strategy development?
- Is strategy alignment considered as a factor in every board decision?
- Does the board regularly review the progress of implementing the strategic plan?

4. RISK - RECOGNITION AND MANAGEMENT

By putting in place an appropriate system of risk oversight and internal controls, boards can help increase the likelihood that their organisation will deliver on its purpose.

Risk is another board responsibility, no matter how big or small the organisation. Organisations should establish a sound system of determining risk appetite, oversight, recognition, management, treatment and control. Directors showing clear leadership on a responsible approach to risk will have a significant and positive impact on promoting a healthy culture throughout the organisation [see Principle 9].

There is a vast array of risks that NFPs should consider, including but not limited to:

- Staff or employment issues (e.g., wrongful dismissal, harassment)
- Volunteers (e.g., injury to the individuals themselves and/or damage caused to others or property as a result of their inadequate training or screening)
- Physical spaces and equipment (e.g., fire, workplace health and safety issues, theft or misuse, public liability)
- Records (e.g., legal requirements to keep records, confidentiality)
- Cash receipts and payments (e.g., inaccurate records, lack of internal checks and balances) Financing (e.g., grant dependent organisations)

It can be helpful to think of risks in broad categories, such as:

- Compliance risks (e.g., failure to lodge statutory information in allowed time)
- Financial risks (e.g., loss of funding, insolvency, expense blow-out)
- Governance risks (e.g., ineffective oversight)
- Operational or program risks (e.g., poor service delivery)
- Environmental, including event risks (e.g., natural disasters and states of emergencies)
- Brand and reputational risks (e.g., due to worsened stakeholder or community perceptions, from major event failure or adverse commentary on performance via traditional and/or digital and social media channels)
- Strategic risks (e.g., stakeholder behaviour change, increased competition for funding)

For member-based associations, an important risk needing attention might be ensuring confidential information pertaining to members is kept secure.

A conventional approach to risk management (some of which a board may delegate to management, provided there is adequate reporting to and monitoring by the board) would require the board to:

- Identify risks, particularly principal risks, facing the organisation.
- Analyse these risks (What category are they? How likely are they? How material)?
- Establish the organisation's risk 'appetite'.
- Prioritise risks (e.g., by ranking).
- Develop a risk register containing information such as likelihood, materiality and prioritisation.
- Develop and implement strategies to manage the risks, as appropriate, including consideration of:
  - Risk avoidance (e.g., don't do the activity that gives rise to the risk).
  - Risk transfer (e.g., insurance).
  - Risk mitigation (e.g., limits of activity); and/or risk acceptance.
  - Monitor identified risks and how these are being handled on a regular basis.
  - Ensure identified risks are written into the job descriptions of any relevant staff, clearly setting out responsibility and accountability.
  - As part of regular reviews, consider whether there are additional risks that need to be assessed and managed, and whether existing strategies to manage risk need to be modified.

A board's oversight of risk may benefit from the establishment of a separate committee or be included in an Audit Committee's responsibilities. If a risk management committee is formed, it should have a clear charter or terms of reference agreed by the board. A common practice would be for the committee chair to report to the full board at the board meeting following each Committee meeting.

Some questions for consideration

- Are there appropriate policies and procedures in place to enable effective oversight and management of risks, including but not limited to identification of principal risks (e.g. on-going funding) and effective management of those risks?
- Does the board devote time in its agenda to consider risks?
- Has the board discussed its risk appetite?
- How often does the board conduct a comprehensive risk governance review (including an assessment of effectiveness)?
- Has management designed and implemented systems to give effect to policies and procedures endorsed by the board, and to periodically report to the board on whether, and the extent to which, those risks are effectively being managed?
- Does the board have access to external professional assistance and advice in identifying and developing strategies to manage and mitigate risk?

5. ORGANISATIONAL PERFORMANCE

The degree to which an organisation is delivering on its purpose can be difficult to assess, but this can be aided by the board determining and assessing appropriate performance categories and indicators for the organisation.

An important consideration is the degree to which the organisation's available resources are being utilised in an efficient and effective manner to achieve stated outcomes. Is the organisation getting maximum desired impact from and avoiding wastage of precious resources?

Organisations should identify the resources (human, financial, physical and intellectual/intangible) they need in order to deliver on their purpose and plan how those resources will be made available to and best managed by the organisation.

Once an organisation has decided on its purpose and related strategies (see Principle 3), it is common practice as part of a strategic planning process to choose measures or indicators that enable the board to track progress i.e., the key performance indicators (KPIs) to measure the organisation's performance on execution of its strategy and achievement of its purpose.

In general, measures should be:

- Meaningful to the organisation
- Capable of being measured and acted upon
- Timely
- Cost effective to produce
- Capable of allowing comparisons (e.g., over different time frames, between projects, with external benchmarks)

Some questions for consideration

- Is there a clear and agreed view among board members and key stakeholders as to "what success looks like" for EESA (qualitative and quantitative outcomes)?
- Does management, under the oversight of the board, manage the organisation's resources to ensure their availability for the organisation's needs?
- Does the organisation keep records for its inputs (e.g., volunteer hours) and its outputs (e.g., number of clients serviced)?
- What financial and non-financial objectives have been set by the board? How are these measured and reported?
- Does EESA have directors capable of assessing both financial and non-financial performance?
- Does management regularly report progress to the board on resource planning and management for the organisation?

6. BOARD EFFECTIVENESS

A board's effectiveness may be greatly enhanced through: careful forward planning of board-related activities; board meetings being run in an efficient manner; regular assessments of board performance; having a board succession plan; and the effective use of sub-committees, where appropriate.

The way in which the board is structured and operates can have a direct impact on the ability of an organisation to meet its strategic objectives. To improve a board's effectiveness the directors should consider:

- Appropriate board structures
- Planning activities in advance
- Running meetings efficiently
- Assessing board and director performance regularly
- Making effective use of board sub-committees

- Board succession planning [see Principle 2]

Subject to their purpose, size and constitution, NFPs should consider the appropriate governance structure for their board to meet their specific needs. For example, whether the NFP would benefit from having a two-tiered structure – with a board of suitably experienced directors and an advisory panel/committee.

Some questions for consideration
- Has the board considered how best to meet its needs from a governance and structural perspective?
- Are there technical experts or advisors who may be better suited to sitting on an advisory panel, rather than the NFP board itself?

It is common for many boards to use a "board calendar" and have a work plan, whereby important and recurring governance matters are assigned to particular board or board committee meetings. For example, matters such as approval of budgets, a board strategy session, approval of financial statements, EO performance review and remuneration review. Many boards also have a program of stakeholder engagement [see Principle 10].

Some questions for consideration
- Does the board have a calendar and work plan covering important and recurring governance matters?
- Does the board schedule discussion on strategy throughout the board calendar?
- Does the work plan allow sufficient preparation time by board committees, management and any advisors supporting them, to achieve calendar deadlines?

Elements of a good board meeting would typically include:

- A clear, concise and focused board agenda, covering the right matters
- Papers delivered in good time (from the EO) containing relevant, timely and accessible intelligence in a style and format that enables appropriate analysis
- Prepared participants
- An effective meeting chair
- Relevant, robust and respectful debate
- Minutes that accurately record information and decisions, that are finalised promptly

Part of the chair's role would include:

- Having the meeting start and finish on time
- Helping to ensure important issues are included on board agendas and board members have sufficient time to read board papers
- Promoting inclusive debate and an appropriate tone throughout discussions
- Dealing effectively with dissent

Factors that contribute to poor meetings include:

- Poor performance by the chair
- Absenteeism by board members

- Conflict of interest issues not being appropriately dealt with
- Dominant chairs and/or Board members and or EOs taking over board meetings/making decisions without, sufficient regard for other directors' views
- Board members seeing themselves as representing the interests of a particular stakeholder or group of stakeholders rather than the interests of an organisation as a whole
- Inappropriate agenda and papers (e.g., too detailed or not detailed enough, important information is missing or buried, wrong ordering of items of board papers)
- Not enough time allowed for pre-reading and/or board discussion

Some questions for consideration
- Do board meetings keep to schedule, starting and finishing on time?
- Are items requiring board consideration and approval tabled appropriately?
- Are meeting agendas sufficiently focused?
- Is enough time provided for reading of materials prior to each meeting and for board discussion on items of importance?
- Does discussion occur in a constructive manner?
- Are comments invited by the chair formal board members?
- Is respect and collegiality maintained throughout and between all board meetings?
- Where there is disagreement on issues among board members, how is this handled?

It is suggested that the board should periodically review its effectiveness with a view to taking steps to improve the quality of its governance, boardroom discussion and decision-making. The performance of the board might be enhanced, for example, by:

- A board orientation for new board members
- Mentoring of less-experienced directors
- Allocation of appropriate resources to the professional development of board members

Some questions for consideration
- Does the board evaluate and review the performance of its board members?
- How often does the board assess its performance and the overall quality of governance?
- Is there a lack of particular skills, knowledge or experience which are needed on the board for it to function effectively? (e.g., industry experience, experience in fundraising, financial literacy)
- What is the process by which the board reviews the skills, knowledge and experience of existing directors and determines any gaps?
- Does the board use the induction process, director reviews and gap analysis to assess continuing professional development needs (relevant to the organisation) and to enhance the relevant skills and knowledge of board members and key management personnel?
- Are board decisions being hampered by a lack of collegiality among board members?
- What steps does the board take to promote a cohesive board team, both as part of a regular performance assessment and for new board appointments?

Sometimes it makes sense for the detailed work of boards to be considered by board committees. Board committees can play a key role in assisting the board to fulfil its corporate governance responsibilities, and provide a vehicle for enhancing the participation of non-executive directors. In particular, board committees can help to:

- Pay more detailed attention to designated areas that is not feasible in a full board meeting.
- Share the workload among board members.

- Address potential conflicts of interests (e.g., Consideration of executive remuneration when there are executive directors).
- Streamline full board meetings and thereby enable the board to function more effectively.

Importantly, the use of board committees does not diminish the responsibilities of those board members who are not on the sub-committee.

The matters considered by a board committee remain decisions of the board for which the entire board must take responsibility.

Common board committees include, but are not limited to a:

- Nomination, governance or human resources committee
- Remuneration committee
- Audit committee
- Risk committee
- Investment committee
- Fundraising committee

Where board sub-committees are formed, they need, among other things, clear terms of reference, and ideally a regular review of the ongoing need for such a committee and its charter.

Some questions for consideration

- Consistent with the EESA's constitution and structure, in what areas (e.g., board nominations, audit, remuneration, risk, fundraising), if any, might governance be enhanced through the use of board sub-committees?
- If board sub-committees were to be used, they would need to have clear terms of reference.
- There would need to be a clear process by which the chair of each board committee reports back to the full board regarding the activities of the committee.

7. INTEGRITY AND ACCOUNTABILITY

It is important that the board have in place a system whereby: there is a flow of information to the board that aids decision-making; there is transparency and accountability to external stakeholders; and the integrity of financial statements and other key information is safeguarded.

Appropriate and timely information

Essential to good governance is an effective working relationship between the chair, directors and the EO. It is critically important that there is a clear understanding of, and agreement on:

- Roles and responsibilities
- The required mix of directors
- How effectively the board operates
- How effectively the board interacts with management
- The board's accountability to its constituents
- Directors' accountability to one another

A foundation of a healthy board and management relationship is the content and quality of the information that meets the board's reasonable expectations. For directors to fulfil their role and carry

out their responsibilities with integrity and ensure appropriate accountability, they need to have current and relevant reports containing information of the type described below.

The “health” and performance of the organisation are critical items for the board to be focusing on as part of its regular monitoring. In organisations larger than EESA, it is generally regarded as useful for boards to have a report from management at each board meeting that, among other things, gives a good sense of:

- How the organisation is tracking against its purpose and plans; the financial health of the organisation
- Major strategic project reports
- Material risk updates
- Any important regulatory, compliance and reporting obligation matters

Some questions for consideration
- Does the board have key metrics or a “dashboard” as to how EESA is performing relative to KPIs and stated objectives generally?
- Is the board provided with sufficient information to assess the financial and non-financial position and performance of the EESA?
- Is the board provided with relevant, timely and accessible updates and intelligence in a style and format that enables ready understanding and appropriate analysis?
- Does the board have an up to date understanding on the status on risk issues and the organisation’s regulatory compliance and reporting obligations?
- Does the board have sufficient financial skills?

Communicating performance against purpose
It is important that the board have in place a well thought through and clearly articulated purpose that is communicated effectively, both within the organisation and externally.

External financial reporting
Organisations should seek to ensure that their financial standing is sound and that their systems of financial reporting and assurance have integrity.

The level of financial reporting NFPs undertake can vary significantly from organisation to organisation. Some NFPs, particularly larger charities, will prepare full audited financial reports. Other organisations might instead have their reports “reviewed” rather than “audited”.

Some may prepare “special purpose” financial reports as opposed to “general purpose “financial reports.
No matter what financial reporting requirements an NFP is subject to, the board plays a role in helping to ensure the integrity of the financial reports. The board should accept responsibility for overseeing the integrity and assurance of the organisation’s financial position, performance and reporting.

Activities that boards might undertake to help promote the integrity of financial reports include:

- Having an appropriate level of financial literacy at board level
- Establishing an audit committee
- Establishing an internal audit function

- Drawing on external financial expertise (e.g., voluntary audit or review)

8. ORGANISATION BUILDING

The board has a role to play in enhancing the capacity and capabilities of the organisation they serve.

A fundamental part of the board's role in serving the best interests of the organisation is to ensure the organisation develops and implements strategies and supporting policies to enable it to fulfil its purpose consistent with the objectives set out in the organisation's constitution. While the board delegates the day-to-day management of the organisation to management and volunteers (within chapters), directors remain accountable for the NFP's performance i.e., the board has its strategic and monitoring role, while also continuing to offer support to management and volunteers.

Generally speaking, organisations should identify the resources (human, financial, physical and intellectual/intangible) they need to deliver on their purpose and plan as to how those resources will be made available to, and best managed, by the organisation.

The board might think about issues including:

- What are the strongest skills represented within the organisation/team/amongst volunteers?
- Are there any skills gaps?
- What is the organisation/team/volunteers known for doing well?
- Do the current service providers/team members/volunteers have the ability to do the jobs/tasks required?
- How are those skills monitored and assessed?
- If there are gaps or needs, how do we go about supporting improvements/acquiring them?

Considerations in this regard include:

- The capabilities of the EO
- The knowledge, skills and experience that reside with the board
- The financial resources available to the organisation
- The degree to which the culture and behaviours necessary to execute current strategies and deliver on purpose are present

In some cases, a choice may need to be made whether to try increase an organisation's capability to deliver on its stated purpose and strategies, or to alter its purpose and/or strategies.

Actions a board might consider, depending on the circumstances, include:

- Mentoring of the EO and new board members
- Professional development of board members
- Focusing on how success is rewarded or celebrated

The appointment of an executive officer (EO) or equivalent is a critical factor to the success of an organisation. Ideally, the board and EO are in a mutually dependent partnership. Collaboration with the board could even be built into an EO's services agreement as a KPI and feedback provided regularly. EO succession planning is another important aspect of the board's role.

The combined contribution of volunteers represents a valuable and critical resource for EESA. Some of the things that might require consideration in this area include:

- Providing relevant training
- Workplace health and safety issues
- Checks, clearances and references

Some questions for consideration

- Does the board have the right set of skills, knowledge and experience to deliver on its purpose and execute its strategies and how often does it conduct a review?
- Does it have the right EO?
- Is there an appropriate succession planning process in place for the EO?
- Does the board regularly consider resource planning and management for the organisation?
- Does the board have a clear and current policy on volunteers?
- Have comprehensive volunteer practices and procedures been prepared by management and endorsed by the board?
- Does the organisation have the necessary financial resources to support vital skill development and retain the people with the right skills?

9. CULTURE AND ETHICS

The board sets the tone for ethical and responsible decision-making throughout the organisation.

The culture of an organisation could be thought of as its "personality". It is represented by shared values, norms, practices and core beliefs that shape behaviour. Organisational culture is sometimes described as "how we do things around here".

The culture of an organisation therefore influences what it does, its relationships with stakeholders and its reputation. It can also be an important determinant of whether the organisation is able to achieve its strategic objectives and deliver on its purpose.

A board and its individual members have a leading role to play in promoting a healthy culture for the organisation they serve. Clearly the chair has a leadership role in this context to set the standard for others to follow in terms of culture. Some would go as far as to say that boards can ill afford to ignore cultural considerations because, whether through conscious actions or otherwise, the culture and ethos of an organisation will be heavily influenced by what happens at the board level. Recognising the relationship between culture and strategy, many boards take a conscious and active role, both at a board and an organisation wide level, in promoting the culture and behaviours necessary to deliver on purpose.

Board culture - It is widely recognised that the culture of an organisation will be influenced by the conduct and actions of the board and individual directors.

Some organisations set out elements of expected conduct and ethical standards in "codes of conduct". One area of particular focus for Boards is to put in place arrangements aimed at having potential conflicts of interest dealt with appropriately, including policies and procedures concerning the identification, declaration and management of conflicts.

Every decision made by a board must be impartial and in the best interests of the organisation. If a particular decision is likely to benefit a director in some way, or benefit someone close to a director,

that director is no longer in a position to make an impartial decision; he or she has a conflict of interest.

Generally speaking, the principles of managing conflicts are fairly clear: if a conflict has been identified, it must be disclosed and from the moment it is disclosed, that director is no longer invited to exercise judgement on how it should be resolved. The other members of the board should then decide the best course of action. The director with the conflict may be excluded from any further discussion or be allowed to be present, but not permitted to vote. The board may also tailor the papers provided so that the conflicted director receives no information on the issue.

Having clear codes around potential conflicts and other conduct and ethical standards sends a message to the organisation and all those who have dealings with it that the board is committed to upholding certain standards, and is transparent about what it believes is appropriate behaviour.

Many desired behaviours that promote a healthy culture in the boardroom are often unwritten, such as:

- Arriving at board meetings on time and staying until the meetings end
- Reading board materials in advance of meetings
- Not talking over others or monopolising board discussions
- Giving each board member the opportunity to speak
- The asking of questions not being discouraged or frowned upon
- Board issues being dealt with in the boardroom and not “in the lift lobby“ or externally

A well-functioning board will necessarily entail a high-level collegiality and mutual respect, but at the same time recognise the need for constructive discussion and debate where appropriate.

Some questions for consideration

- Has the board developed a code of conduct and agreed set of values and behaviours to guide board members?
- How does the board hold itself accountable for compliance with the formal code of conduct and ethical standards?
- Does the board hold itself accountable to its own code of conduct?
- Does the chair proactively lead board culture and ensure the active engagement of all directors?
- Does the chair have the confidence of key stakeholders?
- Is there a formal policy relating to the declaration and handling of conflicts of interest?

Measures that organisations might use to help influence culture include:

- Encouraging and facilitating open conversations on the values of the organisation
- Developing or adapting a formal code of conduct and ethical standards
- Challenging undesirable practice and behaviour
- Undertaking team-building exercises
- Training and support
- Reviewing hiring and firing practices
- Changing how success is rewarded/celebrated

10. ENGAGEMENT

The board helps an organisation to engage effectively with stakeholders.

Who are stakeholders?

A person, group or organisation that has interest or concern in EESA. Stakeholders can affect, or be affected by, EESA's actions, objectives and policies.

Some examples of key stakeholders are the people and/or groups served by EESA, creditors, directors, employees, volunteers, government (and its agencies), individual members, corporate members, other related institutions (e.g., Engineers Australia), suppliers, volunteers, unions and the broader community.

What is stakeholder engagement?
The interactions that EESA has with its stakeholders, including the communication by stakeholders of their views to the board and by the board of its perspectives to stakeholders.

What is effective stakeholder engagement?
Successful stakeholder engagement requires a commitment to engage actively with stakeholders; listen to them, talk to them about why your organisation exists, what it does and build a relationship with them in a mutually beneficial way. Engagement is not an end in itself, but a means to help build better understanding and relationships with the individuals, groups, departments or other entities with whom EESA interacts.

Good two-way communication to and from the board, which is transparent and provides clarity, is often key to effective stakeholder engagement.

Reputation can be described as the sum of perceptions about an organisation (and its people and actions) held by the people with whom the organisation intersects in the areas where the organisation operates i.e., their stakeholders.

At a minimum, good practice would usually include producing an annual report setting out the extent to which the organisation has achieved its stated objectives in a way that people with an interest in the NFP should be able to understand.

Directors 'participation in a simple briefing may prove to be an effective way to promote clarity and better understanding. Similarly, directors 'participation in community meetings, for example, may promote confidence and accelerate the achievement of goodwill not easily achieved by the best written communication.

Some questions for consideration
- Has EESA identified its key stakeholders and current relationships?
- Has the board considered and articulated its approach to stakeholder engagement?
- Has the board developed policies and practices for the organisation to:
    - Effectively engage with members and stakeholders?
    - Transparently communicate with members and stakeholders?
    - Facilitate the exercise by members of their member rights?
    - Encourage member participation and voting at member meetings?
- Is there a periodic assessment by the board as to how the NFP engages with key stakeholders?

Conclusion

This document sets out the key Governance Principles that the National Council of the Electric Energy Society of Australia should commit to for the good governance of EESA for the greatest benefit to its members.

National council members should consider all aspects of “the 10 principles” and how individual “directors” and the national council collectively should act to achieve good governance to ensure the success of EESA.