



**Office of the Commissioner**  
for Voluntary Organisations

# Governance in Voluntary Organisations

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## Definition of Governance

- A **competent** management of a VO's **resources** and **affairs** in a manner that is **open, transparent, accountable, equitable** and responsive to the **needs** of the people the VO is meant to **serve**.



# Good governance in VOs

- Good governance is based on a system of checks and balances between the different branches of the organisation.
- An organization exercises good governance when it has an internal system of checks and balances that ensures the public interest is served.
- Good VO governance is based on the distinction between organizational entities (management and the governing body) and the distribution of decision-making power between them.
- This arrangement helps restrain and moderate the control of any one person or group, ensure the organization's resources are well managed, and safeguard the VO's public-service orientation.



# Principles & Guidelines

- VOs must be committed towards **accountability** and **transparency**.
- For a VO, being accountable means demonstrating regularly that it uses its resources wisely and doesn't take advantage of its special privileges to pursue activities contrary to its non-profit status.
- An accountable VO is transparent, readily opening its accounts and records to public scrutiny by funders, beneficiaries and the general public.
- Through these acts of accountability, a VO expresses its commitment to democratic values.
- Submitting its Annual Returns in a timely manner is in itself an act of accountability and transparency.



# Good governance has a formal structure.

## **The board is the principal governing body.**

- As per the VOA, the overall control of the organisation is exercised by administrators who do not receive any remuneration for their services for carrying on functions of administrators except as permitted in the Act.
- The Board wields constant and consistent oversight and decision-making authority.
- The Board is not always the same as the highest governing body. In membership associations, for example, the highest governing body is always the general assembly, whose decisions and instructions always outweigh those of other parts of the organization.



# Good governance has a formal structure.

## The board makes decisions collectively.

- The main value of a board is that it's a collective leadership body. The board represents the interests of the VO's stakeholders, and its collective leadership helps an organization stay focused on the mission and resist the special agenda of particular individuals or groups. In this sense, the board complements the leadership of the chief executive, who brings the benefits of a particular individual's talents, vision, charisma, and control.
- The board has a wide perspective and depth of experience surpassing the abilities of a single leader.
- The statute should help the board function effectively as a team by setting parameters for group decision-making. For example, it should stipulate that the board makes decisions only in formally constituted meetings at which a quorum is present. The statute should specify how many members constitute a quorum, how meetings are called, and the manner in which decisions are taken and recorded. Such guidance helps the board perform its tasks consistently and avoid doubts about the validity of its decisions.
- The Board carries out the decisions taken at general assemblies.



# Good governance has a formal structure.

## Individual board members have specific duties.

- Although board members govern as part of a collective leadership body, they have individual duties as well.
- Fulfilling these duties means board members are expected to attend meetings regularly, contribute actively to deliberations, and put the VO's interests above any other personal, professional, or organizational interests. A detailed set of written expectations can help individual board members understand their role and how best to fulfil it.



# Good governance has a formal structure.

## Duties of administrators in relation to anti-money laundering and the funding of terrorism as per VOA:

- It shall be the duty of all the administrators of a voluntary organisation to implement appropriate procedures relating to the prevention of money laundering and the funding of terrorism so as to ensure that their organisation is not used for such purposes. Such duties shall include but shall not be limited to:
  - a) confirming the identity, credentials and good-standing of the persons or organisations which the voluntary organisations support and obtaining evidence of the identity of the persons who control such organisations;
  - b) confirming the identity, credentials and good-standing of other voluntary organisations, in Malta or overseas, as well as other persons with whom the administrators associate in carrying out activities to fulfil the purposes of their organisation;
  - c) identifying significant donors of the voluntary organisation, being individuals or other organisations, and, while respecting donor confidentiality, obtaining evidence of identity of the relevant individuals or the persons who control such other organisations;
  - d) obtaining information on the source of funds which are donated to the organisation;
  - e) verifying that the assets of the organisation are used lawfully and in a manner which is consistent with its purposes and objects.





# Good governance has a formal structure.

## Internal Policies

- ▶ The office of the Commissioner for Voluntary Organisations in August 2018 issued a Supporting toolkit to help VOs develop internal policies with regards to Protecting Voluntary Organisations from Abuse.

- ▶ Please follow this link:

[https://education.gov.mt/en/vo\\_home/Pages/Pub\\_downloads.aspx](https://education.gov.mt/en/vo_home/Pages/Pub_downloads.aspx)



# Good governance has a formal structure.

## The board is distinct from the staff.

- ▶ A basic tenet of good governance is that management and governance are separate. The underlying assumption is that this separation makes possible the checks and balances that ensure the organization is well run and important decisions are made with the public interest in mind.
- ▶ To understand the logic of this assumption, it helps to look at the contrasting situation. A board that isn't separate from management—that is, a board whose membership is the same as, intimately connected to, or dominated by staff - faces real or potential difficulties in representing stakeholders' interests fairly. These difficulties arise because the people making decisions and evaluating their appropriateness are the same as (or are close to) the people affected by or actually carrying those decisions out. For example, a staff member on the board may take part in a decision about his own salary based on an assessment of his own performance! The potential for abuse in this situation suggests that a board that isn't separate from management functions in a perpetual state of real or perceived conflict of interest, because oversight and executive functions are mixed.



# Good governance has a formal structure.

## The board is distinct from the staff.

- ▶ On the other hand, a board that is independent of management avoids automatic suspicions that its actions are motivated by something other than the public good.
- ▶ The board acts as a check on managerial control but does not run the organization or dispose of its resources directly. This distinct function becomes more important as resources increase and operations grow in complexity: an active and independent board reassures donors, beneficiaries, and other stakeholders that the VO is professionally run and conflict of interest is not rampant throughout the organization.
- ▶ On a practical level, too, an engaged board shoulders key leadership duties a chief executive finds he can no longer do alone. The checks and balances implicit in separate managerial and governance functions, therefore, are not just a matter of philosophical orientation, but have practical benefits, too.



# Good governance has a formal structure.

## The board is distinct from the staff.

- VOs need to separate their governance and management functions, and it is not uncommon to find boards composed largely or even exclusively of staff.
- In small or newer organizations, moreover, the division of governance and management can be very difficult to put into practice.
- Good governance practices can improve operations while helping your VO attract new resources.
- Organizations that aspire to grow, recognize that long-term sustainability demands good governance practices, beginning with the separation of the board from the staff.



# Good governance has a formal structure.

## The board governs and the staff manages.

- ▶ The separation of governance and management involves a division of both duties and personnel. The usual rule is that management runs the organization from day to day, while the board sets policy, exercises oversight, and strategically guides the organization.
- ▶ Most models of governance emphasize that the main areas of board responsibility are:
  - (1) safeguarding the mission,
  - (2) setting values and standards,
  - (3) ensuring resources, and
  - (4) outreach
- ▶ Of course, this doesn't mean that the staff has nothing to do with strategy or that board members never contribute on the day-to-day level. What it does mean is that there is a fine but important line between these two areas, which must be jealously guarded by both sides.



# Good governance has a formal structure.

## The board governs and the staff manages.

- One way to maintain the distinction between governance and management is to ensure the same people do not perform both jobs.
- This expectation may seem counterintuitive, since the staff usually knows more about the VO than the board and thus may be in a better position to provide strategic direction or evaluate the VO's performance and needs.
- However, troubling conflicts of interest arise when staff members serving on the board approve their own budgets, set their own pay, assess their own programs, and otherwise try to monitor and oversee their own activities. This is the reason that staff members should never, ever, serve as voting members of the board.



# Good governance has a formal structure.

## **The board governs and the staff manages.**

- ▶ Many organisations understand the wisdom of this point until it comes to the chief executive. A board can rely so heavily on the chief executive that a seat at the board table seems only natural. There are many arguments for and against having the chief executive on the board.
- ▶ The solution that many VOs rely on is to include the chief executive on the board as a non-voting member. Of course, in this case the chief executive will have to withdraw from discussions about topics that concern him or her directly.
- ▶ And under no circumstances should the chief executive simultaneously serve as the chair of the board: such a concentration of power in the hands of one individual severely undermines accountability throughout the entire organization.



# Good governance has a formal structure.

## The board delegates responsibility to the chief executive.

- ▶ Facing practical restraints, such as lack of time due to a busy schedule. one of the most important ways in which the board discharges its duties is by delegating authority to the chief executive.
- ▶ In doing so the board doesn't give up any of its own responsibility for setting policy, providing strategic direction, or exercising oversight. It remains the principal decision-making authority, and the chief executive is answerable to the board for his or her actions.
- ▶ However, within the restraints on chief executive authority set by the board, the head of management is free to run the organization as he or she sees fit, making nearly all decisions on a day-to-day basis.
- ▶ The board both preserves its own authority and protects the chief executive by ensuring that the statute clearly reflect its delegation of powers to the chief executive.
- ▶ The clarification of the hierarchical relationship between the board and the chief executive helps smooth cooperation between them and ease the tensions that inevitably arise, even in the best of relationships.
- ▶ It also keeps the board from relinquishing too much responsibility to the chief executive or, at the other extreme, from seeking to micro-manage things.





# Good governance has a formal structure.

## **The board and chief executive work in partnership.**

- The chief executive owes the board accurate, thorough, and timely information about the VO and its environment. He or she must be frank about the guidance needed from the board and about those times when the board is micro-managing.
- The board, for its part, should be clear and direct in the instructions, guidance, and feedback it offers the chief executive.
- The board must monitor the chief executive, but also mentor him or her. Board members should inquire, criticize, probe, and praise in such a way that the chief executive has no doubts about what is expected and feels motivated to do his or her best.



# Good governance has a formal structure

## **The board plans for succession.**

- ▶ Prudent leadership dictates that no matter what degree of trust the board places in the chief executive, it develops a plan for replacing that person—on short notice if necessary. The plan should include a way to identify possible replacements.
- ▶ The board should also develop a plan of succession.



# Good governance has a formal structure

## The board safeguards the mission of the organization.

- ▶ One of the basic responsibilities of the board is to identify, articulate, safeguard, and promote the VO's mission statement.
- ▶ In watching over the mission, the board, in a sense, protects the very heart of the organization.
- ▶ The board's most important duties in this respect are to ensure the mission meets the test of fulfilling a community or members' need and the VO honours the mission in everything it does.
- ▶ The board must also make sure the mission is realistic in scope, cost, and expected impact.
- ▶ The board should review the mission regularly to ensure it aligns with existing or planned activities.
- ▶ A misalignment between mission and programs can emerge for various reasons - perhaps the need for the original service no longer exists, or available funding has led to activities that are marginal to the primary mission area.
- ▶ The board should confirm periodically that the VO is still carrying out the original purpose expressed in the statute - and, of course, that the organization isn't engaged in any illegal, unethical, or non-permitted activities.
- ▶ Through a regular review of the mission statement, the board can determine if a misalignment exists and what steps can be taken to bring mission and programs back into harmony.



# Good governance has a formal structure

## **The board supports the mission through effective planning.**

- Effective and regular planning is a basic responsibility of the board and oversees the planning process.
- The staff produces any final planning document for the board's approval.

## **The board supports the mission through regular evaluation.**

- While the actual work of the evaluation may be performed by the staff or an outside consultant, the board ensures that the right questions are asked and the results are appropriately applied.
- The board should assert this role whether a comprehensive, organization-wide evaluation is undertaken or just a single component, such as finances, is assessed for efficiency or impact.



# Good governance has a formal structure

## **The board articulates the professional and ethical standards of the organization.**

- ▶ VOs are expected to demonstrate a commitment to the community, members, or other stakeholders that goes beyond the mission and is on display in exemplary behaviour throughout the organization.
- ▶ The board makes sure the values and priorities communicated by the organization are those by which it wants to be known.
- ▶ The most important measure by which a VO is judged is its adherence to legal requirements.
- ▶ The board must know what laws apply and whether operations are in compliance. If legal obligations (Annual Returns) are not being met, the board must ensure that necessary corrections are made.
- ▶ The board monitors the standards of the VO in other ways, too. The quality of services provided, the salaries and benefits of top staff, and the accuracy of published information are but a few of the measures by which the public judges the integrity of a VO.
- ▶ The board must make sure that poor or ill-considered performances in these areas do not damage a VO's reputation beyond repair. For example, is sloppy work or too much money spent on fancy offices prompting beneficiaries to question whether resources are actually going to fulfil the VO's mission?



# Good governance has a formal structure

## **The board sets the standard for professional conduct.**

- ▶ The professional standards of the board often reflect the degree of professionalism of the organization as a whole.
- ▶ A board that is organized is typically at the head of an organization with a similar reputation.
- ▶ There are several areas in which the board should pay particular attention to its own professional conduct:

## **The board sets rules for its own operation.**

- ▶ The board needs established procedures for doing its work. A “rule of law” on the board strengthens accountability, enhances efficiency, and provides a solid framework for collective action.
- ▶ The best guide for the board's operations is a set of well-written basic documents, which give instruction in matters such as the selection of members, meeting schedules, and decision-making procedures.
- ▶ The board can formulate more detailed procedures through policy statements that cover any number of issues, from the place of board meetings to the format of agendas.
- ▶ All rules of operation for the board, whether in the basic documents or policy statements, should be collected together in a manual and distributed to board members.
- ▶ A good chair will observe the rules of operations closely to help keep the board's work focused and on track.



# Good governance has a formal structure

## **The board practices informed decision-making.**

- ▶ Sound decision making depends on two factors: accurate information and the ability to use it.
- ▶ Board members should ask the staff to help them prepare for meetings by providing accurate and updated information.
- ▶ The staff can help keep board members informed by distributing more general information from time to time.
- ▶ Board members should not shy away from asking the staff for more or differently presented information if they feel it is necessary to form sound judgments.
- ▶ Moreover, boards should not rely on the staff as a sole source of information: they need to seek out other opinions and perspectives to make sure they are getting the full story.
- ▶ Every board member should be expected to come to meetings having read all background materials. This will allow meetings to consist of active discussion and decision-making rather than a boring presentation of information that board members can easily read on their own.



# Good governance has a formal structure

## **The board holds regular and professionally run meetings.**

- ▶ The basic documents usually specify the minimum number of annual board meetings.
- ▶ Board members need to be informed of the dates of meetings well in advance and have sufficient opportunity to prepare for them. Most VOs find that board meeting attendance is better if a regular schedule of meetings is set at the start of the year.
- ▶ Meetings run more efficiently with a carefully prepared and strictly respected agenda.
- ▶ Board members are more likely to attend meetings when active participation and real deliberation are expected.





# Good governance has a formal structure

## **The board documents its proceedings.**

- ▶ The record of board meetings is a basic instrument of accountability. Minutes are a form of institutional memory that enable an organization to work consistently and deliberately, without being vulnerable to an individual's special agendas or efforts to seize control.
- ▶ The board should appoint a person to keep a record of all formal proceedings, including their time and place, attendance, agenda, and decisions taken.
- ▶ These minutes are approved in draft by voting members of the board before they are distributed in final form. Policy decisions by the board should be gathered together in a policy manual, which is made available throughout the organization.
- ▶ The chief executive, working with the board chair, is responsible for ensuring that the policy manual is updated as needed.



# Good governance has a formal structure

## **The board has annual goals and action plans.**

- Just as the organization develops a yearly operating plan for the year, the board should set annual goals for itself.
- These goals can be structured around the larger needs of the VO, such as those outlined in a strategic plan.
- Outstanding boards find that a regular schedule of recurring activities, including budget approval, program evaluation, and chief executive review, help it to structure its work effectively.
- The chair makes sure these regular activities find a place on meeting agendas and the board periodically reviews its annual goals.



# Good governance has a formal structure

## The board has an efficient committee structure.

- ▶ Committees are a useful structure for working efficiently. A board committee can perform certain jobs that can't or needn't wait until the next board meeting: researching a particular issue (such as development opportunities), collecting information for presentation to the full board (for example, about the organization's finances), or making preparations so the board can perform an essential duty (such as electing new board members).
- ▶ Committees don't need to be composed only of board members—staff and outsiders, including experts in the field the committee is working on, can also be invited to take part. In fact, committees are a good way to identify and “test” future board members by involving them in the life of the organization.
- ▶ Each committee needs clear instructions about what it is to accomplish. Usually this takes the form of a written mandate, which includes meeting and membership guidelines and reporting timeframes.
- ▶ Above all, committees need to remember that their job is to work on behalf of the board rather than to make decisions on their own.



# Good governance has a formal structure

## The board oversees the financial affairs of the organization (1)

- ▶ Ensuring that the organization is financially sound and well managed is one of the most important duties of the board. A VO's short-term health and long-term sustainability often depend on the attention the board gives to this critical task.
- ▶ The board's basic job is to ensure that the organization has sufficient resources to fulfil its mission.
- ▶ Some VOs have a financial supervisory committee, the board should exercise financial oversight on a regular—not just yearly—basis.
- ▶ The board will want to keep an eye not only on the good news, but on signs the organization is in trouble, too.
- ▶ Warning signals such as declining revenues or unexplained bookkeeping entries should be spotted and questioned.



# Good governance has a formal structure

## The board oversees the financial affairs of the organization (2)

- Many boards find the job easier if they focus on following key financial indicators:
  - ❖ Cash on hand (to make sure there is enough to pay salaries and expenses)
  - ❖ Cash-flow projections (to make sure financial plans are realistic and adequate)
  - ❖ Income and expenditures (to make sure the VO is earning and spending at appropriate levels)
  - ❖ Relation of actual to planned budgets (to make sure anticipated income and expenses are actually met or to understand the reasons for variations)
  - ❖ Balance of reserves (to make sure they are not depleted below a fixed level).



# Good governance has a formal structure

## The board oversees the financial affairs of the organization (3)

- ▶ A quick review of these indicators can be included on the agenda of every board meeting. So they can perform their job adequately, board members will need to receive financial reports in advance of—not at—the board meeting.
- ▶ If financial data isn't complete or easy to understand, the board has the right—indeed, the obligation—to request it in a more usable form.
- ▶ All board members should know how to interpret the financial data provided by their chief. If necessary, they should be offered basic training to perform this task.
- ▶ The board, especially of large VOs should form a financial advisory committee to advice and monitor the financial affairs in more detail.



# Good governance has a formal structure

## The board establishes internal controls.

- ▶ Internal financial controls guard an VO's assets by regulating the handling of funds. Internal controls promote both integrity and efficiency.
- ▶ Internal controls reassure donors that the VO's resources are used wisely and well.
- ▶ It is the duty of the board to ensure that internal controls are both established and implemented.
- ▶ Among the most important internal controls the board can introduce are professional accounting standards, the separation of transactional responsibilities (for example, invoice approval and bank transfers), sound investment policies, and annual audits as per legislation.
- ▶ The board should review internal controls periodically to verify that they are being observed by employees throughout the organization.



# Good governance has a formal structure

## **The board carries out due diligence**

- ▶ Please refer the document issued by the Office of the Commissioner with regards to Safeguarding the VO from Financial Abuse.

## **The board oversees the publication of an annual report.**

- ▶ One of the required documents as per subsidiary legislation, the annual report is a vehicle for making financial and other information about the organization available to the general public.
- ▶ The annual report is a convenient place for publicizing information about a VO's activities and programs.
- ▶ It's up to the board to see that an annual report is published on an annual basis.





# Conclusion

► To recapitulate:

Consensus  
Oriented

Accountable

Transparent

Participatory

Good Governance

Responsive

Follows the  
rule of law

Effective and  
Efficient

Equitable  
and  
Inclusive



# Conclusion

- Good governance shouldn't have to cost money, but it does need some small portion of your organization's resources if it's going to work well.
- Accept the fact that good governance takes time to develop. Structures, processes, and attitudes have to change from within. Too much change at once can be disruptive.
- People have to get used to new ways of thinking and feel comfortable with different approaches.
- Give your VO the time it needs to adjust.
- Good governance is also about travelling together. If you want to go fast, go alone, if you want to go far, go with others....if you insist on going alone, a VO is not the correct vehicle of travel!