

## Separation of authority between board and management

Not-for-profit sector

For the purposes of this guide, we refer to the governing body of an organisation as the 'board'. However, it may have another name, such as 'council', 'management committee', or 'synod'.

It is considered **good governance** for a not-for-profit (NFP) organisation to have clear guidelines determining the boundaries between the duties of the board and the managers of day-to-day activities of the organisation.

It is good practice for an organisation to adopt two documents to provide clarity regarding the delineation of board and management activities: a 'statement of matters reserved for the board' and a 'delegation of authority' policy. An organisation following **good governance** practice will also have a board charter or terms of reference accompanying these two documents.

When drafting these documents, consideration needs to be given to the governing rules of the organisation, which may be referred to as the 'constitution', 'charter', 'articles' or 'rules.'

### Statement of matters reserved for the board

The statement of matters reserved for the board identifies those decisions which are to be made by the board and not delegated to management. This may include:

- holding responsibility for the overall leadership of the organisation and setting the direction, culture and values
- setting the risk appetite for the organisation
- approving strategic aims and objectives of the organisation as a whole
- appointing and removing the CEO
- overseeing day-to-day management
- reviewing performance against strategic plans
- approving any significant changes in accounting policies
- approving annual budgets

- approving any material unbudgeted capital or operational expenditures
- approving any major capital projects
- determining the objectives of the CEO
- determining remuneration for all key executives
- periodically reviewing the governing documents
- formal reporting to members
- approving the appointment of principal professional advisers.

See *Good Governance Guide: Statement of matters reserved for the board* for more information.

### Delegation of authority policy

The 'delegation of authority' policy describes those matters delegated by the board to management, including the specific role those matters are delegated to as well as any limits on that delegation. It is important for the board to understand that, while it can delegate authority to make decisions, it cannot delegate its responsibility.

Policies generally can be stated in either of two ways; specifying what the delegate can do, or specifying what the delegate can't do. It is **good governance** to clarify what can be done and preparation of a delegation of authority in tabular form is often a good approach to keep it simple and easy to understand.

See *Good Governance Guide: Issues to consider when developing a policy on delegations of authority* for more information.

A delegation of authority policy may include the following matters, depending on the size and complexity of the organisation:

- financial delegations
- authority to enter into material contracts
- approval of policies
- approval to purchase and dispose of property
- authority to invest funds

- establishment and maintenance of insurances
- authority to open and close bank accounts
- entitlements to accept gifts or bequests
- authority to take action to ensure security of physical property, intellectual capital and information assets
- approval of leave requests for all employees
- approval of marketing and fundraising campaigns
- approval of media releases.

Setting out a delegation of authority policy is a fundamental component of a risk management framework.

See *Good Governance Guide: Issues to consider when developing a policy on delegations of authority* for more information.

## Interaction between the board and management

Guidelines should be developed to ensure that the organisation considers:

- defining the role of the chief executive (general manager/executive officer) in a job description
- ensuring that key performance indicators (KPIs) are in place to measure the performance of the board, chief executive and management team (recognising that for NFPs determining the right KPIs can be challenging)
- ensuring that regular financial reports are prepared and reviewed by the board including:
  - statement of income and expenditure
  - statement of assets and liabilities
  - statement of cash flows
- ensuring an adequate internal control framework and risk management system is in place
- ensuring that succession plans exist for senior executives within the organisation
- ensuring that to the extent possible within the requirements of the constitution, succession plans are developed for board members.

It can also be useful to ensure that the board has contact with the next layer of management, which can be helpful in assessing performance. The contact can be facilitated by requesting the chief executive to not attend that portion of the meeting.

In some NFP organisations, board members may be involved as volunteers in operational matters. In such circumstances, board members need to be aware of which 'hat' they are wearing and consider their responsibilities accordingly. In such circumstances, careful consideration should be given as to how they report to the board, which is best done through management.