

CODE OF GOVERNANCE
FOR
CO-OPERATIVES
(ANNUAL TURNOVER OF \$500,000 OR MORE)

Code of Governance for Co-operatives

A. Board Matters

1. Mission & Vision

Principle

The co-operative is established to meet the needs of members in accordance with co-operative principles and values. The mission and vision of the co-operative should be clearly articulated, and should represent members' needs.

Guidelines

- (a) The co-operative committee of management ('the Board') shall define and approve the vision and mission of the co-operative, clearly document and communicate these to staff and members. The Board shall periodically review the mission and vision of the co-operative to ensure their relevance to members and the community.
- (b) The Board shall approve a strategic plan for the co-operative (such as annual work plan etc) to ensure that its operations and resources are directed towards achieving the co-operative's stated mission.

2. Directors' Roles

Principle

The co-operative is governed by a Board whose members are either elected or appointed according to the co-operative's constitution. The Board is responsible for ensuring that the co-operative is governed and managed prudently to meet its obligations to members and the community.

Guidelines

- (a) The roles of the Board and its members are to be clearly defined and documented. These should include the following: Setting the co-operative Mission & Vision, approving the strategic plan, ensuring a framework for adequate internal controls, reviewing management performance, and setting standards.
- (b) All directors must objectively take decisions in the interests of co-operative.
- (c) If authority to make decisions on any board matters is delegated by the Board to a Board committee or management staff, such delegation should be documented.
- (d) The Board should meet regularly and as warranted by circumstances. The number of Board and Board Committee meetings held in the year, as well as the attendance of every board member at these meetings, should be disclosed in the co-operative's annual report.

- (e) Directors shall make every effort to attend all Board meetings and shall not absent themselves without good reasons.
- (f) Directors should be given appropriate induction following their appointment to the Board so that they are familiar with their roles and responsibilities. The co-operative should ensure that they are familiarized with relevant laws and regulations which will help them fulfill their roles and responsibilities.
- (g) The Board should be responsible for the appointment and removal of Management.
- (h) The Board should report to the AGM on key activities occurring since the last meeting and matters required under the Act including the proposed distribution of net surplus and the work of the Board in the preceding financial year.
- (i) The Board should ensure that all Board meetings are properly recorded.

3. Board Composition

Principle

There should be a strong and independent representation on the Board, which is able to exercise objective judgment on co-operative affairs independently, in particular from Management. No individual or small group of individuals should be allowed to dominate the Board's decision-making.

Guidelines

- (a) The Board should determine an appropriate size for the Board to be effective, taking into account the scope and nature of the operations of the co-operative.
- (b) The Board should comprise Directors who as a group provide core competencies that would support effective decision-making, such as accounting or finance, business and management experience as well as strategic planning experience. Where such core competencies are not available among the members of the co-operative, the Board should appoint non-members with such core competencies as advisors to the Board.
- (c) Non-executive directors should constructively challenge the rest of the Board and Management to help develop proposals on strategy and review the performance of management.
- (d) At least one third of the Board members are to be independent. An 'independent' director is one which has no relationship with the co-operative, its other board members, its related entities or its officers that could interfere, or be reasonably perceived to interfere, with the exercise of the director's independent business judgement with a view to the best interests of the co-operative. Examples of such relationships, which would deem a director not to be independent, include:
 - (i) a director being employed by the co-operative or any of its related entities for the current or any of the past three financial years;
 - (ii) a director who has an immediate family member (e.g. spouse, child, adopted child, step-child, brother, sister and parent) who is, or has been in any of the past three financial years, employed by the co-operative or any of its related entities as a senior executive officer;

- (iii) a director, or an immediate family member, accepting any compensation other than for board service from the co-operative or any of its related entities for the current or immediate past financial year.
- (e) There should be at least one independent director attending each Board meeting.

4. Chairman and Chief Executive Officer

Principle

There should be a clear division of responsibilities at the apex level within the co-operative. The Board's role and the executive responsibility of the co-operative's business should be clearly defined to ensure a balance of power and authority, such that no one individual represents a considerable concentration of power.

Guidelines

- (a) The division of responsibilities between the Chairman and CEO should be clearly established, set out in writing and agreed by the Board. Co-operatives should also disclose to members the relationship between the Chairman and CEO where they are related to each other.
- (b) The Chairman should, among other things:
 - (i) lead the Board to ensure its effectiveness;
 - (ii) ensure that the Directors receive accurate, timely and clear information;
 - (iii) ensure effective communication with members;
 - (iv) encourage constructive relations between the Board and Management;
 - (v) facilitate the effective contribution of directors;
 - (vi) promote high standards of governance.
- (c) The Chairman and Chief Executive Officer ("CEO") should be separate persons, to ensure an appropriate balance of power, increased accountability and greater capacity of the Board for independent decision making.

5. Access to Information

Principle

Board members should be provided with complete and timely information prior to Board meetings and on an on-going basis.

Guidelines

- (a) Management is responsible for supplying the Board with complete information in a timely manner to enable the Board to make key decisions. The Board should have separate and independent access to the co-operative's management.
- (b) Information provided should include background or explanatory information relating to matters to be brought before the Board, copies of disclosure documents, budgets, forecasts and monthly internal financial statements. In respect of budgets, any material variance between the projections and actual results should also be disclosed and explained.
- (c) Board directors should have separate and independent access to the co-operative Secretary. Co-operative Secretary's role should be clearly defined and include responsibilities for ensuring that general meeting and Board procedures are

followed and in compliance with existing rules and regulations. The co-operative Secretary should attend all meetings.

B. Conflict of Interest Policy

6. Potential Areas of Conflict

Principle

The Board should establish clear written policies on measures to avoid conflicts of interest in areas where such conflicts may arise by the directors or staff within the co-operative.

Guidelines

- (a) There shall be policies requiring declaration of interests by Board and officers.
- (b) The Board shall establish clear written policies on measures to avoid conflicts of interest in areas where such conflict may arise. Examples include contracts with vendors, vested interests in other organizations that have dealings or relationships with the co-operative and joint ventures. Directors and staff concerned should abstain from decision-making on such matters. All such discussions and evaluations by the Board or relevant approving authority in arriving at the final decision should be documented clearly.
- (c) Recruitment of staff with close relationship with current directors and staff shall go through established HR procedures for recruitment. The Board member or staff shall make a declaration of such relationships and not influence decisions on the recruitment.

C. Human Resource Policy

7. Honoraria Payments and Remuneration Policies

Principles

- (a) There should be formal and transparent procedures for developing policies on remuneration and honoraria payments to executives and directors.
- (b) No director or executive should individually decide on his own honoraria/remuneration.
- (c) Co-operative directors generally serve in voluntary capacities and do not expect market levels of remuneration for their services on co-operative boards. Nevertheless, the level of honoraria should be appropriate to attract and retain the directors. Remuneration for key executives should also enable the co-operative to attract and retain sufficiently qualified candidates to manage the co-operative successfully, taking into account that co-operatives play a social role in addition to their commercial nature.

Guidelines

- (a) The Board should have clear documentation on its Remuneration policy.
- (b) The Board should seek to ensure that the honoraria/remuneration policies are in line with the co-operative's strategic objectives and values. The Board should take adequate measures to minimize possible conflicts between the objectives of co-operative and the interests of the individual directors and key executives.
- (c) The quantum of honoraria or remuneration for Directors should take into account
 - (i) the voluntary service provided by the Director (if applicable)
 - (ii) the obligations, duties and responsibilities of the position
 - (iii) the size and complexity of business, and
 - (iv) whether the director is appointed in an ex-officio capacity.
- (d) Performance-related elements of the remuneration policy should be designed to align interests of executive directors/key executives with those of co-operative members and link rewards to co-operative and individual performance.
- (e) Where possible, co-operatives should set up a Remuneration Committee ('RC') which will oversee the review of the honoraria and remuneration policy in the co-operative. This committee should consist entirely of non-executive directors, majority of whom should be independent, including the Chairman.
- (f) The RC is to recommend a framework of honoraria/remuneration and the specific remuneration packages for each director and the CEO, if the CEO is not a director. The RC's recommendations should be submitted for endorsement by the entire Board.
- (g) The RC should maintain all records of meetings, in particular records on key deliberations and decisions taken.

8. Disclosure on Honoraria/Remuneration

Principle

Co-operatives should provide clear disclosure of its honoraria/remuneration policy, level and mix of honoraria/remuneration and the procedure for setting honoraria/remuneration in the co-operative's annual report.

Guidelines

- (a) For directors and executives (who are not also directors) who receive more than \$250,000/year of remuneration from the co-operative, the report should set out the number of these directors and executives in bands of \$250,000.
- (b) The report should also disclose the number of employees who are immediate family members of a director or the CEO whose remuneration given by the co-operative exceeds \$150,000 during the year.

D. Accountability and Audit

9. Accountability

Principles

- (a) The Board should present a balanced assessment of the co-operative's performance, position and prospects.
- (b) The Board should ensure that the co-operative has a sound financial management system and complies with the applicable rules and regulations to ensure accountability and effective use of resources.

Guidelines

- (a) The Board is responsible for presenting a balanced assessment of the co-operative's performance, position and prospects. This extends to any public reports, reports to members and regulators (if required).
- (b) The Management should provide all members of the Board with management accounts which represent a balanced assessment of the co-operative's performance, position and prospects on a monthly basis. The management accounts should include comparative budget figures, with analysis and explanation of major variances, if any, for Board discussion.
- (c) The Board shall approve an annual budget appropriate for the activities of the co-operative and monitor regularly its budget expenditure.

10. Internal Audit

Principle

The co-operative should establish an internal audit function that is independent of the activities it audits.

Guidelines

- (a) The duties of the internal audit function should include:
 - (i) reviewing the adequacy of the co-operative's internal controls
 - (ii) reviewing the scope and results of the external audit and its cost effectiveness
 - (iii) making recommendations to the Board on the appointment, reappointment and removal of the external auditor.
- (b) The Internal Auditor's primary line of reporting should be to the chairman of the Board (or Audit Committee if established) although the Internal Auditor would also report administratively to the CEO.
- (c) The Internal Auditor should meet or exceed the standards set by nationally or internationally recognised professional bodies including the Standards for the Professional Practice of Internal Auditing set by The Institute of Internal Auditors.
- (d) The Board or Audit Committee ('AC') (where applicable) should ensure that the internal audit function is adequately resourced and has appropriate standing within the co-operative. The internal audit function can either be in-house,

- outsourced to a reputable accounting/auditing firm, or performed by another entity with an internal audit staff.
- (e) The Board or AC (where applicable) should, at least annually, ensure the adequacy of the internal audit function.

10A. Audit Committee

Principle

The Board should establish an Audit Committee ("AC") with written terms of reference, which clearly set out its authority and duties.

Guidelines

- (a) The AC should comprise at least three directors, all non-executive, the majority of whom, including the chairman, should be independent.
- (b) The Board should ensure that the members of the AC are appropriately qualified to discharge their responsibilities.
- (c) The terms of reference of the AC should state the frequency of the AC meetings.
- (d) The AC should have explicit authority to investigate any matter within its terms of reference, full access to and co-operation by Management and full discretion to invite any director or executive officer to attend its meetings, and reasonable resources to enable it to discharge its functions properly.
- (e) Duties of the AC should include:
 - (i) reviewing the scope and results of the audit and its cost effectiveness, and the independence and objectivity of the external auditors. Where the auditors also supply a substantial volume of non-audit services to the co-operative, the AC should keep the nature and extent of such services under review, seeking to balance the maintenance of objectivity and value for money;
 - (ii) reviewing the significant financial reporting issues and judgements so as to ensure the integrity of the financial statements of the co-operative and any formal announcements relating to the co-operative's financial performance;
 - (iii) reviewing the adequacy of the co-operative's internal controls;
 - (iv) reviewing the effectiveness of the co-operative's internal audit functions; and
 - (v) making recommendations to the Board on the appointment, reappointment and removal of the external auditor, and approving the remuneration and terms of engagement of the external auditor.
- (f) The AC should meet with the external auditors, and with the internal auditors, without the presence of the co-operative's Management, at least annually.
- (g) The AC should review the independence of the external auditors annually.
- (h) The AC should review the arrangements by which staff of the co-operative may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters. The AC's objective should be to ensure that arrangements are in place for the independent investigation of such matters and for appropriate follow up action.
- (i) The AC should ensure that all its meetings are properly recorded.

- (j) The Board should disclose the names of the members of the AC, details of the Committee's activities, the number of Committee meetings held in that year, and the attendance of individual directors at such meetings in the co-operative's annual report.

11. Internal Controls

Principle

The Board should ensure that the Management maintains a sound system of internal controls to safeguard the members' interests and the co-operative's assets.

Guidelines

- (a) The Board or AC (where applicable) should ensure that a review of the effectiveness of the co-operative's material internal controls, including financial, operational and compliance controls, and risk management, is conducted at least annually. Such review can be carried out by the internal and/or external auditors.
- (b) The Board should comment on the adequacy of the internal controls and outline steps taken to refine the controls in the co-operative's annual report.

E. Capital, Assets and Funds

12. Asset Management

Principle

The Board should ensure that the assets of the co-operative are prudently managed to best serve the interests of members.

Guidelines

- (a) The Board should ensure that the Management of the co-operative has documented policies and procedures in place to steward its assets. The Management should ensure that the co-operative is operating on a financially sound basis, which includes sufficient liquidity, capital adequacy and that it is not over-leveraged.
- (b) Should the co-operative undertake capital development/acquisition projects for which significant funds are required, Management should ensure that a distinct Fund (e.g. Building Fund) is set up for the specific purpose identified. The co-operative should disclose the size, purpose and planned timeline for the capital development/acquisition.
- (c) There should be documented investment policies and procedures which are approved by the Board and reviewed periodically. Higher quantum and/or higher risk investments should correspondingly require higher levels of authorization before commitment. A review of the performance of the investment should be carried out.
- (d) Before the co-operative embarks on fund raising exercises, the Board should ensure that the Management reviews the need and purpose for additional funds from members and/or other parties and obtain the Board's approval.

13. Fund-raising practices

Principle

Co-operatives should adopt transparent procedures to ensure honest and ethical fund-raising for the causes which the funds are raised for. Fund raising activities should adhere to all relevant legislation, such as House to House and Street Collections Act and Common Gaming Houses Act.

Guidelines

- (a) Co-operatives are to have clearly documented policies and procedures on raising of capital and funds.
- (b) The use of a commercial third party fund-raiser, its rationale and the detailed arrangements shall be disclosed to and formally approved by the Board. If the co-operative is employing third party fundraisers, this should be made known to the donor.
- (c) The intended purpose of the fundraising and the use of the donated funds should also be made known to donors.

14. Accountability to members and donors

Principle

The co-operative and its fund raisers shall be accountable to their donors for the funds raised and/or donations received.

Guidelines

- (a) The Board should ensure that the co-operative has a clearly written policy on the application of capital and funds raised. Funds raised should be properly accounted for, in a timely manner. The co-operative shall keep separate accounts for individual fund-raising exercises.
- (b) Funds raised should be used in line with members' and/or donors' intent. The co-operative should inform and obtain the consent of members/donors if the raised funds are used for alternative purposes.

F. Corporate Communications: Communications with members and stakeholders

15. Disclosure of information

Principle

Relevant information should be made available to members, potential members and other stakeholders to enable them to make informed decisions.

Guidelines

- (a) The Board should ensure there is a clearly written policy for relevant information to be provided to potential members. Such information can include the by-laws, latest audited financial statements and annual reports.

- (b) It should be disclosed to potential members that:
- upon withdrawal of shares, the amount receivable by members is specified in the co-operative constitution e.g. the nominal value of the shares or net asset value, whichever is lower,
 - upon liquidation of the co-operative, members will only receive at most their share capital, dividends (if applicable) and any patronage rebates. They will not be entitled to surpluses from the liquidation.
- (c) Annual reports should be made available on the co-operative's website or office premises for members' information.