



## The Maturity Model in Action

# GOVERNANCE

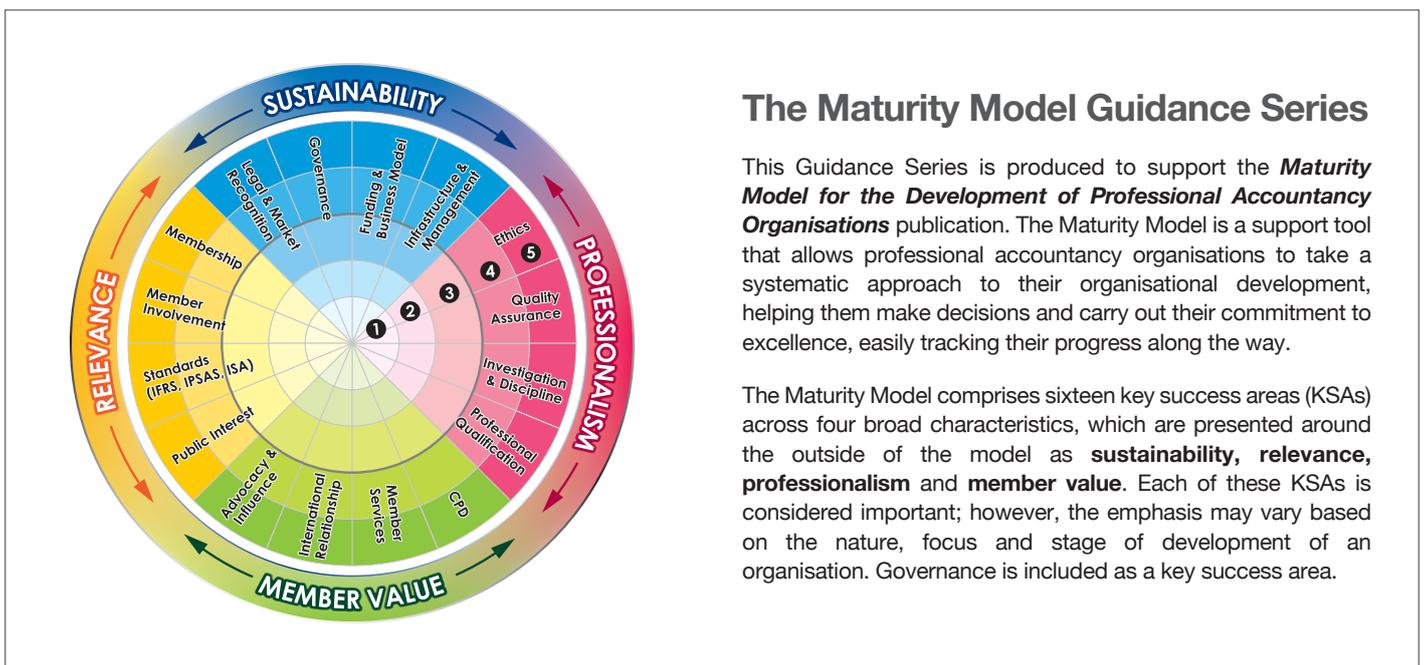
## THE GOVERNANCE GUIDE

The growth and sustainability of any organisation depends on the application of good governance principles – a professional accountancy organisation (PAO) is no different. A PAO’s ability to serve its constituencies over the long term depends largely on the quality of its governance.

A well-governed organisation generates internal advantages by operating efficiently and effectively, and external advantages from the inherent trust and confidence gained by stakeholders. The latter provides a platform for the PAOs to influence and advocate a

they can then serve as a reliable partner who will act in the public’s interest.

This guide provides the “why”, “what” and “how” of governance for PAOs. It explains why a strong commitment to good governance is important; what the key components of a robust governance system should be, based on recognised international good-practice frameworks; and how to use the relevant tools, templates and examples to assist with implementation. It is one of the publications under the **Maturity Model Guidance Series**.



## The Maturity Model Guidance Series

This Guidance Series is produced to support the **Maturity Model for the Development of Professional Accountancy Organisations** publication. The Maturity Model is a support tool that allows professional accountancy organisations to take a systematic approach to their organisational development, helping them make decisions and carry out their commitment to excellence, easily tracking their progress along the way.

The Maturity Model comprises sixteen key success areas (KSAs) across four broad characteristics, which are presented around the outside of the model as **sustainability**, **relevance**, **professionalism** and **member value**. Each of these KSAs is considered important; however, the emphasis may vary based on the nature, focus and stage of development of an organisation. Governance is included as a key success area.

# WHAT IS IN THE GUIDE?

The guide focuses on design and implementation considerations from four perspectives:

- Understanding stakeholder and member expectations – balancing conformance and performance orientations
- Establishing a legal and constitutional framework – the required governing documents
- Determining an operating structure – governing bodies and interaction with management
- Implementing governance – principles, approaches and behaviours for success

A section on considerations for more advanced systems is also included, addressing topics such as Board composition and remuneration, types of committees, and CEO arrangements, as well as some governance 'red flags'.

## WHY: THE CASE FOR GOOD GOVERNANCE

TO CREATE A HIGH-PERFORMING ORGANISATION...

The growth and sustainability of any organisation depends on the application of good governance principles. In this respect, a PAO is no different to any other organisation in its ability to serve its constituents over the long term depends largely on the quality of its governance.

Good governance creates a high-performing organisation by:

- Improving the ability of the board and management to support the organisation's long-term success
- Ensuring that established strategic objectives are followed
- Establishing clear and proper oversight for the organisation to support good decision-making
- Managing risk to avoid problems and take advantage of emerging opportunities
- Creating a culture that defines social values and attracts members, employees and suppliers through the credibility of responsible values and behaviours



...AND REAP THE BENEFITS OF STAKEHOLDER CONFIDENCE

In its 2016 working paper, *Governance and Development Outcomes in Asia*, the Asian Development Bank argued that "improvements in governance along with the strengthening of the mechanisms by which governance affects social development can deliver clear gains in development outcomes in developing Asia."

By adopting good governance principles, PAOs gain two key attributes: credibility in the eyes of external stakeholders and the consent of their stakeholders. These attributes are vital to success in the public policy arena. They provide a platform from which to influence and to advocate.

Governance demonstrates to stakeholders that the PAO can serve as a reliable partner and will act in the public interest. PAOs (including good governance practices) have a stronger standing position in any dialogue with regulators, government agencies, development partners or the general public.



## WHAT: THE KEY COMPONENTS

Governance is a vital part of the way PAOs operate. While some forms of governance have always existed, the attention paid to governance issues has greatly evolved, particularly following various corporate collapses and the related regulatory responses since the turn of the 21st century. This renewed focus on governance has led to the regular review and update of documents legally considered to represent best practice in the governance area, including the ISO/IEC/ISSAI Corporate Governance Principles, last updated in late 2010; the South African Code on Corporate Governance, issued by that country's King Committee, of which King IV was issued in November 2016; and the UK Corporate Governance Code, for which proposed revisions were issued for consultation in December 2017.

**Consider Individual Circumstances**

In individual papers toward good governance, each PAO needs to consider its own environment, including legal and regulatory requirements, local culture and traditions. That which works for one organisation may not work for another. What constitutes its best practice good governance will also depend on the size, available resources and age of the PAO, and whether it was established as an independent organisation or within a government structure.

• Where PAOs are established within a government, governance might be about getting the best in place and making sure that sets in doing what is clear and that involves work together to achieve a shared objective.

• When new and growing, but with limited resources and few staff, the focus may be on a few key

### 1. UNDERSTANDING STAKEHOLDER AND MEMBER EXPECTATIONS

Regardless of the size of the PAO, the governance system should be set up to balance two fundamental orientations: conformance and performance.

CONFORMANCE	PERFORMANCE
The governance arrangements and practices that direct and oversee the PAO's compliance with legal and policy requirements and accountability to its members and other stakeholders, including the public interest.	The governance arrangements and practices that direct and oversee the PAO's overall results, including the successful delivery of member services and other programs.

The conformance orientation is of particular importance for young PAOs, as it can provide assurance to its stakeholders that the PAO is:

- A reliable governance documents and governance structure.

## ADVANCED CONSIDERATIONS

As noted earlier, this guide is primarily aimed at PAOs without established or mature governance systems. It focuses on practical guidance to help PAOs achieve the minimum requirements for a working system. Once a basic system is in place, it will need to be subject to a regular effectiveness review and continuous improvement. The governance system should grow with the PAO, addressing more complex needs and challenges over time.

To provide some aspirational material, the following section includes some examples of matters to consider in moving towards a more advanced governance system. These matters, while included as "advanced considerations", may be addressed early on in the process of establishing a governance system, depending on the specific needs and circumstances of a given PAO.

### BOARD AND COMMITTEE RECRUITMENT: DIVERSITY, REPRESENTATION AND SELECTION

### TYPES OF COMMITTEES

There are many ways to structure the board and its committees. Ultimately, each PAO has to decide the structure that will work best in its unique circumstances. A well-established structure enables the board to work effectively and involves the individual members of the board members by creating committees that help organize the board's work and prepare board members for making informed decisions. Such committees can also help to fill other board members' skills and expertise, and can provide other members with opportunities to become involved and serve the PAO.

**Standing committees** are normally described in the bylaws and may include the following:

1. **Executive Committee:** This committee is made up of the board chairman or president, the deputy chairman, the secretary and the treasurer. The executive committee has the authority to make certain decisions between board meetings. Its primary focus is on monitoring PAO performance.
2. **Finance Committee:** This committee usually oversees the PAO's financial health, including the PAO and advises the board on financial strategies and budget preparation.
3. **Audit Committee:** This committee advises the board on matters of governance, risk, internal control, internal and external audit. It maintains a focus on monitoring the organization's compliance with laws and regulations.

## HOW: TOOLS, TEMPLATES AND EXAMPLES

This section provides practical tools, templates and examples to assist in the application of good governance. They are based on relevant governance documents used by mature PAOs and other non-governmental organizations. Not all of these documents in their entirety may be applicable to every PAO. In addition, in applying them to a specific national environment, PAOs should take care to consider local laws, regulations and any relevant national governance guidelines that may be regarded as appropriate benchmarks.

### How 1: High-Level Scan

The following is a continuous improvement scan designed to assist PAOs in making initial notes about the state of health of their governance systems. The purpose is to address and improve for action. Note that this scan is not exhaustive. PAOs operate with different legal environments and may have different parts of the accountability professions.

GUIDING QUESTIONS	ASSESSMENT Yea (Y) No (N)	PRIORITY High (H) Low (L)	ACTION TIMELINE Short-term (S) Medium-term (M) Long-term (L)
Our board focuses on strategic leadership and long-term thinking and does not micromanage the PAO			
Our board approves all the proposed fund grant business model and strategy			
Our board continuously ensures that risks are identified and documented			
We have an explicit board member recruitment and succession planning policy			
Board members and staff are required to sign conflict-of-interest declarations annually			
Our board sets high ethical standards and has a written code of conduct for board and staff members			

GUIDING QUESTIONS	ASSESSMENT Yea (Y) No (N)	PRIORITY High (H) Low (L) N/A	ACTION TIMELINE Short-term (S) Medium-term (M) Long-term (L)
Implementing Governance:			
Our board focuses on strategic leadership and long-term thinking and does not micromanage the PAO			
Our board approves all the proposed fund grant business model and strategy			
Our board continuously ensures that risks are identified and documented			
We have an explicit board member recruitment and succession planning policy			
Board members and staff are required to sign conflict-of-interest declarations annually			
Our board sets high ethical standards and has a written code of conduct for board and staff members			

# WHO SHOULD USE THE GUIDE?

This guide is primarily aimed at professional accountancy organisations (PAOs) without established or matured governance systems. It focuses on practical guidance to help PAOs achieve the minimum requirements for a working system.

The 'Advanced Considerations' section not only provides aspirational content to developing PAOs, but may be useful to all PAOs irrespective of their maturity since it focuses on common ongoing challenges and complexities.

# WHERE TO OBTAIN THE GUIDE?

The Guide is available on the CAPA website ([www.capa.com.my](http://www.capa.com.my)) in electronic format and can be downloaded at no charge. Printed copies can be requested from the CAPA Secretariat.



The Confederation of Asian and Pacific Accountants (CAPA) is recognised by the global accountancy profession, represented by the International Federation of Accountants (IFAC), as a regional organisation representing national PAOs in Asia Pacific. CAPA's mission is to develop, coordinate and advance the accountancy profession in the region by, inter alia, contributing to the formation and growth of sustainable accountancy organisations.

This guide is also endorsed and recommended by IFAC to all existing and aspiring PAOs around the world.

