

## Social Accountability Standard (SAS) 2

### Trustees and Board Members

#### OBJECT

**02.01** The main object of this draft standard is to provide clarity about the induction, role and function of Trustees / Board Members. It should also help in assessing and enhancing the quality and accountability of trusteeship and governance.

#### EXPLANATORY STATEMENT

**02.02** NGOs deal in public money for public utility purposes, however for legal and practical purposes the ownership of all funds lie with a group of people.

**02.03** A good NGO should exemplify openness and transparency by having desirable criteria for selection and rotation of trustees.

**02.04** The NGO law normally varies from country to country and normally within the country also there are various kinds of registration which permit different board and trustee structure. For instance a public charitable trust can be formed with one or two trustee who are permanent in nature. Such law belong to an era when charities were entirely based on the funds / assets bequeathed by a particular donor/author. But when such trust are registered for fund raising and donor based projects, it raises a serious question mark on the public ownership of the NGO. Similarly various other forms & registration also provide the possibility of the ownership being in the hands of a private group of persons.

**02.05** NGOs also struggle in defining the role and responsibilities of the trustees which results in a governance imbalance where the board may hinge from being dormant to overactive and interfering.

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**02.06** The different forms of registration also create different ownership structures, for instance in a trust there is no provision for general body, but in case of a society there can be a general body which appoints the board.

**02.07** The diversity of skills and the ability of the board member to assume and exercise authority also require careful support from the policies and norms. This standard endeavours to address some of such issues.

#### COMPOSITION OF THE BOARD

**02.08** The board should be ideally between five to ten members unless the legal requirements are different.

**02.09** The board should not have members who are permanent in nature except the case of institutional nomination. In case of a trust normally a clause regarding permanent trustees is found, in such instances it is desirable that the total voting right of the founder trustees is less than 50%.

**02.10** The composition of the board should be clearly defined in terms of the diversity of the skills required for discharge of the board functions. The balance of the board should be maintained in terms of gender, finance & other specialised skills, stakeholders and distance & availability.

**02.11** Not more than two employees should be board members with voting rights or at any point the employees participation should not exceed 20% of the board members. If two or more employees are on the board then they should not be relatives.

#### ELECTION/SELECTION OF THE BOARD MEMBERS

**02.12** There should be a clearly defined policy for recruitment, election, selection of trustees or board members. The induction of new trustees should be through an open process providing the opportunity of being elected/selected to a wider group of

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stakeholders. The process should include use of methodologies such as advertising for new trustees through various medium.

**02.13** The board members should retire and be re-elected on the basis of rotation. For instance every two years a third of the board can retire. Though the board members usually get re-elected but the technical possibility of replacing the entire board in an election process should be avoided.

#### BOARD PROCESSES

**02.14** There should be a process for orientation and sensitising of the trustees regarding their responsibilities in particular as well as in general.

**02.15** There should be a process through which clear distinction between strategic matters and operational matters should be made and a position paper should be drafted and revisited annually.

**02.16** The board should set key performance indicators for themselves.

**02.17** The board should meet once at least in every quarter.

**02.18** An annual report on the financial or other contributions of the board members should be prepared to assess the stakes and ownership of the board members.

#### ROLES AND RESPONSIBILITIES

**02.19** The board should formulate the mission statement of the organisation and should revisit it every three years in order to ensure that the programmes and resources are in consonance with it.

**02.20** The board should formulate the structure of authority and responsibility to be delegated to the CEO and other staff.

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**02.21** The board should determine the procedure of electing/selecting the CEO and the compensation thereof.

**02.22** The board should formulate important policy documents and guidelines on gender, human resource, finance etc.

**02.23** The board should appoint the statutory auditor and the internal auditor if required. Both the auditors should directly report to the board.

**02.24** The board should determine and approve the annual budget and allocations.

**02.25** The board should determine and approve the bank accounts to be operated and the signatories thereof.

**02.26** The board should develop proper policy and systems regarding the title, safeguard, location and verification of fixed assets.

**02.27** The board should ensure strict adherence with all statutory compliances. It should also ensure that requirements/obligations towards other stakeholders is diligently done.

**02.28** The board should constitute advisory committees for special functions or for specific purposes.

**02.29** The board should review the performance of the CEO and other senior management staff on annual basis.

**02.30** The board should prepare a position paper every three years on issues such as (i) Financial Sustainability, (ii) Institutional Sustainability, (iii) Programmatic Sustainability, (iv) State, need and relevance of corpus, endowment and general funds, (v) Risk and contingencies.

**02.31** The board should carefully position its involvement in the management of the affairs of the organisation. Generally the board should not be interfering in nature, but certain powers of approval should be retained by the board depending on the size of the NGO. A suggested list of the additional functions of board could be as under :

- approval of projects and activities to be undertaken
  - periodical perusal of the reports from the Secretary and other key functionaries
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- approval of purchase of assets for large financial transactions
- approval of project budgets and investments
- finalising annual financial statements
- staff capacity building measures
- appointment of staff
- internal control measures
- resource mobilisation, etc.

#### CONFLICT OF INTEREST

**02.32** There should be a clearly defined policy to ensure that any conflict of interest is properly dealt with. The issues which may be regarded as material interest are as under :

- Appointment of relatives in board or senior management
- Ownership or partial ownership in organisations which are engaged or may seek business or consultancies.
- Payment of fees and remuneration.
- Directorship or management position in other NGOs.
- Providing consultancies in personal capacities.
- Having commercial interest in any decision or resolution.

**02.33** The Board of Directors of the trustees should declare such interests. The interested trustees and directors should not participate in the decision making and voting process for that particular resolution. An annual declaration of such interests should be placed in the annual general meeting.

#### EX-OFFICIO BOARD MEMBERS

**02.34** The memorandum of association of the society can be suitably drafted so as to have provision regarding *Ex-officio* board members. An *Ex-officio* board member

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denotes the right of a particular formal position holder to participate and vote in the board proceedings. For instance, an NGO may provide that the District Magistrate will be one of the board members, then who ever is the District Magistrate will automatically have the right of a normal board member.

#### GENERAL MEMBERS

**02.35** The NGOs registered under the Societies Registration Act or under the Companies Act or any other law which require both the general body and the board, should ensure that there is a transparent and appropriate policy regarding general members and general meetings.

**02.36** The general body should be the body of general members with equal voting rights. The membership should be open to all section of stakeholders. The size of the general body is determined by the nature of NGOs work, generally movement based NGOs have larger general body. However normally the size of general body should vary between ten to thirty members. The general body should always be larger than the board.

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