

U4 Expert Answer



Key features of NGO accountability systems

Query

Please identify the good governance characteristics for running a civil society organisation with strong internal accountability measures (i.e., managing complaints, conflicts of interest, official travel, financial management, record keeping, election and accountability of the Board, etc). Where possible, please identify organisations with best practise examples.

Purpose

Anti-Corruption civil society organisations are integral to helping prevent and raise awareness about corruption, and as a result, need to maintain public and donor confidence that they themselves are preventing corruption and promoting accountability standards within their own organisations.

I am trying to identify potential anti-corruption and civil society partners in a corruption-prone environment and want to ensure their own organisations have strong internal accountability measures.

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Summary

As NGOs take on an increasingly prominent role as development assistance implementers and political counter-power, they are under greater scrutiny and pressure to demonstrate that they are using their resources in an efficient, accountable and transparent manner. Their legitimacy in managing aid resources is closely tied to their accountability to their constituency (and the public at large), their adherence to their mission, the transparency of their processes, and their effectiveness in fulfilling their mandate.

As, in most countries, only rather basic legal requirements for the set up and running of NGOs exist, NGO accountability is primarily enforced through self-regulatory mechanisms and internal rules and procedures, which therefore need to be carefully, assessed in terms of their effectiveness in managing corruption risks. This includes looking at the organisation's governance structure and standards, independence, integrity policies/codes of conduct, transparency standards, human resource management policies, financial management standards and downward accountability measures.

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U4 is a web-based resource centre for development practitioners who wish to effectively address corruption challenges in their work. Expert Answers are produced by the U4 Helpdesk – operated by Transparency International – as quick responses to operational and policy questions from U4 Partner Agency staff.

1 NGO accountability and donor relations

NGOs have taken an increasingly prominent role as development assistance implementers in recent years, especially in fragile states where they often provide essential services which are traditionally under the responsibility of the public sector. With the growing influence of the non-profit sector over service delivery as well as their increased involvement in the development of national and international policies, the transparency and accountability of NGOs have become an emerging area of concern.

As resources channelled through the non-profit sector increase, NGOs are under greater scrutiny and pressure to demonstrate that they are using their resources in an efficient, accountable and transparent manner, and can be held accountable for their effectiveness, organisational reliability and legitimacy. In particular, their legitimacy in managing aid resources is closely associated to their accountability to their constituency (and the public at large), their adherence to their mission, the transparency of their processes, and their effectiveness in fulfilling their mandate (Chêne 2009). Yet, as “private entities”, NGOs are not submitted to the same integrity mechanisms and legislative norms that apply to state institutions, including internal or external oversight bodies, which can have an impact on their vulnerability to corruption (Trivunovic 2011). In the non-profit sector, accountability is primarily enforced through self-regulatory mechanisms, internal rules and procedures, which therefore need to be carefully assessed in terms of their effectiveness in managing corruption risks.

Overview of NGO corruption risk management systems for donors

Two recent U4 briefs provide a good overview of what a comprehensive risk management system should entail for donors engaging with the non-profit sector (Trivunovic, Johnson, and Mathisen 2011; Trivunovic 2011).

Preventing corruption

The first step for donors dealing with NGOs consist in taking appropriate measures to prevent corruption by assessing the probability and potential impact of such risk and identifying appropriate measure to mitigate those risks. This can be done through a number of measures, including assessing the overall programming

context, exercising due diligence on potential of local partners, as well as identifying the risks inherent to specific programmes and activities:

Environmental corruption risk analysis

NGOs operating in countries affected by endemic corruption are likely to face higher corruption challenges than other NGOs. Similarly, corruption risks may be different for different NGOs, depending on the nature of their activities, their sector of intervention or the type of operations. For example, advocacy NGOs may be confronted with risks of different nature than organisations providing humanitarian relief or delivering health or education services. Therefore, donors need to conduct an in-depth analysis of the country, region or locality where the programme will take place, as well as a comprehensive risk mapping exercise of the sector and activities planned, using a mix of quantitative and qualitative indicators.

Partner selection criteria due diligence

The selection of reliable partners is key to limit opportunities for corruption and donors can use a combination of initial in-house assessment and more in-depth evaluations of financial management capacities and practice. For these assessments, donors typically use broad criteria such as compliance with national NGO laws and regulations (e.g., registration and financial reporting), legal representative of the NGO, quality of managing and accounting systems, past performance and institutional capacity for financial management and corruption prevention. This includes looking at the organisation’s governance structure and standards, integrity policies/codes of conduct, transparency standards, human resource management policies, financial management standards and downward accountability measures, which will be developed further below.

It is also important to consider that while donors ‘key partner NGOs often have robust mechanisms in place to prevent corruption, in many cases these partner NGOs can work with other NGOs at the country level which may not have the same structures and capacity to effectively manage corruption risks. This additional layer of administration and oversight can make enforcement of a donor’s integrity standards vis-à-vis the local NGO challenging.

Programme operations and activities

Corruption risks are also closely linked to the nature of the operations, the sector and type of activities with different corruption challenges such as humanitarian

relief, infrastructure projects, service delivery, or advocacy activities.

Detecting, investigating and sanctioning corruption

A comprehensive NGO corruption risk management system also involves taking appropriate measures to detect, investigate and sanction corruption cases.

Detection mechanisms include rigorous monitoring of project implementation (activity and financial reporting as well as on-site visits and inspections), audits and evaluations, reporting and whistle-blowing mechanisms.

As few donors have internal units with in-depth financial investigation resources and expertise, investigations of suspected fraud and corruption are often delegated to internal audit departments or external assistance can be sought.

If corruption is uncovered, there should be adequate sanctions. While rigid systems respond to all incidents in the same manner (e.g. freezing aid), it is recommended that sanctions be proportional to the scope, nature and seriousness of the offence, using criteria such as monetary value, the deliberate nature of the defraud efforts, etc.

Implementation instruments

There are three broad implementation instruments to ensure effective enforcement of the corruption risk management strategy:

Project documents and contracting

All corruption risk mitigation measures should be formally agreed with the partners and specified in the contract.

Operational manuals and guidelines

Provide operational guidelines and details for the various corruption management mechanisms, through explicit corruption-related procedures (whistle-blowing procedures, reporting procedures, procurement guidelines, gift and asset declaration, vehicle inventory, financial review checklists, etc.), as well as other measures dealing with broader issues (programme risk assessment, partner assessment checklists, etc.).

Policy documents

There are also a number of policies that can be formulated to specifically address corruption risks.

Defining principles of NGO accountability

While donors need to put sound NGO corruption risk management systems in place for mitigating corruption risks when engaging with non-profit organisations, the issue of NGO accountability is not limited to what is referred to in the literature as “upward accountability” towards donors and external partners. Transparency International's Plain Language Guide refers to accountability as “*the concept that individuals, agencies and organisations (public, private and civil society) are held responsible for executing their powers properly.*” This implies the obligation to report on activities and raises the question of what to report and to whom.

Accountable to whom?

The literature increasingly suggests that the concept of accountability should be understood as accountability to all stakeholders affected by the organisation's activities. Given the specificity of NGO mandates and operations, this can include a wide variety of stakeholders with different agendas, making the issue of NGO accountability extremely complex and challenging. For example, the International Non-Governmental Organisation Accountability Charter, which has been adopted by most of major international NGOs since its drafting in 2006, identifies a wide variety of stakeholders:

- Internal stakeholders (staff, board, supporters, subsidiaries, local partners, volunteers, members);
- Donors and external partners (governmental and non-governmental);
- Regulatory bodies;
- Organisations to be influenced by NGO activities;
- Ecosystems (who cannot speak for themselves);
- Beneficiaries and parties affected by NGO operations;
- The media, civil society and the public at large.

In practice, however, NGOs tend to emphasize upward and external accountability to donors, and mechanisms to ensure internal accountability or accountability to beneficiaries are often less developed (Ebrahim 2003). In addition, accountability mechanisms often do not reflect the complex web of relationships NGOs develop with other stakeholders, as they tend to prioritise accountability to donors over other relationships. In addition, different types of organisations tend to develop and emphasise different forms of accountability. For example, membership organisations tend to be primarily accountable to their members;

service organisations are principally accountable to their donors, and network organisations to their organisational members.

Accountable for what?

There are three main areas of accountability for which NGOs can be held accountable by their stakeholders pertaining to their effectiveness, their organisational reliability and their legitimacy (Jordan 2005):

Effectiveness

NGOs can be held accountable for the effectiveness in fulfilling their mandate and the quantity, quality, impact and value for moneys of their operations, as well responsiveness to the beneficiaries.

Organisational reliability

NGOs can also be held accountable for the independence and reliability of their organisational structures, with criteria such as the role and composition of the board, financial and management structures, human resource management policies and practices, etc.

Legitimacy

Last but not least, they also need to answer legitimacy issues such as their constituency, adherence to their mission, ties to the public/beneficiaries etc.

2 NGO standards and systems of accountability

Donors' selection procedures can vary according to the local context, amount of funding involved and the urgency of delivering aid, which may limit the possibility of conducting in-depth and costly financial reviews. However, it is good practice to exercise due diligence and conduct minimum background checks of new partners, including reviewing past performance on projects financed by other agencies and a set of internal governance and accountability systems that have been identified in the two above-mentioned U4 briefs.

Governance structures and standards

The governance structure of the organisation largely depends on the nature of the organisation, its constituency(s), its mandate and purpose, operations, and activities, etc. However, there is a broad consensus

on some essential standards that cut across all organisations:

- By nature, NGOs should have a non-for-profit character, a legal entity identifying office holders, and a clear mission.
- NGOs should also have clearly defined governance structure, and decision making processes, membership rules and a description of the responsibilities, powers and duties of the governing body, as well as its relationships to other organisational entities. Board members should be selected through transparent processes set out in publicly available policies, have defined terms of office, receive no remuneration beyond reimbursement of expenses and should not profit from the organisation's assets. There should also be conflict of interest provisions for board members in place.
- Board functions should be clearly separated from management, and the CEO should not have a voting role on the Board. Board competencies include the appointment and annual review of the CEO performance, the review of financial performance and statements, as well as the responsibility to hire the auditor.
- The list of current Board members should be publicly accessible, Board meeting minutes should be recorded on file, and decisions should normally be communicated to the membership in a comprehensive and timely manner, unless good reasons apply (privacy concerns).

A [handbook of NGO governance](#) provides a comprehensive checklist of criteria to look at for assessing the governance structure of the organisation (Wyatt 2004). In addition, the U4 brief on NGO accountability provides a detailed list of indicators for NGO governance structures that is reproduced in the appendix.

Integrity policies and systems

NGOs should also have strong internal integrity management systems in place and policies to prevent and effectively address corruption risks that also apply to partners and service providers.

A group of UK NGOs developed a set of principles and guidance to NGOs for countering corruption and bribery (Bond 2011). In addition to recommending an **anti-corruption statement** articulating the organisation's

commitment to high ethical standards, the report highlights a number of key elements that should be considered for inclusion in the organisation's procedures, including provisions and guidance on bribery (especially for corruption prone activities such as procurement), facilitation payments, payments under duress, gifts and hospitality, political donations. The anti-corruption policy should be communicated to all partners, suppliers, contractors, intermediaries and other third parties.

Conflict of interest (COI) provisions are also an important component of an organisation's integrity management system, with a clear definition of what constitutes a conflict of interest and guidance for staff, volunteers and board members on handling conflicts of interest when they arise. Such policies typically require that real or perceived conflicts of interest or affiliation with actual or potential suppliers be disclosed, and that staff, volunteers and board members excuse themselves from decision making processes in which they have a conflict of interest. There should be clear guidelines specifying under which conditions gifts and entertainment may be or may not be accepted (and reported) or family members may be recruited (or not). There also should be a clear process for COI management, including a public register of interests maintaining a record of staff/trustees current and past interests and positions, and training/awareness raising activities. An internal ethical body should also be appointed with clear terms of reference to advise and/or decide on such issues if required.

The **obligation for staff to report corruption** or any unethical behaviour should be backed by **whistle blowing policies** protecting those speaking out about abuses, corruption or mismanagement. In addition, there should be an effective **complaint management system** in place, with clear scope, procedures, internal and external complaints channels, timeframe for addressing complaints and an appeal process. A previous U4 expert answer has specifically focused on [complaints mechanisms](#) (Chêne 2007).

These integrity standards cutting across organisational management, project implementation, financial management and information disclosure can be addressed in a **code of conduct**. As self-regulation tools, codes of conduct are the most common approach to NGO regulation. In addition to setting core values and guiding principles, they typically provide for establishing strong oversight boards, complaints procedures, conflict of interest, and whistleblowing

provisions. A previous U4 Helpdesk answer has specifically focused on [codes of conduct](#) for NGOs (Chêne 2009). In order to enhance ownership, such codes should ideally arise from among the organisation's staff/ Board members, while also drawing from best practice.

Transparency standards

Standardised, regular and adequate reporting, in compliance with relevant governance, financial accounting and reporting requirements (based on national laws and global good practice) represent an important aspect of NGO transparency, with the view to making basic data available to the public or oversight bodies on NGO operations. In some countries, such disclosure statements and reports are required by the state. For example, in the United States, NGOs applying for a tax exempt status are required to provide detailed information on finances, organisational structure and programme through an annual information return. Some donors can also impose similar conditions as part of their reporting requirements (Ebrahim 2003). However, such requirements tend to emphasise an upward reporting of financial data, with limited information on the quality of the work and downward accountability to stakeholders.

As private entities, NGOs are not submitted to the same information disclosure laws that apply to donors and governments. NGOs should therefore voluntarily commit to high standards of transparency and disclosure of information. With regard to transparency, the [INGO accountability charter](#) states *"we are committed to openness, transparency and honesty about our structures, our mission, policies and activities. We will communicate actively to stakeholders about ourselves and make information public available"*. NGOs that have adopted this charter are committed to report accurately on the organisation's mission and values, objectives and outcomes, environmental impact, governance structures and processes, main sources of funding, financial performance, contact detail and compliance with the charter.

The organisation's commitment to transparency can also be articulated in an **information disclosure policy**. Information-sharing should be considered good practice. At a minimum, NGOs should publish the list of donors and annual reports that include financial statements (Trivanovic 2011).

Human resources management policies

Human resources (HR) policies set a high bar on ethics and anti-corruption: Remuneration and benefits should be aligned with the public mandate of the organisation, while set at levels that can attract and retain the employment of qualified staff. Policies should fully comply with relevant national and international labour regulations, as well as pay particular attention to specific corruption related risks:

- Merit-based recruitment and promotion practices and processes;
- Transparent salary and benefit structures, including per diem policies;
- Transparent performance appraisal systems;
- Transparent disciplinary measures and procedures;
- Regulations/prohibitions of employment of relatives, family members, etc.

In terms of **official travel**, there are a few safeguards that can limit the potential for abuse. The purpose and benefit of the travel for the organisation should be clear and pre-approved by the manager, along with an outline of the expected costs and a budget line covering these costs. There should be clear reimbursement guidelines as well as rules governing class of travel and class of hotels.

Financial management standards

Many donors have developed their own **financial management standards** for their NGO partners. Well established NGOs have typically developed robust financial management processes, but the challenges for donors is often to enforce minimum standards when engaging with lower capacity partners. The minimum requirements could include:

- Existence of basic accounting tools (book of accounts, general ledger, general journal, cash receipt book, cash disbursement book, bank account records);
- Separation of key functions (approving officer, book keeper, cash custodian) and “four-eye” principles for expenses, requiring two signatures by relevant staff;
- Annual financial statement of income and expenditures;
- Annual financial reports that conform to relevant laws and practices and which are audited by a qualified independent public accountant(s).

As procurement is typically an activity highly vulnerable to abuse, especially in countries with endemic corruption, it is essential to set minimum standards to mitigate those corruption risks. This could include:

- There should be open competitive procedures for purchase above a certain threshold;
- The organisation should require proof of submission of several offers above a certain threshold and the justification of the decision;
- The organisation should pro-actively communicate its anti-bribery policy to all agents, intermediaries, contractors and suppliers

The above mentioned U4 brief on NGO accountability provides a detailed list of financial management indicators which is also reproduced in the appendix.

Ethical fundraising policies

There should also be clear **fundraising policies**, with fundraising activities conducted ethically and accurately, and funding being reported transparently. In particular, the **INGO accountability charter** identifies some standards of ethical fundraising, such as respect for the rights of donors to be informed about how their donation will/has been used, accurate description of needs and activities, clear guidelines when dealing with gifts in kind, as well as ensure that donations sought through third parties are solicited and received in conformity with the organisation’s own practices.

Downwards accountability standards

As already mentioned, the issue of downward accountability of NGOs towards their beneficiaries is typically neglected. However, NGOs dealing with service delivery have developed some experience with such accountability by promoting greater participation of the beneficiaries and target groups in the programme implementation. This could include:

- Open-house policies;
- Community meetings;
- Participatory evaluation of programmes with participation of beneficiaries/feedback;
- Complaints/ feedback mechanisms.

3 Examples of NGO accountability initiatives

Although the issue of NGO accountability is relatively recent, there has been a number of voluntary initiatives that promote the development and implementation of NGO accountability standards and mechanisms. They also provide valuable information on whether and how NGOs have committed to adhere to high standards of integrity, accountability, and transparency, and provide guidance on minimum expected standards for the non-profit sector.

Global voluntary Initiatives

INGO Accountability Charter

The **International Non-Governmental (INGO) Accountability Charter** was launched in 2006 by eleven leading international NGOs (including Amnesty International, CARE, ActionAid, CIVICUS, Greenpeace, OXFAM, and Transparency International) as a voluntary self-regulating initiative that defines common values, policies and practices. It is considered one of the strongest initiatives in terms of assurance mechanism (Obrecht, Hammer and Laybourn 2012).

The INGO Accountability Charter is a statement of principles that promote transparency and accountability both internally and externally through a number of provisions that cover issues such as respect of human rights, political and financial independence, responsible advocacy, participatory and effective programmes, non-discrimination, transparency in reporting activities, accuracy of information, good governance, professional and ethical fundraising. Signatory NGOs commit themselves to gradually apply the Charter's provisions to all their programmes, conduct annual independent fiscal audits and submit annual compliance reports, which are reviewed by an independent panel whose assessment is made publicly available.

For additional information, see:

<http://www.ingoaccountabilitycharter.org/about-the-charter/>.

Istanbul Principles (Open Forum for CSO Development Effectiveness)

The **Open Forum for CSO Development Effectiveness** is a global process set up by and for Civil Society Organizations (CSOs) worldwide, to create a shared framework of principles that defines effective CSO development practice and elaborates the minimum standards for an enabling environment for

CSOs. The fifth of these eight principles relates to "Transparency and Accountability": CSOs are effective as development actors when they "demonstrate a sustained organisational commitment to transparency, multiple accountability, and integrity in their internal operations."

An implementation toolkit provides guidance and concrete examples on the guidelines, mechanisms and indicators that CSOs might use to put the Istanbul Principles into practice in their local/regional contexts.

For more information, please see:

<http://www.cso-effectiveness.org/home,091>

The Global Reporting Initiative

The Global Reporting Initiative (GRI) provides a comprehensive **Sustainability Reporting Framework** that is widely used around the world by companies and NGOs. The Framework enables all organisations to measure and report their economic, environmental, social and governance performance.

The NGO Supplement covers key sector-specific issues, including: (i) program effectiveness including affected stakeholder engagement, mechanisms for feedback and complaints, and monitoring and evaluation; (ii) integration of gender and diversity into programs; (iii) public awareness and advocacy; (iv) resource allocation; (v) ethical fundraising; and (vi) working with volunteers, among others.

For more information, see:

<https://www.globalreporting.org/reporting/reporting-framework-overview/Pages/default.aspx>

International Aid Transparency Initiative

The **International Aid Transparency Initiative (IATI)** aims to improve transparency by making information about aid spending easier to find, use, and compare by using a common reporting standard. It is a multi-stakeholder initiative which involves NGOs as well as donor countries and developing country governments.

NGOs that are reporting using the standard include CAFOD, Development Initiatives Poverty Research, Engineers Without Borders Canada, The Indigo Trust, The International HIV/AIDS Alliance, Oxfam GB, Publish What You Fund, YIPL (Young Innovations Pvt. Ltd), and Transparency International.

For more information on the initiative, please see:

<http://iatistandard.org/>

Examples of initiatives at the country level

In many countries, national NGO networks have put in place accountability and transparency guidelines and initiatives. One World Trust runs a global website of national level accountability mechanisms as a tool to map country level accountability initiatives.

For more information, please see:

<http://oneworldtrust.org/csoproject/>

Other initiatives

The Global Accountability Project

The **Global Accountability Project** was launched in 2001 by One World Trust⁵ and targets Inter Governmental Organisations (IGOs), Transnational Corporations (TNCs) and international NGOs with the view to promoting the transparency and accountability of decision-making processes. The **Global Accountability Report** (GAR) presents an assessment of the accountability of leading organisations to the people they affect. The organisations are assessed on how they integrate key accountability principles into their organisational policies and management systems. The last iteration of the report was produced in 2008.

As such, the GAP Framework provides a useful checklist of the various aspects of NGOs' operations. It produces an assessment of the capabilities of 30 global

organisations to be accountable to civil society, affected communities and the public at large, using four dimensions of accountability, including transparency (consistent public disclosure and responses to information requests), participation (equitable member control and engagement of external stakeholders in decision making), evaluation (evaluation and learning) and complaints handling (provision of safe channels for internal and external stakeholders to make complaints).

The CIVICUS Civil Society Index (CSI)

The **CIVICUS Civil Society Index** (CSI) is a participatory needs assessment and action planning tool for civil society. The CSI most recent phase 2003 - 2006 covered over 50 countries and can be accessed through a searchable online database. The database allows users to create personal accounts to access and search the CSI data and diamond in all countries that have completed and published the CSI results.

The state of civil society in their national context is assessed along four basic dimensions using a structured methodology.

Please see: <http://civilsocietyindex.wordpress.com/>

- The **structure** of civil society.
- The external **environment** in which civil society exists and functions.
- The **values** practiced and promoted in the civil society arena.
- The **impact** of activities pursued by civil society actors.

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5 Appendix

Essential NGO internal governance indicators

Clear governance structure, particularly role of the principal governing body (the Board).	▪ name of body ▪ description of relationship to other organizational entities (Board functions must be separate from management; if CEO member of board, non-voting only) ▪ list of current Board members with occupations and cities/towns of residence ▪ (where appropriate, the controller/beneficial owner of NGO should also be identified)
Governing body description to include:	▪ basic responsibilities and powers ▪ duties of individual board members ▪ minimum number of board members ▪ membership rules (including eligibility, suspension, and expulsion) and terms of office (length of terms, limits on re-election) ▪ clear election procedure ▪ minimum number of board meetings and method of convening meetings (who initiates, how to set dates, who decides agenda, etc.) ▪ decision-making procedures (number needed for quorum, how to vote and record decisions) with explicit indications that decisions are to be taken collectively ▪ record of Board meeting minutes ▪ conflict-of-interest provisions (for the Board and organisation overall) ▪ Board member remuneration (Board Members should <u>not</u> receive compensation beyond reimbursement of expenses)
Board competencies to include:	▪ annual review of CEO performance ▪ review of financial (management) performance/ annual financial statements ▪ responsibility to recruit CEO ▪ responsibility to engage auditor

Essential financial management indicators

Existence of basic accounting tools:	▪ books of accounts (general ledger, general journal, etc.) ▪ cash receipts book ▪ cash disbursements book ▪ bank account records
Basic accounting practices:	▪ written policies and procedures that follow accepted principles of accounting and control ▪ division of functions: the approving officer for fund releases (e.g. CEO) is different from the bookkeeper and the cash custodian.
Financial reporting and record-keeping	▪ annual financial statements of income and expenditures, on file for a certain number of years (suggested minimum two fiscal years)
Auditing practices	▪ annual audits commissioned by Board (auditor must not have a relationship to anyone in the organisation)
Fraud prevention and anti-money laundering practices	▪ existence of full and accurate audit trails of funds transferred outside NGO jurisdiction/ country ▪ use of registered bank accounts for money flows in case of every transaction (small amounts of cash for daily expenditure excepted) ▪ procedures to verify the identity, credentials and good faith of their beneficiaries, donors and associate NGOs ▪ secure and confidential maintenance of the list of the bank account numbers under the name of the NGO and any document on identifying information of persons
Advanced systems (for more developed organisations)	▪ sound investment policies ▪ resource generation plan