

CO-OPERATIVE GOVERNANCE

A Summary of the Code of Best Practices for Co-operatives

INTRODUCTION

The main pillars of the Good Governance are **transparency, accountability, risk management and control**. Though the Co-operatives Act 2005 and the Co-operatives (Amendment) Act 2006 have made provisions for greater transparency and accountability at the level of co-operative societies, the Cooperatives Division of the Ministry of Industry, Small and Medium Enterprises, Commerce and Co-operatives has worked out this Code of Best Practices, in consultation with main stakeholders of the co-operative movement in Mauritius. The Code of Best Practices provides effective guidelines for the proper functioning of co-operatives and eventually ensures sound co-operative development.

Co-operative governance regulates the relationship between **members of co-operatives, the Board of representatives of members** (that advises management on behalf of members) and **management** (that has the care and control of the co-operative).

The good co-operative governance will:

- (i) ensure that board and management pursue objectives that are in the interests of co-operatives and members;
- (ii) lead to effective monitoring of activities of societies;
- (iii) ensure efficient and effective use of available resources;
- (iv) reduce conflicts; and
- (v) increase accountability and transparency in co-operatives.

This document includes Code of Best Practices for:

- (i) Board of Directors;
- (ii) Members;
- (iii) Internal Controller;
- (iv) Audit Committee; and
- (v) Management.

Co-operative organizations are advised to select clauses and codes that can be implemented at their level and be fully committed to the implementation of the relevant parts of the Code of Best Practices.

Recognizing that societies differ in sector, size and resources, it is understood that levels of implementation of the code will differ.

CODE OF BEST PRACTICES FOR THE BOARD OF DIRECTORS

As per the co-operatives legislation, a Board of Directors shall manage a co-operative society. The Board of Directors (BOD) shall exercise all the powers of the co-operative society subject to any limitations contained in the law and the constituting instruments. The BOD shall abide by the following codes of ethics and good governance:

Leadership & Management

- The BOD should exercise leadership, entrepreneurship, integrity and sound judgment in directing the affairs of the co-operative
- The BOD shall provide guidance for long-term and short-term planning

Transparency and Accountability

- Directors shall adopt the principles of transparency and accountability
- The BOD should ensure good governance

Compliance

- The BOD shall ensure that the society complies with all statutory and legal requirements, together with co-operative values, principles and prescribed codes of best practices

Control and Supervision

- The BOD shall set up a monitoring mechanism to assess the performance of societies
- The BOD shall ensure that regular performance appraisal of the management and staff is carried out

Independence of the Board of Directors

- The majority of Board members should be independent non-executive directors
- Directors must not involve in related party transactions

Remuneration

- The Board members should be paid a realistic financial compensation for their work

Communication

- The BOD should establish effective and ongoing communication between stakeholders at all levels

Appointment of Chairperson

- A Chairperson having the ability, power and commitment to guide and organize the work of the Board, initiate and monitor strategic decisions and having the know-how and experience should be appointed

Members

- The Board should ensure expansion of membership, the participation of members in the operation of the society, and that members are aware of their rights

Co-operative Principles and Values

- Boards should adopt co-operative principles and adhere to co-operative values while managing the affairs of the co-operative societies

CODE OF BEST PRACTICES FOR MEMBERS

In accordance with the Cooperatives Act 2005, a “member” means a person who holds a share in a society. No individual shall become a member of a society unless he has attained the age of 18, except in the case of a school society or credit union. An individual, a society and/or a body corporate may be a member of a primary society. A member shall comply with the following codes of ethics and good governance:

Rights of Members

- Members should know their rights as members and exercise these rights as members/ owners of societies
- Members should have access to relevant and required information on a timely basis and in an understandable manner for analysis and comments thereon

Participation of Members

- Members should participate actively and fully in all activities of societies
- Members should participate actively in deliberations at the annual general meetings and any special general meetings

Responsibilities of Members

- Members should abide by rules of the society and observe co-operative values and principles
- Members should refrain from acting to the detriment of societies
- Members should ensure that policies and performance are in accordance with the stated aims of societies and values and principles of co-operatives
- Members should use the services of societies and settle their liabilities/ debts relating to societies

CODE OF BEST PRACTICES FOR INTERNAL CONTROLLER

As per the co-operatives legislation, a co-operative society shall have an internal controller. The Board of Directors and Management of the co-operative society shall establish an internal control system to ensure efficiency and effectiveness of operations, reliability of financial reporting and compliance with appropriate laws and regulations. The internal controller shall comply with the following codes of ethics and good governance:

Appointment of Internal Controller

- The Board and Management/ Audit Committee shall define the profile, qualifications and experience of the internal controller and his/ her scope of work
- A panel comprising members of the Board and Management should select the internal controller. The panel, after obtaining the approval of the Audit Committee, should propose the selected internal controller for appointment at the annual general meeting.

Functions of Internal Controller

Internal controllers shall:

- Ensure that all activities follow approved and established procedures
- Ensure that all books of societies are kept up to date
- Carry out inspections of money, stocks, books and other assets of society
- Ascertain the authority and validity of all expenditures, payments, loans and advances as the case may be
- Examine regularly accounts of societies and ensure that all transactions of societies are properly recorded in respective books, accounts and other relevant documents

Responsibilities of Internal Controller

- The internal controller shall, within a reasonable period, identify errors or irregularities in transactions already processed, and missing assets/ invalid disbursements
- The internal controller shall safeguard the assets of the society
- The internal controller shall secure the completeness and reliability of the records of the society
- The internal controller should produce reviews on the control effectiveness of the society to the Board/Audit Committee
- The internal controller should ensure that there is separation of duties and that no individual has control over a transaction. For societies where separation of duties is not possible because of insufficient staff, vacations, etc., the transactions should have written approval of the manager

Access to Information

- The internal controller shall have unrestricted access to all records, property and personnel matters

Reporting

- The internal controller should provide timely and quarterly reports to the Board and to the Registrar of Cooperative Societies on significant audit findings and recommendations; and to the Audit Committee, if any
- The internal controller should provide timely information to the Audit Committee or the Board concerning suspected fraudulent activities, significant instances of non-compliance or abuse, if any

Confidentiality

- The internal controller shall keep confidential all information obtained in the exercise of his/ her duties

CODE OF BEST PRACTICES FOR AUDIT COMMITTEE

An Audit Committee may be defined as a Committee of non-executive Directors, responsible for liaising with the full Board, Internal Audit and External Audit. It may be composed of 3 to 5 non-executive members (members of the Board of Directors who are neither officer nor employee having the responsibility to maintain contact with the internal and independent auditors of the society). The Audit Committee shall abide with the following codes of ethics and good governance:

Setting-up of an Audit Committee

- Audit Committees should be formally constituted as subcommittees of the main Board
- There should be written Terms of Reference, which deal with membership, authority and duties
- There should be a minimum of three and a maximum of seven members in the Internal Audit Committee and members elected for the Audit Committee shall hold office for a period of three years
- Members of Audit Committees must have skills and knowledge in accounting and auditing
- Audit Committees should have at least one discussion annually with auditors but without executive Board members, to ensure that there are no unresolved issues of concern
- Audit Committees should have explicit authority to investigate on matters within its Terms of Reference and should have full access to relevant information

Role and Functions of Audit Committee

Audit Committees should:

- Acquire a good understanding of the entire audit function, both external and internal
- Review the whole system of accounting, internal control and reporting
- Review the annual financial statements before submission to the Board for approval
- Consider the appointment, Terms of Reference, remuneration and findings of auditors
- Review findings of external auditors and make appropriate recommendations
- Review the effectiveness of internal audit and its reports and discuss the scope and timing of internal audit work
- Ensure that the activities of societies are in compliance with the rules and regulations of the Cooperatives Act 2005 and the Co-operatives (Amendment) Act 2006
- Submit a quarterly Management Report to the Board

CODE OF BEST PRACTICES FOR MANAGEMENT

Accountability and Responsibility

Management should:

- Ensure that policy decisions taken by the Board are implemented
- Follow the objectives and guidelines set out by the Board
- Ensure that the functioning of the society is in line with co-operative values and principles, and the Co-operatives Act 2005 and the Co-operatives (Amendment) Act 2006
- Be accountable to the Board and member owners

Efficient Management

Management should:

- Ensure that resources of the society are used productively for the betterment of the society and its members
- Build up the image of the society so that trust, reliability and confidence prevail

Transparency

Management should:

- Be committed to integrity and transparency in operations
- Ensure that financial statements are transparent and that the statements give a true and fair view of the state of affairs of the society

Supply of Information

Management should:

- Supply all required information on a timely basis and in the correct format
- Keep up to date information, especially as regards the books and accounts of the society

Conflict of Interests in the Society

- The posts of Chairperson of the Board and Management Executive should not be held by one and the same person
- The posts of Chief Executive and Secretary should not be held by one and the same person
- Inform the society of any activity being undertaken that may lead to potential conflict of interests.

Communication

Management should have effective and regular communication with the Board and other stakeholders.