

A publication of

Chio Lim Stone Forest

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A WORKBOOK

RISK GOVERNANCE FOR THE THIRD SECTOR



Authored by



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FOREWORD

The introduction of this Risk Governance Workbook is timely. With the continued growth of the Third Sector, it is important for organisations in this sector to strive to be the best that they can be.

The core of any organisation is its Board. It is imperative that organisations strengthen their Board capability because it provides the legitimacy of the organisation. A strong Board will lead the organisation to produce good outcomes and ultimately make a positive social impact.

This Workbook is comprehensive and well thought out. Not every organisation would be ready to adopt all recommendations. It depends on the organisation's current stage of development. However, the Workbook provides a comprehensive framework for any organisation to put in place a strong governance structure.

Whatever its size, the organisation should focus on building a quality Board. The size of the Board can vary according to the needs of the organisation.

On a ship, a competent crew will be at a loss without a competent skipper and assistants at the bridge. Led by the Chairman, the Board is analogous to the team at the bridge.

The content of the Workbook is adequately detailed. Training courses should supplement the Workbook to facilitate plotting a course of action to implement recommendations that are new to the organisation or which need to be refreshed. For instance, it is always very helpful to have an external source to facilitate brainstorming of the Vision and Mission Statements.

I urge all organisations to strive towards improved governance. Singapore needs more effective organisations that achieve good outcomes and social impacts, not merely a proliferation of organisations.

I compliment the Chio Lim Stone Forest group and RSM Ethos for producing this excellent Workbook.



Gerard Ee

INTRODUCTION

The Third Sector is the sector comprising enterprises that are neither public nor private. The Third Sector is that part of the economy or society comprising the following:

- Social enterprises;
- Non-profit organisations¹;
- Not-for-profit organisations¹;
- For-profit organisations;
- Co-operatives;
- Non-government organisations;
- Social businesses; or
- Charities.

The Third Sector has to deal with an entire spectrum of risk, including whether obligations to donors and beneficiaries can be met both now and in the future. Risk governance forms the architecture within which the Third Sector undertakes risk management.

At Chio Lim Stone Forest and RSM Ethos, we advocate a practical approach to applying risk governance within the setting of the Third Sector. We believe that risk governance starts with the Board. It is therefore important, even before addressing the various components of a risk governance framework, that the issue of an effective Board with leadership ability is addressed. This Risk Governance Workbook has been developed for Board members (both newly appointed and those serving existing terms), as well as Executive Directors and Senior Management of the Third Sector with limited or no knowledge and experience in risk governance and risk management.

The purpose of this Risk Governance Workbook is to help organisations within the Third Sector get started on their risk governance journey by highlighting the critical role of the Board in leadership and handling risk, and subsequently introducing basic concepts and principles in risk governance. The Workbook is not meant to be a substitute for a comprehensive risk management programme (i.e. the risk management process is not addressed herein). The target readers for this Workbook are Boards, Executive Directors and Senior Management of the Third Sector. It is important that risk governance is driven by this core group. They set the 'tone at the top' and are able to drive a 'positive risk management culture' throughout the organisation. As detailed guidance on how to complete the respective sections is provided herein, the final deliverable shall be the Risk Governance Manual for the organisation within the Third Sector.

At the heart of this Workbook is our Chio Lim Stone Forest and RSM Ethos Risk Governance Framework. The framework is based on three core elements, namely, strategy, people/risk culture, and risk management practices and procedures. The Chio Lim Stone Forest and RSM Ethos Risk Governance Framework is graphically depicted on the next page.

¹ A Non-profit or a Not-for-profit organisation is defined as an organisation that uses surplus revenues to achieve objectives rather than for distribution as profits or dividends. The key difference between these two organisations would be the source of funding. A Not-for-profit organisation obtains funding through income generated from business schemes or commercial activities and may often be self-sustaining. However, a Non-profit organisation would receive funding substantially or solely from government funds or agencies.

Introduction

Strategy

The Board must take ownership in setting the organisation's strategy. Strategy defines the moral compass and should be established through dialogue between the Board and Management. The strategy has to be specific, measurable, time bound and clearly understood. It must be aligned to the mission and vision of the organisation and implemented through its people.



People & Culture

Good risk governance starts from the top. The tone of the Board and Management in being committed to the management of risk is critical. This fosters a risk-focused culture that is embodied in the employees who consider their role in respect of risk management and assess risk in their daily responsibilities.

Procedures & Practices

In order to facilitate the risk management process, formality and structure must exist. This guides the individual roles and practices required, defines accountability and provides overarching principles to manage risk.

Good risk governance ultimately empowers the Board to calibrate the moral compass, putting in place boundaries and proper accountabilities. Risk governance provides the assurance that the organisation within the Third Sector exists for the right social and moral causes.

Chio Lim Stone Forest and RSM Ethos Pte Ltd

Aide Memoir

Charities are guided by the Singapore Charities Code of Corporate Governance. Whilst the Charities Code of Corporate Governance addresses operational guidelines that support good corporate governance, it does not prescribe the setting of risk governance. This Workbook introduces the concepts of risk governance and bridges this with the requirement for organisations in the Third Sector to have a proper internal control system. Proper internal control can only be achieved where there is an effective enterprise risk management framework, which then drives efforts in developing control activities that address critical risks.

The contents of this Workbook are also aligned with the Risk Governance Guidance for Listed Boards (Issued by the Monetary Authority of Singapore [“MAS”] on 10 May 2012). This Workbook does not attempt to replicate the MAS guidance. Instead, it provides guidance on fundamental risk governance measures that an organisation in the Third Sector can adopt and use to put in place an enterprise risk management programme in the future. The table below demonstrates the alignment between this Workbook and the MAS guidance:

MAS Risk Governance Guidance	This Risk Governance Workbook
Key Areas	Mapped to the Workbook
Risk governance (Defining mission, identifying risk and allocating resources) (Section 4)	Sections 2, 3, 4, 5, 6 and 10
Roles and responsibilities of Board and Management (Section 5)	Sections 10 and 11
ERM Framework (Section 6)	Section 11 (note: prescriptive guidance on establishing an ERM programme and the risk management process are not covered in this Workbook)
What constitutes a sound system of risk management and internal control? (Appendix C)	Sections 10 and 11
Risk tolerance (Appendix D)	Sections 5 and 6
Risk culture (Appendix K)	Sections 1, 2, 3, 5 and 6

The contents of this Workbook achieve effective risk governance as:

- They bestow accountability on the Board to set the strategy and acknowledge the accompanying risks;
- They involve Management in dialogue for setting tolerance/risk appetite limits;
- They set out the control environment (e.g. commitment to ethics, integrity, oversight, responsibility, structure, competency and accountability) for supporting risk governance activities;
- They provide a ‘helicopter view’ of parties responsible and activities to be performed; and
- They facilitate the continuous journey of discussing and improving risk governance.

This Risk Governance Workbook should be completed in a workshop setting to encourage dialogue between the Board, the Executive Director and Senior Management team. This Workbook is divided into different sections, each addressing a key element of risk governance. These sections should be applied sequentially to achieve the thought and process flow prescribed.

When working through this Workbook, develop the content for each section by drawing guidance from the segment titled ‘How to Apply’. This provides relevant and practical guidance on articulating the content that will be unique and specific to different organisations.

ABOUT CHIO LIM STONE FOREST

Chio Lim Stone Forest, founded in 1985, is one of the leading and fastest-growing accounting and business advisory groups in Singapore. RSM Chio Lim LLP is a public accounting entity offering assurance and tax services, whilst Stone Forest is the umbrella name under which the business advisory and business support services operate. Together, we are the largest accounting and business advisory group outside the Big 4 in Singapore. On the international front, we are the Singapore member of RSM International.

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ABOUT RSM ETHOS PTE LTD

RSM Ethos Pte Ltd ("RSME") is the corporate risk advisory division of the Chio Lim Stone Forest group ("CLSF"). The combined expertise of 35 professionals catapults RSME to be ranked among the top Governance, Risk and Consulting firms in Singapore. Anchored by a management team of 6 with direct experience averaging 20 years, the firm is well-poised to be the premier Governance, Risk and Consulting firm in the region.

RSME is well-supported by CLSF, the largest accounting and advisory group outside the Big 4 in Singapore and globally by RSM International, the world's 7th largest network of independent accounting and consulting firms.

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Woon Teck is currently the Managing Director of RSM Ethos Pte Ltd. He works closely with Boards and the C-suite in designing a risk management framework that links corporate strategies to risk management activities, corporate governance and internal control activities.

In addition, Woon Teck is concurrently an Executive Director with Stone Forest Corporate Advisory Pte Ltd, advising clients on corporate strategies, succession planning, profit improvements and cross-border M&A transactions in the UK, the US, Canada, China and ASEAN countries. His work covers a wide range of industries such as food and beverage, manufacturing, oil and gas, renewable energy, telecommunications, and healthcare. Woon Teck is responsible for service integration of the Risk Advisory services with the M&A and Business Advisory services to deliver complete thought leadership advisory services to clients who are increasingly facing a more challenging, volatile and competitive environment.

As an Adjunct Faculty Member in the Singapore Management University, Woon Teck teaches Corporate Strategy, Mergers & Acquisitions and Raising Finance modules in the Corporate Advisory elective for the School of Accountancy's Bachelor of Accountancy and Master of Professional Accounting programmes.

Woon Teck is a Fellow Chartered Accountant of Singapore, a member of the Singapore Institute of Directors, a member of the Insolvency Practitioners Association of Singapore Limited, a member of the Institute of Internal Auditors and a qualified CRMA (Certification in Risk Management Assurance).



Dennis Lee
Director,
RSM Ethos Pte Ltd

Dennis is a Director with almost 13 years of audit, internal audit and risk management experience. He has been actively involved in providing internal audit and enterprise risk management services to Singapore-listed companies, fund management companies, family-managed businesses and statutory boards across a wide range of industries covering healthcare, manufacturing, hospitality, transportation, engineering and construction, property development and REITs.

Dennis has worked closely with Boards, Audit and Risk Committees as well as Senior Management in the planning and delivery of internal audit, control self-assessment and enterprise-wide risk management deliverables. He holds a Certification in Risk Management Assurance and has assisted numerous listed companies in complying with the enhanced SGX Listing Rules as well as to address risk governance requirements specified in the Code of Corporate Governance. Dennis has also facilitated Board and Management discussions on risk strategies that have paved the way for development of risk management frameworks and the implementation of risk management programmes.

ACKNOWLEDGEMENTS

In mid-2013, Chio Lim Stone Forest and RSM Ethos Pte Ltd embarked on a landmark effort with a social cause. That cause was to create awareness and raise the level of risk governance in the Third Sector.

We envisioned that substantial effort would be needed to educate Boards and Senior Management in this sector. They would need to support the view that quality leadership together with an objective assessment and dialogue of the organisation's vision, mission, strategic objectives and associated risks would be integral in implementing good risk governance. We believe that the principles embodied in this publication, if adopted, would ultimately raise the risk governance bar and foster a step in the right direction to improve the quality of Boards and Management within this rapidly growing sector.

In developing this publication, the views of the following contributors are taken into consideration:

- Mr Gerard Ee, a notable champion in the Third Sector, who provided his insights into the importance of effective and quality Board leadership as a key starting point to cultivate good risk governance.
- Mr Yoon Wai Nam (CEO of Centre for Non-Profit Leadership), who came up with the idea of developing a practical and easy-to-use guidebook to help the Boards of the non-profit sector develop a risk governance framework that guides leadership behaviour and risk management. Mr Yoon shared with us his experience on the challenges faced by non-profit organisations in implementing risk governance.
- Last but not least, Professor Ho Yew Kee (Head, Department of Accounting, National University of Singapore) shared invaluable experience, knowledge and pragmatic viewpoints on risk governance garnered through his contributions to the Singapore corporate governance scene.

Chio Lim Stone Forest and RSM Ethos Pte Ltd would like to thank Mr Gerard Ee, Mr Yoon Wai Nam and Professor Ho Yew Kee for their invaluable guidance, advice and contributions in the development of this publication.

Disclaimer

Chio Lim Stone Forest and RSM Ethos do not accept any liability to any organisation or user of this Risk Governance Workbook (herein referred to as the "Workbook") for Boards of organisations in the Third Sector. Chio Lim Stone Forest and RSM Ethos cannot accept any responsibility or liability for the outcomes or results of using this Workbook. Organisations and users of the Workbook are required to exercise judgement when applying the concepts and principles advocated herein. They should seek additional independent and/or professional advice if necessary, when determining the adequacy or effectiveness of actions taken to implement risk governance across the organisation. In using this Workbook, organisations and users acknowledge that they hold Chio Lim Stone Forest and RSM Ethos harmless against any claims, liabilities, costs and expenses that may arise.

1. BOARD LEADERSHIP

The quality of an organisation's Board in the Third Sector determines how it interacts with Management and stakeholders. This invariably impacts the organisation's sustainability, long-term performance and ability to achieve its objectives. Recent notable failures amongst higher-profile local organisations in the Third Sector have refocused public attention on the leadership of the Boards, calling the capabilities and fiduciary duties of the Directors (and their equivalent) into question.

Board leadership is very much about how the Board is able to know when to take the lead, how to partner with Management, and when it is appropriate to take a back seat. This allows Boards to have clarity and purpose when navigating complex situations. After all, proper risk governance begins with the Board, which should establish the tone for good risk governance. This paves the way for Management to drive strategies and actions, as well as set boundaries and limits to navigate challenges and in doing so, apply sound internal control and risk management techniques. There are three pillars that support the affairs of the Board. These are:

- **Board composition and expertise** (i.e. *Board constitution and what skills members should possess*)
- **Board appointment** (i.e. *appointment, reappointment and succession management*)
- **Board performance** (i.e. *how members' performance, commitment and contributions are measured*)

Board Composition & Expertise

Board should be independent, objective and able to exercise proper judgement in the affairs of the organisation. This includes having a Chairman, Directors and Sub-Committee heads. Independence and objectivity of Directors should be assessed regularly.

Boards should provide diversity of skills, experience and knowledge, be able to comment constructively on strategy and review management performance.



Board Affairs

Have a Board to lead, control and ensure long-term success. Management is accountable to the Board and the Board thereon to the stakeholders (including public, beneficiaries & recipients).



Board Appointment

This should be supported by a formal and transparent process for appointment and reappointment. Recommendations should be made to the Board for evaluation. Succession planning, performance, training and reappointments should also be deliberated.



Board Performance

Board effectiveness should be evaluated regularly. This should be driven by the Nominating Committee and the assessment criteria should be aligned with the strategic goals. Directors should be evaluated on whether they are able to contribute constructively and demonstrate sufficient commitment to the role.

Board Leadership

Five Distinctive Traits of Good Board Leadership:

There are five distinctive traits of good Board leadership. These include how the Board provides clear Vision and Mission Statements (what the organisation is about), how the Board should interact with Management, bringing on board and handling Directors, how to unlock opportunities in risks and self-reflection on whether the Board is ready to lead. These traits should be assessed in conjunction with the framework for Board affairs and are explained below:

i. Interaction with Management

Boards should retain a guiding role as (a) an advisor to Management and (b) a steward to monitor Management's performance and actions. It is not practical for Boards to execute strategic and operating plans and there is a need to delegate appropriate authority to Management, while having clearly established accountability and measurements of Management performance. A constructive and enlightened Board knows when to lead, when to be an advisor and partner to Management and when to take a back seat. The diagram below depicts the different situations and roles of the Board:



ii. Develop the Mission and Vision Statements

A clear and concise Mission Statement states the purpose of the organisation's existence. A clearly articulated Vision Statement plants the seeds that bear the fruit of the organisation's strategy. It justifies the organisation's existence, whom it serves, and how it should flourish and achieve its purpose.

The Board needs to take the lead to develop the Mission and Vision Statements together with Management. It should also take the lead to review and reflect on whether the Mission and Vision Statements remain relevant over time. It sets the stage for how Boards should lead and partner with Management to deliver the mission. The Board should consider the eight questions below relating to development of the Mission and Vision Statements.



Board Leadership

iii. On-boarding and Handling Directors

The Board is able to lead by having good members (Directors) and members should be evaluated from time to time to determine if their contributions are bringing value to the Board. The following are 10 important questions to ask when selecting and re-evaluating members of the Board. These should be asked on a continuous basis to establish rigour and quality in the assessment process.

Questions	To be asked before appointing a Director	To be asked during the Director Re-evaluation process
1. Is strategic thinking demonstrated?	✓	
2. Is the member able to grasp the mission and vision?		✓
3. Does the member have enough experience to handle strategic issues?	✓	
4. Is the member able to bring useful ideas to the discussion?		✓
5. Does the member have a proven track record?	✓	
6. Will the member be able to complement and strengthen the Board?	✓	
7. Has constructive coaching been offered to the member?		✓
8. Were the ideas and queries posed by the member relevant and appropriate?		✓
9. Will the member add value to the Senior Management Team?	✓	
10. Will the member be an asset in times of crisis?	✓	

iv. Unlocking Opportunity in Risk

A Board needs to partner Management in identifying strategy, acknowledging associated risks and setting the risk appetite and tolerance limits. This is an integral component of good Board leadership. Risk governance and risk management is not about avoiding risk, but about setting and acknowledging the boundaries within which the enterprise should operate to manage the risk associated with the selected strategies. The sections that follow provide detailed guidance on how to align risk with strategy and set risk limits/boundaries. A Board should be committed to the following activities in order to proactively manage risk:

- Define the risk appetite;
- Support risk management strategies;
- Obtain regular risk management updates;
- Bring relevant risk management experience to the Board;
- Establish pre-emptive risk management practices;
- Balance risk and opportunity, avoid excessive risk taking;
- Embed risk management in operations;
- Be ready for 'Black Swan' events (i.e. low-probability but extreme-impact risks); and
- Advise Management on high-risk transactions.

v. Are You Ready to Lead?

Boards should self-evaluate whether they are ready to exhibit good Board leadership and deliver the potential that many Boards are now starting to embrace. The bar on Board expectations is being raised by regulators and stakeholders alike in the Third Sector. Six simple questions that can be used to self-evaluate serve as a litmus test for the leadership potential of your Board:



2. OUR VISION

Objective

A Vision Statement defines the optimal desired future state, the mental picture of what the organisation in the Third Sector wants to achieve over time. It provides guidance and inspiration as to what the organisation is focused on achieving in five, 10 or more years. It functions as the organisation's "true north" and is the value of contributions from all employees over the long term. It should be written succinctly in an inspirational manner that makes it easy for all employees to repeat it at any given time. The Vision Statement sets the foundation for the strategy and goal planning. It gives the organisation a clear direction and inspiration. The vision is a statement of what the organisation is seeking to do and to become. The Board plays a central and advisory role in the development of the organisation's Vision Statement.

The Vision Statement is different from the Mission Statement. The Vision Statement expresses the organisation's optimal goal and reason for existence. A Mission Statement provides an overview of the organisation's plan to realise that vision by identifying the service areas, target audience, values and goals.

Principle

The vision describes what the organisation in the Third Sector aspires to be or wishes to accomplish in the future. The strategic vision is the organisation's roadmap for the future. This is illustrated on the right:



By articulating the position that the organisation intends to occupy in the market and the course it seeks to pursue, the Vision Statement can (a) guide decision making, (b) shape the strategy, and (c) impact how the organisation in the Third Sector is run.

How to Apply

When developing the Vision Statement, the following should be considered:

- How should the organisation prepare for the future?
- What should the organisation be doing to ready itself for change?
- Does the Vision Statement provide a picture of what the organisation should look like in the next five to 10 years?
- What is the time horizon for achievement of the vision?

Personnel Involved

Creating the vision of the organisation in the Third Sector involves collaboration between Senior Management and the Board.

Examples for organisations in the Third Sector

Some examples of Vision Statements from both local and notable foreign organisations in the Third Sector are:

- The Vision Statement of the Temasek Foundation is “building a shared future in Asia”. This Vision Statement clearly outlines the people of Asia as its stakeholders and the direction of the enterprise, which focuses on the future and clearly shows that this is a continuously evolving and developing journey.
- The Vision Statement of the Singapore Red Cross is “To realise the Singapore Red Cross as a leading and distinctive humanitarian organisation that brings together people and institutions in aid of the vulnerable.” This Vision Statement leaves no doubt about the activities pursued by this social enterprise and the stakeholder group that it supports and engages.
- The Vision Statement of the Singapore Cancer Society is “To be the leading charitable cancer organisation in Singapore and the region, with a reputation for effective programmes for the prevention and control of cancer”. It is aspirational and gives insight into what the society aims to be renowned for in the future. The Vision Statement recognises the role of the society and is clear about it; it aims to educate and support the onslaught on this potentially terminal and increasingly widespread disease.
- The Vision Statement of the Straits Times School Pocket Money Fund is “Give every child a promising future”. It is simple, yet precise in its direction and has a distinctive stakeholder focus, which is that of our society’s children.
- The Vision Statement of the American Heart Association is “The vision is of a society of healthy communities, where all individuals reach their highest potential for health”. It expresses the desired outcome of reaching the “highest potential for health” for society.
- The Vision Statement of the Humane Society of the United States is “to protect animals from suffering and cruelty caused by human actions.” It expresses the desired outcome of eradicating any human violence on animals.

How this is linked to the Code of Governance for Charities and Institutions of a Public Character (19 January 2011):

Stating the mission of the organisation in the Third Sector is in line with Principle 3.1.1 of the Code where for basic charities, the Board should, from time to time, review and approve the objectives of the charity to ensure that the charity’s objectives and work are relevant to the needs of the public. For Basic II, enhanced and advanced charities, the Board should periodically review and approve the vision and mission of the charity to ensure that it stays relevant to its changing environment and needs. The charity should clearly document and communicate the vision and mission to its members and the public.

3. OUR MISSION

Objective

It is important for the organisation in the Third Sector to establish its mission. The Mission Statement articulates the brand of the organisation. Just think of the International Red Cross and Red Crescent movement or the Salvation Army. These great iconic non-profits are so well branded that when you think of each of them, the very name elicits a host of associations, memories, positive feelings and the satisfaction that you know of them. Local notable organisations in the Third Sector such as the Temasek Foundation and Singapore Red Cross also stir our emotions with their honourable and just purposes centred on broad regional and focused societal improvement initiatives.

A clear, concise and simple Mission Statement forms the starting point for strategy setting. In order for an organisation to be successful, it needs a clear and broad Mission Statement that resonates and connects with the donors and beneficiaries. The Mission Statement should resonate with the organisation's vision (see section 2) and how it would like to be seen by its donors and beneficiaries.

Principle

The Mission Statement of the organisation in the Third Sector is the articulation of why it exists. It also encompasses what the organisation believes in and the manner in which it will behave or respond. The Mission Statement should include components shown on the right:



The Mission Statement should be inspiring to employees and reassuring to donors and beneficiaries. It is a beacon that will attract new people and more resources to the organisation's cause. You need to make your Mission Statement compelling as well as clear. It is the face and brand of your organisation.

All Mission Statements should be reviewed regularly to ensure that they remain relevant and continue to target those needs that they intend to serve.

How to Apply

The Mission Statement must stay relevant. When developing your Mission Statement, ask the following:

- Who are we serving?
- What are their needs?
- How are the needs of our beneficiaries and expectations of our donors/volunteers fulfilled?
- What are our organisation's values in serving these needs?
- Are we working towards our goal or veering off course?

Personnel Involved

The setting of the Mission Statement should involve the Board and all supervisory staff of the organisation. They need to own the Mission Statement and demonstrate their passion and energy towards its purpose and cause.

Guidelines for organisations in the Third Sector on writing Mission Statements

When developing the Mission Statement, consider the following:

- Bring in many perspectives. Consult and get lots of inputs from the community that you plan to serve, as well as from your Board, staff and volunteers. A broad base of support is critical.
- Allow enough time. Time spent now will pay off later. Do not rush the process. You need time to reflect on the information and feedback, write an initial draft, allow key participants to read it, and make changes.
- Be open to new ideas. This is especially important to the founders of the organisation. You may have tunnel vision while founding the organisation. It is now time to get new perspectives. Be open to different interpretations of what you should be doing and new ideas about how to accomplish your goals. Use brainstorming techniques to ensure that all ideas come forward freely. You can winnow them down later.
- Get help from a professional writer. A well written Mission Statement can be the foundation of your organisation's marketing and branding programme. It should not be written in a way that only insiders understand. A good writer can help you to avoid jargon and stilted language. It should state clearly the people it serves, not focus on glorification. The goal should be a Mission Statement that you are proud to display on your website and in your publications, and one easily understood and remembered by everyone.

Some notable Mission Statements from leading organisations in the Third Sector are:

- The Mission Statement of the Temasek Foundation is positive, forward looking and highly aspirational. It states its intent to foster prosperity, connectivity and stability across Asia. It recognises that people are the key to the future and states its intention to commit to and support specific industries it believes to be crucial in efforts to meet mission objectives.

"To contribute to a bright future of hope and opportunities for people in a connected and prosperous Asia by:

- Developing people through healthcare, education and research;*
- Building bridges between peoples;*
- Building institutions of excellence through governance and ethics;*
- Rebuilding lives and livelihoods affected by natural disasters"*

- The Singapore Red Cross has the following mission statement: *"We are dedicated to protecting human life and dignity, relieving human suffering and responding to emergencies."* This is a statement that clearly articulates the non-profit purpose and the value. The Singapore Red Cross is synonymous with charitable medical and health services and its involvement in disasters and calamities is permanently etched in our minds. A mission statement such as this is clear; it has no ambiguities and sends a powerful and touching message of a respectable and honourable care-giving enterprise.

Our Mission

- The mission statement of the Breast Cancer Foundation is: *“To eradicate breast cancer as a life-threatening disease”*. It is simple, yet very clear and purposeful in its intent, while embodying the very reason the society exists. It is inspirational and a beacon of light that draws both donors and organisations that relate to its noble cause and seek to contribute towards it.
- The Lee Kuan Yew Fund for bilingualism promotes bilingualism amongst children. The mission of the fund is: *“To complement efforts by the Ministry Of Education in the teaching and learning of English and the Mother Tongue languages”*. The mission statement directly underscores the lifelong commitment of Mr Lee Kuan Yew to bilingual education and building a strong early foundation for our children. It can be directly translated into efforts to promote bilingual education across the various levels of schooling. The mission statement also reflects an alignment of its purpose with the broad objective of strengthening links to our Asian heritage.
- The mission of the American Heart Association is simple and specific. There are no organisational jargons. It is a direct statement of what the organisation does and its focus. It uses positive words – “building” and “free of” – and focuses its resources on preventive care.

“Building healthier lives, free of cardiovascular diseases and stroke”

- The mission statement of the Humane Society of the United States is eloquent, brief and moving. It clearly demonstrates the values of respect and compassion that the organisation promotes.

“To create a humane and sustainable world for all animals, including people, through education, advocacy and the promotion of respect and compassion”

How this is linked to the Code of Governance for Charities and Institutions of a Public Character (19 January 2011):

The objective of the Charities Code is to enhance effectiveness of charities, promote best practices in non-profit governance and enhance public confidence by setting good governance standards. For the general public who may donate or volunteer their services, the Code can be used as a tool to decide which charities to support. As charities vary in size, they are encouraged to consider all sections of the Code to improve the level of governance.

Stating the mission of the organisation in the Third Sector is in line with Principle 3.1.1 of the Code where for basic charities, the Board should, from time to time, review and approve the objectives of the charity to ensure that the charity's objectives and work are relevant to the needs of the public. For Basic II, enhanced and advanced charities, the Board should periodically review and approve the vision and mission of the charity to ensure that they stay relevant to its changing environment and needs. The charity should clearly document and communicate the vision and mission to its members and the public.

4. STRATEGY

Objective

It is important for the organisation in the Third Sector to articulate its objective(s), mission and vision. Should it fail to do so, the organisation's strategy may not be correctly formulated and achieved. The organisation's strategy is an important component of its critical success factors. A well crafted Strategy Statement aligns behaviour with the mission and vision, and can be internalised and used as a guiding light when the organisation faces challenging and difficult decisions.

Principle

A good strategy is simple, clear and succinct. A well defined strategy will provide the organisation with direction, empower its staff/volunteers and energise the organisation. The three elements of a good Strategy Statement are:

Elements of a Good Strategy Statement	Explanatory Notes	Requirements
Objective (End)	The objective is not to be confused with the mission and vision. It drives the organisation into the future. Similar organisations may have common Mission and Vision Statements. However, they are unlikely to share the same strategic objectives. Internalise which objective is likely to maximise stakeholder value in the future.	The strategic objective has to be: <ul style="list-style-type: none"> • Specific, • Measurable, and • Time bound
Scope (Domain)	The scope is the domain of the organisation. When clearly defined, the scope sets the boundaries that line management must adhere to.	The organisation's scope comprises three dimensions: <ul style="list-style-type: none"> • Service offering, • Location, and • Vertical integration
Meeting the unmet needs of beneficiaries (Means)	What makes the organisation distinctive is whether it is able to deliver social benefits that beneficiaries are unable to obtain from existing similar organisations. Defining what makes the organisation distinctive helps employees and volunteers understand how they can contribute towards executing the strategy.	The two considerations in defining the distinctions are: <ul style="list-style-type: none"> • Value proposition for the beneficiary • The unique activities that allow the organisation to deliver social benefits needed by beneficiaries that other similar organisations cannot provide/do not provide as well

Strategy

Once there is more precision in the setting of the strategy, the next step is to focus on reaching a strategic 'sweet spot' (depicted in the diagram on the right by the orange intersection between the 'Organisation's capabilities' and 'Beneficiary's needs' circles but outside 'Other organisations' offerings'). This is where the organisation in the Third Sector can better fulfil the needs of beneficiaries, where others cannot do or do as well.

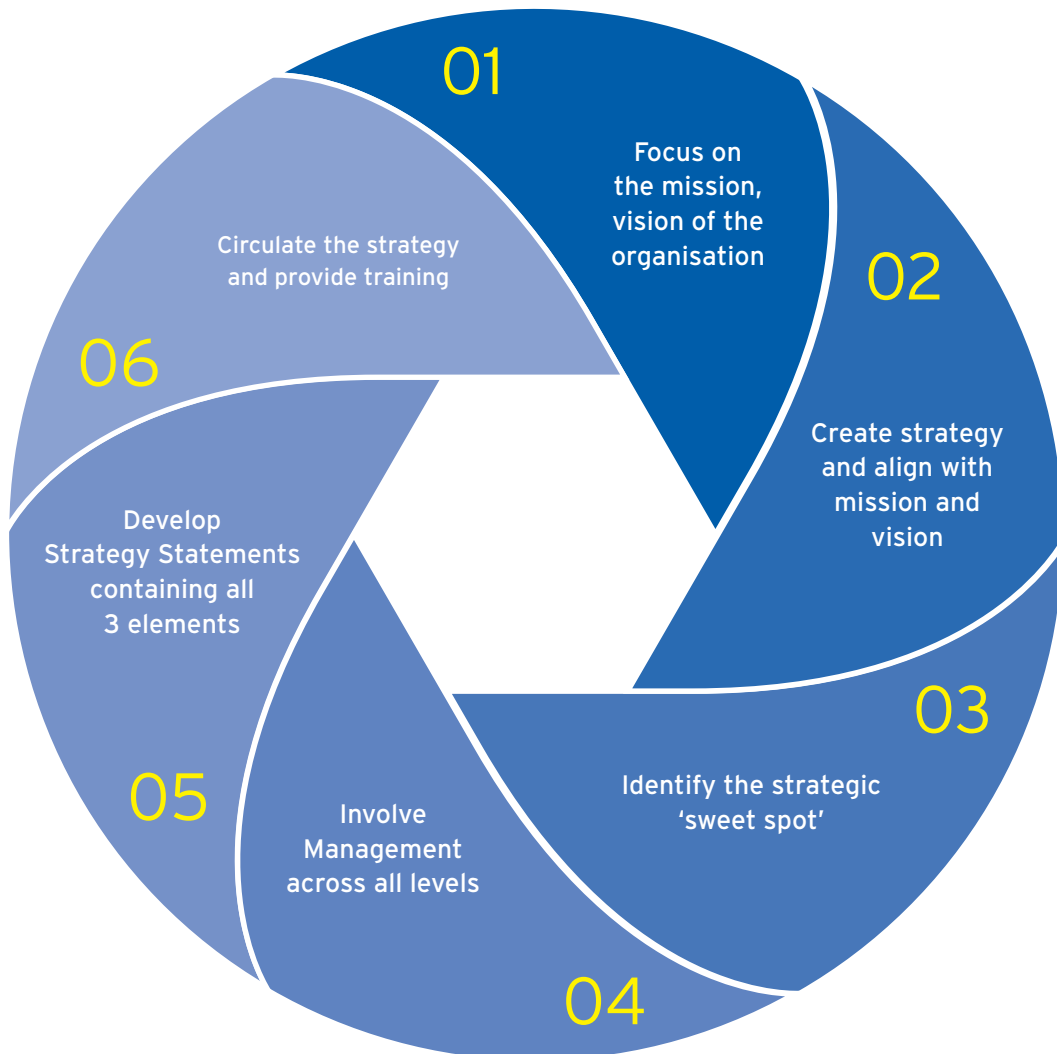


Hence, the goal is to achieve a simple strategy that provides:

- An incisive characterisation
- A statement that is unique to your organisation

How to Apply

In order to create a Strategy Statement, the organisation in the Third Sector needs to perform the following six steps:



Personnel Involved

Strategy setting is an exercise that involves the Board and Senior Management. Once the strategy is defined, line management can be engaged to secure buy-in and promote adoption through formal training of the other employees.

Examples for organisations in the Third Sector

When developing the organisation's strategy, consider the following:

- What is the strategy to address social responsibility versus the profit motive?
- What is the strategy to deal with extraordinary profits or windfall income?
- What is the strategy for handling investments and the purpose of undertaking such activities?
- What is the strategy to attract and retain quality volunteers?
- Does the strategy cover the accumulation and use of reserves?
- Does the strategy address the type of fund-raising activities and how the funds will be deployed?
- Does the strategy consider the extent of volunteerism?

How this is linked to the Code of Governance for Charities and Institutions of a Public Character (19 January 2011):

Setting the strategic plan is also addressed under Principle 3.2 of the Charities Code. For charities classified under the Basic category, the Board should, from time to time, review and approve the objectives of the charity to ensure that the charity's objectives and work are relevant to the needs of the public. For Basic II tier, the Board should ensure that there are adequate resources to sustain the charity's operations and that such resources are effectively and efficiently managed.

Boards of enhanced charities should approve the strategic plan, align the plan with the charity's objectives and review the plan periodically. The Board should ensure that the progress of the plans is reported to the stakeholders (e.g. donors, grant makers and regulators).

For advanced charities, the Board has to ensure that the strategic plan is updated to develop the charity's capabilities, and the Board should monitor the progress of both the strategic plan and the charity's performance.

5. RISK APPETITE

Objective

The objective of setting the risk appetite is to clearly notify stakeholders about the extent of the organisation's willingness to take risks in order to achieve the strategy. This helps Boards and Senior Management to manage the organisation better and discharge risk governance responsibilities effectively.

Principle

Definition of Risk Appetite	
ISO 31000 / Guide 73	BS31100
Amount and type of risk that an organisation is willing to pursue or retain	Amount and type of risk that an organisation is prepared to seek, accept or tolerate

Risk appetite is also described by the Institute of Risk Management as *"What the organisation wants to do and how it goes about getting there."*

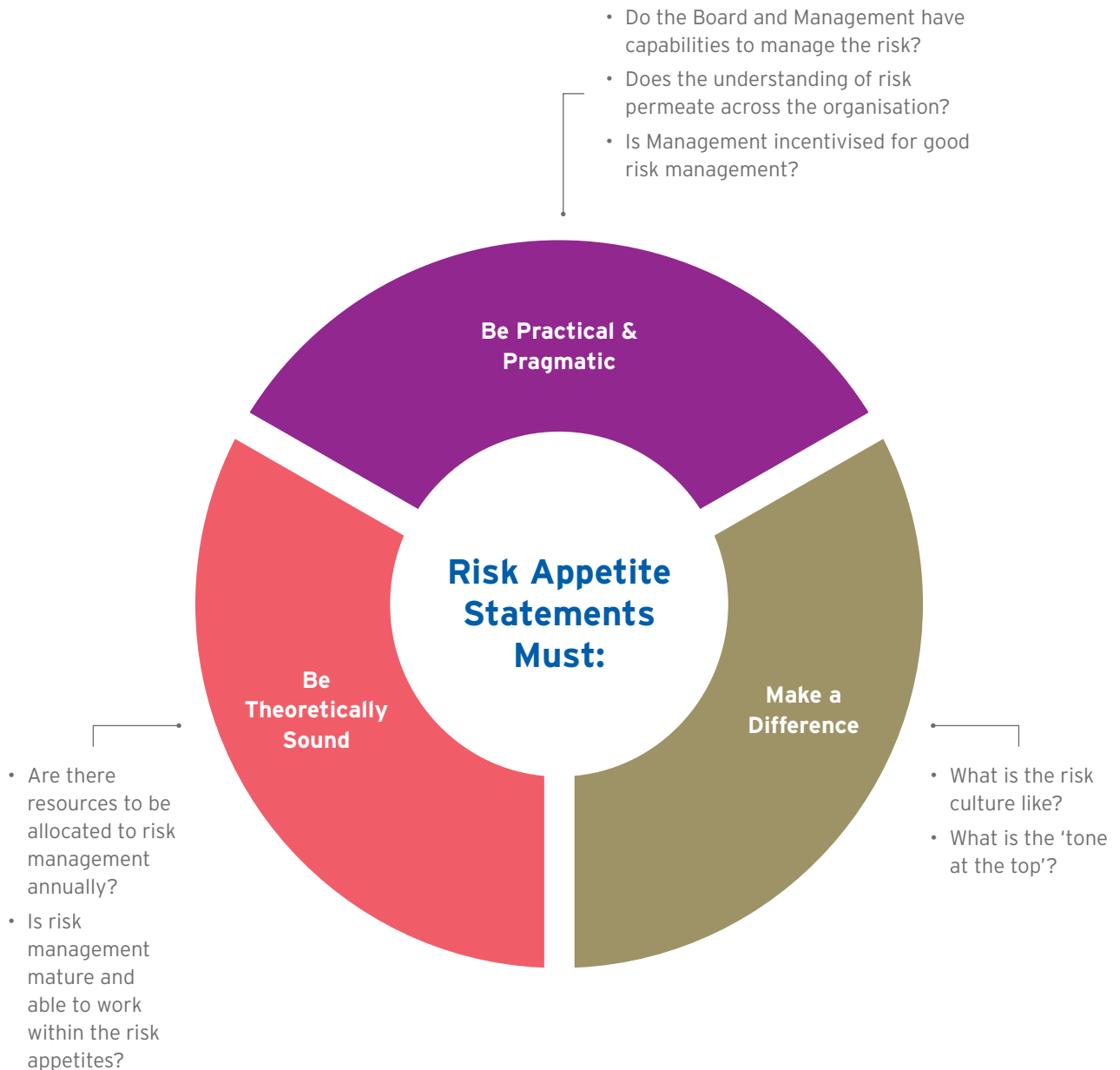
Setting the risk appetite is the most difficult part of any risk governance or risk management framework. If it is not clearly defined, the entire risk cycle or risk framework can come to a halt. While deciding the level of risk to take may appear easy enough, in practice, agreeing on the level and how to monitor this boundary is a difficult and ongoing process.

Risk appetite defines the boundaries of risk taking and essentially how much risk can be taken (as no organisation can achieve its strategy without taking some degree of risk). When setting the Risk Appetite Statements for the organisation, the following factors need to be considered:

- It is alright for Risk Appetite Statements to be complex.
- Risk Appetite Statements need to be measurable (they can also be converted into performance indicators).
- Risk appetite limits need to be set based on relevant and accurate data.
- Differing risks have different ranges of risk appetites (these vary over time).
- Have a view of your risk capacity and the risk maturity of the organisation when developing risk appetite.
- Risk Appetite Statements should be aligned with strategies.
- Risk appetite must be integrated into the control culture of the organisation (i.e. the propensity to take risk and exercise control).

How to Apply

The Risk Appetite Statements for each strategy should have several key characteristics as illustrated below.



Risk Appetite

Personnel Involved

Setting the Risk Appetite Statement typically requires involvement of the Board and/or Investment Committee and Senior Management, who are responsible for determining and setting performance indicators and fully accountable for the success of the organisation.

Examples for organisations in the Third Sector

When setting the risk appetite statements, reflect on these questions:

- What is an adequate amount of accumulated reserves to maintain?
- How many years of accumulated reserves must be maintained to cover operating expenses?
- Are we able to sustain operations in the event of a lack of grant funding?
- How much reserves should be set aside for capital expenditure?
- What is the desired amount of funds to be raised through fund-raising programmes?
- What is our appetite on service or product margins and what do we accept as a non-profit organisation?
- How much write-off can the organisation bear in the event that it is unable to recover from its programme recipients or partners?

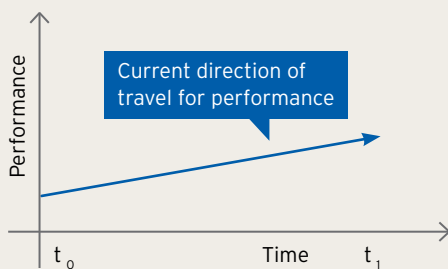


Diagram 1

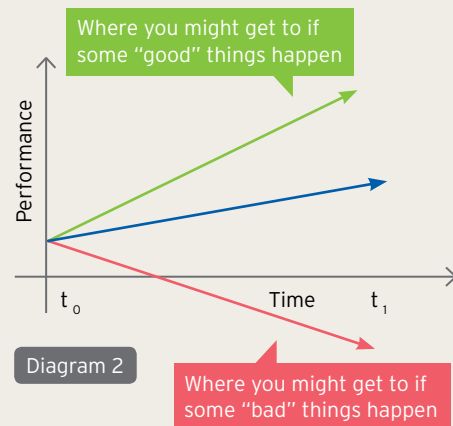


Diagram 2

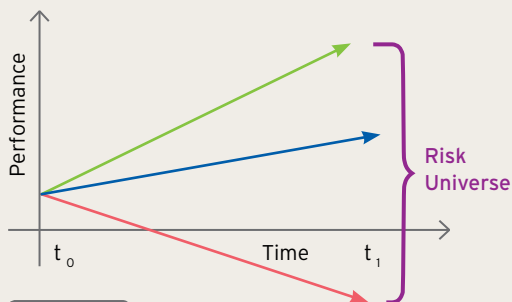


Diagram 3

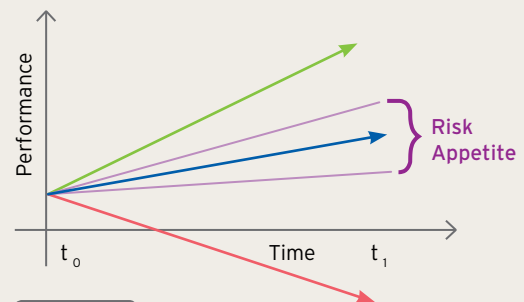


Diagram 4

(Source: Institute of Risk Management)

How this is linked to the Code of Governance for Charities and Institutions of a Public Character (19 January 2011):

Risk Appetite Statements and ensuing limits can be established for some Principles of the Code as shown below:

Principle 2: Conflict of interest, appointment of related parties and staff

We have zero risk appetite for non-disclosure and entering into conflicting transactions. All employees and key executives shall disclose their interests in any activity or in any party that the organisation deals with.

Principle 4: Managing programmes to ensure that outcomes meet the charity's vision and mission

We have a low risk appetite for our programme outcomes to deviate from our mission and vision. The list of quantifiable outcomes must be set to ensure that their attainment enables the charity to meet its vision and mission. Each programme shall be supported by a concept paper that explains the alignment between the strategy, vision and programme objectives.

Principle 5: Recruitment of staff and volunteers

We accept a moderate risk appetite for high staff turnover. The acceptable staff turnover rate set for this charity is X% per year.

Principle 6: Setting of budgets, management of assets and investment of reserves

- a. We accept a low risk appetite for unaccountable or excessive deficits. All items that suffer a variance of more than X% of budgets for the items concerned are to be accounted for in detail to the Board.
- b. We have a low risk appetite for inability of our reserves to ensure long-term financial sustainability. The amount of cash reserves should be maintained at X% of assets at all times.

Principle 7: Accountability for funds raised during fund-raising activities

We have a low risk appetite for weak accountability over programme funds. All funds are to be separately maintained and properly accounted for. Each fund shall be subject to the appropriate financial control and custodianship oversight. Upon completion of the programme, the CEO shall reconcile fund utilisation and programme performance, and report these to the Executive Committee (EXCO).

A generic list of risks to be considered by organisations in the Third Sector can be found in **Appendix A**.

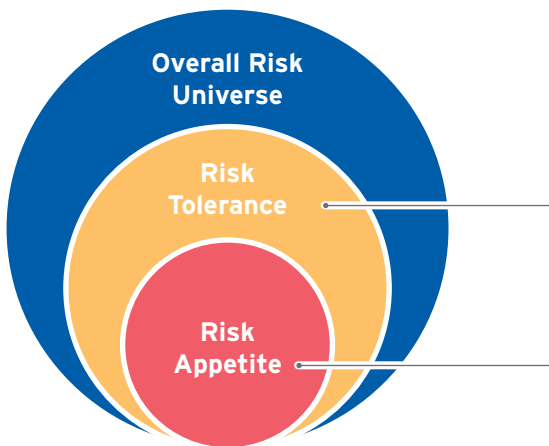
6. RISK TOLERANCE

Objective

Risk Tolerance Statements have to be aligned with the risk appetite. Risk tolerances are the absolute boundaries of risk taking and should not be breached. For each Risk Appetite Statement, a corresponding risk tolerance limit should be set and aligned with the organisation's Strategy Statements.

Principle

Risk tolerance limits are wider than the risk appetite limits. They are differentiated as follows:



Risk Tolerance

What the organisation ultimately can bear and the absolute number or decision that states what the organisation will not go beyond or consider undertaking. It defines the boundary for risk taking.

Risk Appetite

What the organisation wants to do and how it will go about it in the context of risk taking.

How to Apply

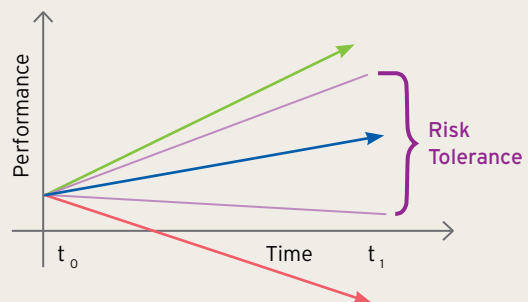
- Take into consideration the risk appetite limits that have been defined.
- Determine if there are further boundaries that can be adopted to achieve the formulated strategies.
- Evaluate the impact from financial and reputational angles. Define the upper limit for the organisation. This serves as the risk tolerance limit.
- In addition to the set tolerance limit, ensure that proper accountability and endorsement through an authorisation framework can be enforced to establish proper governance over the defined limits.

Personnel Involved

Like the establishment of risk appetite limits, risk tolerances need to be developed and defined with the involvement of the Board and/or Investment Committee and Senior Management of the organisation.

Examples for organisations in the Third Sector

For an illustrative example of risk tolerance, see the diagram on the right:



(Source: Institute of Risk Management)

How this is linked to the Code of Governance for Charities and Institutions of a Public Character (19 January 2011):

Examples of risk tolerance limits that can be applied to the Principles of the Code are:

Principle 2: Conflict of interest, appointment of related parties and staff

We have zero risk tolerance for non-disclosure of related party transactions and relationships that could place us in a position of conflict. Any non-conformance with established independence disclosure requirements shall be subject to the strictest disciplinary actions, which include suspension and termination.

Principle 4: Managing programmes to ensure that outcomes meet the charity's vision and mission

We have a low risk tolerance for inability of our programmes to meet the charity's mission and vision requirements. All programmes must be approved by the programme subcommittee, and objectives and programme budgets must be within the established guidelines. Any deviations from this shall be subject to review by the Board.

Principle 5: Recruitment of staff and volunteers

We have zero risk tolerance for recruiting employees and accepting volunteers who do not subscribe to our Code of Conduct and behaviour. All employees and volunteers are required to undergo code-of-conduct training and will sign an undertaking to acknowledge conformance with the prescribed requirements when acting in service of the organisation.

Principle 6: Setting of budgets, management of assets and investment of reserves

- a. We have a low risk tolerance for poor financial management and lack of prudence. We do not accept variances from budgets that exceed 10%.
- b. We shall maintain our reserve ratio in accordance with statutory requirements and limits specified in our reserve policy.

Principle 7: Accountability for funds raised during fund-raising activities

Our risk tolerance for inadequate accountability over programme funds is low, in line with our risk appetite in this area. Therefore, deployment of all programme funds shall not deviate from the usage approved by the Finance Committee and transfers of excess or unused funding capacity to other programmes or virement of funds are strictly prohibited. All fund expenditures shall be processed in accordance with the requirements set forth in the delegation of authority limits.

7. OUR CODE OF CONDUCT

Objective

It is important for the organisation in the Third Sector to have an established Code of Conduct that is communicated to all its employees. This ensures that both internal (within the workplace) and external (towards the stakeholders) behaviours are appropriate and reflect the value system and culture of the organisation.

The Code of Conduct must also be aligned with the limits of risk taking (i.e. risk appetite and tolerance) and able to support the strategy and mission. People and culture are two of the three key pillars of good risk governance. They are the enablers of activities undertaken to realise the strategies.

Even the most robust and comprehensive risk governance frameworks will fail if employees are not clear about their expected conduct and behaviour.

Principle

The driver for setting up a Code of Conduct is acknowledgement that not everyone in the organisation may be aware of what the values are. This is especially true for organisations with multifaceted operations across numerous regions. A Code of Conduct is an organisation-wide mechanism to ensure that everyone understands the standards and rules. It helps to safeguard reputation and reduces the risk of relying on damage control when things go wrong. The code should be approved by the Board and brief to facilitate communication to all employees and stakeholders.

How to Apply

When developing a code of ethics for the organisation, do consider the following:



Personnel Involved

The Board should oversee Senior Management in the development of the code of ethics. Consultation should be sought from the Board and Senior Management when drawing up the code. In particular, the code's development should involve the human resource function and take into consideration existing and relevant HR requirements.

Examples for organisations in the Third Sector

Some examples of Code of Conduct statements from notable organisations in the Third Sector are:

- The Legal Profession (Professional Conduct) Rules set out the rules of professional conduct for lawyers who are practitioner members of the Law Society, i.e., who hold a valid Practising Certificate to practise law in Singapore. The rules set out the Code of Conduct for lawyers in the areas of dealing with clients, conduct of proceedings, relationship with other lawyers and third parties, rules of practice, acting as Defence Counsel in a criminal matter and conducting a criminal prosecution as a practising lawyer.

Source: Law Society, Singapore

- Board members are expected to be aware of their duties as directors, to demonstrate commitment in serving SATA CommHealth, and to behave with high standards of integrity. To provide guidance and clarity, the Board has adopted the Code of Conduct which all members had formally acknowledged.

Source: SATA CommHealth

- The Organisation has an existing Code of Business Conduct policy ("Code"). The Code is applicable to the directors of the Board, members of the Sub-Committees, employees and volunteers. Standards of the Code cover integrity, impartiality, discretion, duty of loyalty, courtesy and respect, diversity, accountability, confidentiality, use of the Organisation's resources and electronic media, intellectual property rights, communication with external parties and media, contractual relations, acceptance of gifts and tips, health and safety, use of illegal drugs, engaging in political activities, conflict of interest, conduct outside work hours, secondary employment and business practices.

Source: Ren Ci Hospital

- The Australian Red Cross Code of Conduct requires the principles of humanity, impartiality, neutrality and independence to be applied and characterise the way they work to improve the lives of vulnerable people through programmes, services and the promotion of humanitarian laws and values.

Source: Australian Red Cross

- Greenpeace is committed to the highest possible standards of ethical, moral and legal conduct. In keeping with this commitment, their Code of Conduct aims to ensure that all employees are aware of the level of conduct and integrity expected of them.

Source: www.greenpeace.org

- In Amnesty International's Code of Conduct, the responsibilities and points of conduct are designed to safeguard Amnesty International's impartiality, independence and consistency upon which its effectiveness depends.

Source: www.amnesty.org

Our Code of Conduct

How this is linked to the Code of Governance for Charities and Institutions of a Public Character (19 January 2011):

Charities require a Code of Conduct that stipulates the values employees and volunteers must abide by. This is critical for charities due to the high level of trust placed upon them by both the public and the funding parties. Should trust be destroyed, their ability to deliver social benefits and attain their vision, mission and objectives will be severely hampered.

The need for openness and transparency, addressed in the Code of Conduct, is implicit in **Principle 8**, whereby the charity should be transparent in its operations to maintain the integrity of serving for public trust and community good.

The need to serve for a greater good, provided for in a Code of Conduct, is also implicit under **Principle 2** whereby conflicts of interest should be declared, prevented and addressed.

8. ORGANISATIONAL STRUCTURE

Objective

The structure of the organisation in the Third Sector needs to be set out. This shows the various divisions and operating sub-units in existence. It establishes the sphere of relevance and compliance for the risk governance document and formalises the entities that are subject to the risk governance and internal control framework. If the organisational structure is not defined, the Board and Senior Management may not be clear on the extent to which the risk governance manual is to be applied.

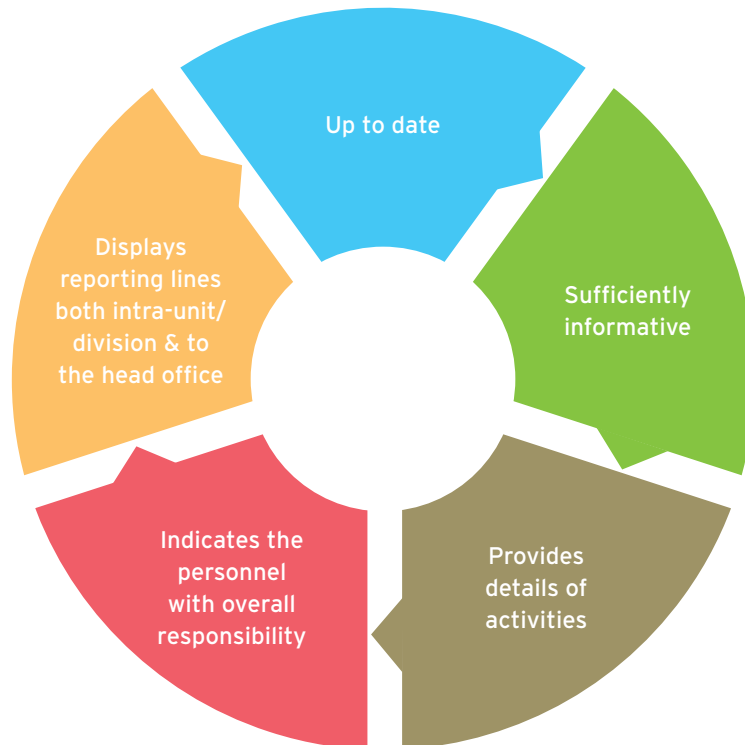
Principle

The organisational structure should depict all entities and subsidiaries under control. This should also indicate the identities of key Senior Management personnel with overall responsibility. Where possible, the structure should also show the direct and indirect reporting lines as well as the geographical and product segments, especially where they cut across divisions or entities.

Having a defined and articulated structure ultimately enables the Board and Senior Management to corroborate and visually map Strategy Statements and risk appetites/tolerances against the relevant entities.

How to Apply

Review the existing organisational structure. This should be consistent with information disclosed or publicly available on published annual reports or the official website. Ask yourself whether the existing structure has the following characteristics:



Organisational Structure

Personnel Involved

The Senior Management team at the head office or a centralised function such as finance should be involved in the process. The Senior Management team should corroborate the defined strategy, risk appetite and tolerance boundaries against the structure and map these to the relevant entities/subsidiaries.

Examples for organisations in the Third Sector

• Ren Ci Hospital

The Board's role is to provide strategic direction and oversight of Ren Ci's functions and goals, and to steer the Organisation towards fulfilling its vision and mission through good corporate governance.

The Board comprises 18 members. They include businessmen and professionals, as well as representatives from Foo Hai Ch'an Monastery.

The appointment and composition of the Board of Directors is in accordance with the Memorandum and Articles of Association of Ren Ci Hospital:

The Board of Foo Hai Buddhist Cultural & Welfare Association (the "Association") shall appoint up to half of the Board of Directors (the "Board") of the Hospital, including the Board Chairman who shall be appointed in consultation with the Ministry of Health (Article 44).

The Directors appointed by the Association shall, amongst themselves, elect a Nominating Committee. This Nominating Committee shall be responsible for the appointment of the remaining Directors of Ren Ci Hospital (Article 45).

Led by the Chairman, the Board is committed to upholding the public image of the Organisation and representing the interests of the Organisation to the best of their abilities.

They accept their roles without remuneration, and pledge not to accept personal favours or gifts from any interest groups, so as to maintain the integrity of serving for public trust and community good.

The Board has also declared that during the period under review and while holding their appointment as directors, they had no personal or vested interest in any of the business transactions, contracts or joint ventures that the Organisation entered into.

The roles and responsibilities of the Board Chairman and the CEO are kept separate in order to maintain effective oversight. The CEO and Senior Management consult with relevant Board members and the sub-committees where advice is sought through meetings, telephone calls and electronic mails.

Source: www.renci.org.sg

Examples for organisations in the Third Sector

• **National Kidney Foundation**

The NKF Board acts in the best interests of the NKF with the aim of improving the quality of care for patients who are afflicted with kidney diseases. It also ensures that there are adequate resources for the operations and programmes of the NKF and that such resources are effectively and efficiently managed; that there are processes in place to ensure that NKF complies with all applicable laws, rules and regulations; and there are an appropriate Code of Conduct that upholds the core values of the NKF and processes to ensure compliance with the code.

The Board strives to ensure that Board members as a group have core competencies in areas such as accounting and finance, management, law, medicine, strategic planning and technology and that it incorporates a degree of diversity. The Board believes that to be effective, it should not be too large, while at the same time ensure that there is a sufficient range and diversity of expertise and viewpoints.

Source: www.nkfs.org

• **World Wildlife Fund**

The WWF Board of Directors exercises overall responsibility for the policies, programmes and direction of World Wildlife Fund and provides advice and counsel on a broad range of policy and operational matters.

The President and CEO, assisted by the Chief Operating Officer and the Chief Conservation Officer, oversees the entire management of the organisation. General counsel, markets, field programmes, strategy and science, policy and development are headed by Vice Presidents who manage their respective functional operations. Together, the team ensures that projects and solutions are carried out effectively and that funds are raised and used judiciously to advance conservation.

Source: worldwildlife.org

• **British Heart Foundation**

The organisation is governed by a Board of Trustees composed of 14 members, half of whom are lay members and half medical. All Trustees are also members of The Council – an advisory body comprising up to 30 members.

The CEO heads the management team and is assisted by Directors in Policy and Communications, Human Resources, Medical Services, Finance, Fundraising and Retail.

Together, the trustees and management team lead the UK's fight against heart disease, through pioneering research, the discovery of vital treatments, vital prevention activity and ensuring quality care.

Source: www.bhf.org.uk

Organisational Structure

How this is linked to the Code of Governance for Charities and Institutions of a Public Character (19 January 2011):

Under **Principle 4**, programmes and activities conducted by charities are to be carefully planned, tracked, reviewed and directed towards achieving the vision, mission and objectives. The outcomes are to be defined and the charity is expected to update the Board on the progress of these programmes. For enhanced charities, an evaluation system should be established to measure the effectiveness of the programmes and activities in accomplishing the mission, vision and objectives.

A formal and effective organisational structure is required to effectively plan and execute programmes and activities to accomplish the charity's vision, mission and objectives.

9. FUNCTIONS AND ACTIVITIES

Objective

It is important to set out an overview of various departments' activities within the organisation in the Third Sector. This serves to confirm the functions of each department and corroborates the information therein with the details provided in the structure (as stated earlier).

Principle

Each department within the organisation should have a clearly defined role and activity. This sets out the accountability and oversight structure. The information should be aligned and consistent with that presented in publicly available documents and the official website.

Having a clearly defined structure and responsibility matrix is a criterion for a sound control environment, which forms the foundation of adequate and effective internal control.

How to Apply

- Through coordination via the head office, engage the various division heads to understand and articulate the activities of each department.
- Review available and published information regarding the organisation. Corroborate this with what has been articulated above.
- Revisit the strategy and risk appetite/tolerance limits. Where Strategy Statements and the corresponding risk appetite/tolerances relate to specific departments, these should be compared against the activities and checked for consistency.

Personnel Involved

This process will involve the corporate office and respective department heads. Senior Management should also be engaged to perform a validity check of the deliverables.

Examples for organisations in the Third Sector

• Singapore Cancer Society

The Singapore Cancer Society was established in 1964 by individuals from the Rotary Club of Singapore West, the Lions Club and Jaycees, and was inaugurated by then Minister of Health, Mr Yong Nyuk Lin. For the past 49 years, the Society has helped countless needy patients and advanced the cancer cause in Singapore through its many programmes and services, which include:

- Cancer treatment subsidies
- Financial and welfare aid
- Hospice home care
- Free hospital transportation to/from cancer treatment
- Rehabilitative support
- Cancer screening
- Cancer research
- Public education

Source: www.singaporecancersociety.org.sg

Functions and Activities

• **The Straits Times School Pocket Money Fund**

Giving pocket money to children and youth from low-income families for their school-related expenses, such as a meal at recess or transport fares to and from school, is the main programme of The Straits Times School Pocket Money Fund. Primary school beneficiaries receive \$55 a month and secondary school beneficiaries receive \$90 a month. Since 1 January 2013, the Fund has earmarked an allocated amount to extend support to post-secondary students in ITE, Junior Colleges and Polytechnics at \$120 a month for up to four academic years. This pilot phase targets past and current SPMF recipients, as well as the siblings of current recipients.

The amount is determined through regular reviews in partnership with the National Council of Social Service and takes into account the feedback of social service professionals, food prices in school canteens and inflation. The money is given to the children and youths through the National Council of Social Service's network of family service centres, children's homes, disability homes and special homes. The family service centres, which form the bulk of disbursing agencies for pocket money, also provide them and their families with other support and counselling.

Source: www.stschoolpocketmoneyfund.org.sg

• **UNICEF**

The organisation has declared that its areas of focus (and therefore its activities) will include:

- HIV/AIDS and children
- Child survival and development
- Child protection
- Basic education and gender equality
- Policy advocacy and partnership

Source: www.unicef.org

• **World Vision International**

In promoting the spiritual and psychological needs of vulnerable children, World Vision International has devoted its resources to activities including:

- Justice for children
- Disaster management
- Education and life skills
- Water and sanitation
- Child rights and equity

Source: www.wvi.org

How this is linked to the Code of Governance for Charities and Institutions of a Public Character (19 January 2011):

Under **Principle 4**, programmes conducted by charities are to be carefully planned, tracked, reviewed and directed towards achieving the vision, mission and objectives. The outcomes are to be defined and the charity is expected to update the Board on the progress of these programmes. For enhanced charities, an evaluation system should be established to measure the effectiveness of the programmes and activities in accomplishing the mission, vision and objectives.

The charity should align its organisational structure with its fundamental activities to ensure synchronicity in achieving its vision, mission and objectives.

10. CORE MANAGEMENT TEAM

Objective

Defining the risk owners and their responsibilities with regards to managing risk in the different facets covering operational, financial and compliance activities is important. This assigns accountability and provides a linkage between strategy, risk appetite limits and those with oversight for conformance.

Principle

Accountability and oversight are key elements of the control environment. In order for the control environment to be robust, it must contain a clearly defined accountability structure. This structure must be applicable across the operational, financial and regulatory activities of the organisation. The structure must demonstrate clear accountability over performance and incentive measures, which in turn must be aligned with the strategic objectives of the organisation.

How to Apply

Complete the table below with the relevant information for each entity/subsidiary, including the corporate office. Individuals must be identified and assigned responsibility for operational, financial and regulatory compliance matters. Once this is completed, corroborate the information against the strategy and appetite/tolerance statements (refer to example below).

Key Activities	Headcount	CEO	Finance Manager	Operation	Financial	Compliance
Programme Management	8	e.g. Overall head of the organisation	e.g. Overall head of finance function	e.g. Person responsible for daily activities	e.g. Finance personnel responsible at the site level	e.g. Personnel responsible for compliance with programme conditions
Fund Raising	10	As above	As above	As above	As above	e.g. Person responsible for compliance with fund guidelines and terms

Initial	Name	Designation

Personnel Involved

The information contained herein should be provided by the corporate office in collaboration with the respective sub-units.

Examples for organisations in the Third Sector and how this is linked to the Code of Governance for Charities and Institutions of a Public Character (19 January 2011):

Refer to the sample management team matrix above for guidance. Also refer to **Section 8: Structure** for elaboration of the importance of having an organisational structure with relation to the Charities Code.

11. BOARD INTERNAL CONTROL FRAMEWORK

Objective

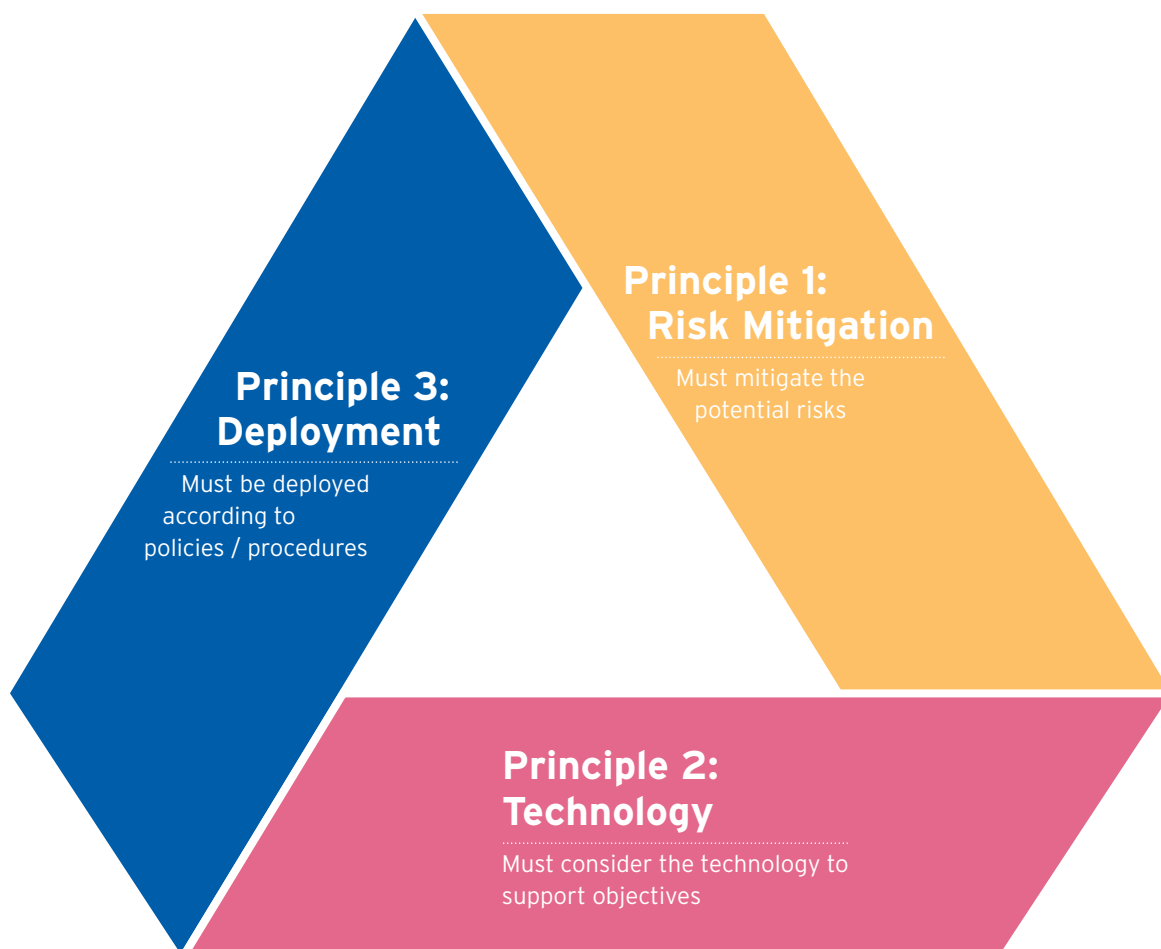
Once the elements of strategy, people and culture are addressed, a framework needs to be established to facilitate Board control.

This is called the Board Internal Control Framework. It establishes the various Board Committees responsible for exercising oversight, the organisation's profile of risk or risk 'heat map' that is accessible to the Board, the limits of authority in respect of key risk management activities (aligned with the established strategic risks), Board approval requirements, and the policies and guidelines already in place to enforce directives for activities that support achievement of the organisation's objectives.

This framework provides the Board and Senior Management with a 'dashboard' for control activities that need to be performed and monitored in order to effectively govern risk.

Principle

Control activities described within the Board Internal Control Framework are the actions established by policies to help ensure Senior Management's risk-mitigation directives achieve the organisation's objectives. These actions can be performed at all levels and across different stages. The three principles of control activities are:



The scope of coverage for the Board Internal Control Framework is described in the table on the next page, which also explains the principles underlying each scope area.

	Board Committees	Board Approval Guidelines	Board Delegation of Authority Matrix	Policies & Procedures	Risk Management Activities
Scope of Coverage	<ul style="list-style-type: none"> Board Committees need to be established with proper Terms of Reference. Roles and responsibilities should be clearly defined. This provides oversight covering the organisation's operational, financial and regulatory aspects. 	<ul style="list-style-type: none"> Board approval requirements need to be clearly set out to management. This needs to be aligned with the Terms of Reference. Approval requirements should also cover strategic activities. 	<ul style="list-style-type: none"> The Board is able to delegate authority to Senior Management to approve activities or transactions. Delegation needs to be properly assigned to individuals who are competent and not conflicted. The Board is ultimately responsible for the outcome and actions taken by Senior Management. 	<ul style="list-style-type: none"> Policies and procedures provide employees with direction and guidance on required actions, procedures and standards to be upheld.* Policies drive control. Risks of slippage or control failure should not arise due to a lack of clarity in policy. Policies listed shall cover activities that are subject to significant risk, particularly those relating to the organisation's strategy. 	<ul style="list-style-type: none"> Key risk management activities that address major risks, risk appetite and tolerance limits should be determined. Consideration should also be given to the top risks identified in the risk map across operational, financial and compliance activities to ensure that exposures are addressed. Risk management activities should include relevant management authority responsible for ensuring proper performance.

**In the context of risk management, the organisation should endeavour to develop a simple policy on how it manages risk. This should spell out the objective and purpose of risk management, accountability for managing risk, activities subject to risk management, ways to respond to and deal with different types of risks and the reporting structure for highlighting risks to the Board and Senior Management team.*

How to Apply

Board Committees

Describe the various Board Committees and provide details of the Terms of Reference for each committee. Some examples are:

- Audit Committee (which also takes on the responsibility of the Risk Committee)
- Nominating Committee
- Remuneration Committee
- Finance Committee
- Projects Committee

Board Internal Control Framework

Board Approval Guidelines

The Board has set out the following principles for the Senior Management team when delegating authority to it to carry out approved strategic objectives:

- (a) E.g. Additional capital investment (unbudgeted capital expenditure)
- (b) E.g. Securing further financing and loan facilities
- (c) E.g. Undertaking additional fund-raising or major social projects

Board Delegation of Authority Matrix

Key Activities	Limit (\$\$)	Approving Authority
e.g. Capital expenditure	xx	xx
e.g. Building and infrastructure construction	xx	xx
e.g. Funding transfers between projects	xx	xx
e.g. Transfer of reserves	xx	xx
e.g. Annual budgeting	xx	xx
e.g. Fund-raising programmes and activities	xx	xx

Policies and Procedures

The Board has approved and Senior Management has put in place the following policies and procedures that govern the critical control activities of the organisation (including those that relate to the achievement of the organisation's strategy).

Policy Document	Purpose	Owners	Last Updated	Last Audited
e.g. Financial Manual				
e.g. Investment Policy Statement				
e.g. Fund-raising Policy				
e.g. Risk Management Policy				

Risk Management Activities

The Board is responsible for risk governance. It oversees the implementation of risk management and the governance framework by Senior Management. The Audit and Risk Management Committee (or Board Risk Committee) provides direct oversight relating to the following risk management activities described below:

Key Risk Management Activities	Reporting Frequency	Person Responsible	Key Reports

Personnel Involved

This process of developing the Board Internal Control Framework requires input from the Board, Executive Directors as well as internal auditors. This will ensure that the recorded information is accurate, based on existing documents and reflects current or desired (but achievable) actions.

Examples for organisations in the Third Sector

Refer to the templates above for guidance.

How this is linked to the Code of Governance for Charities and Institutions of a Public Character (19 January 2011):

An effective internal control framework is required for the Board (**Principle 1**) to exercise control and authority and manage risks to accomplish its various objectives through management, as depicted in the various processes and responsibilities (**Principle 2 to 9**). The fundamental elements of effective internal control are the control environment, risk assessment, control activities, information and communication, and monitoring activities.

12. INFORMATION AND COMMUNICATION

Objective

Proper information and communication enables all stakeholders to understand their control responsibilities and the importance of their duties in the context of risk governance and internal control.

Principle

Sharing of information and communication occur both internally and externally. These provide the organisation in the Third Sector with the needed information to perform day-to-day and key milestone control activities. The three principles relating to good information and communication are depicted below:



How to Apply

Board Calendars and Events

Prepare a schedule or timetable listing all the key Board and Senior Management meetings that have a bearing on risk governance activities. Explain the purpose of these meetings and the parties involved. A sample of this is depicted below:

Date	Description	Parties
dd/mm/yyyy	<ol style="list-style-type: none"> 1. Review and approval of financial results 2. Review and approval of annual budget 3. Nominating Committee meeting 4. Remuneration Committee meeting 	<ol style="list-style-type: none"> 1. Board 2. Audit Committee 3. Nominating Committee 4. Remuneration Committee 5. Secretary (Board/Company/CEO) 6. Auditors
dd/mm/yyyy	<ol style="list-style-type: none"> 1. Audit Committee meeting 2. Risk Committee meeting 3. Quarterly Board meeting 4. Quarterly budget update 	<ol style="list-style-type: none"> 1. Board 2. Audit Committee 3. Secretary (Board/Company/CEO) 4. Auditors 5. Risk Management Function
dd/mm/yyyy	<ol style="list-style-type: none"> 1. Strategy review 	<ol style="list-style-type: none"> 1. Board 2. Senior Management team 3. Secretary (Board/Company/CEO)

Personnel Involved

When preparing the timetable of key Board and Senior Management meetings, involve the corporate office and the secretariat function to validate accuracy of the information disclosed.

Examples for organisations in the Third Sector

Refer to the sample on the previous page for guidance.

How this is linked to the Code of Governance for Charities and Institutions of a Public Character (19 January 2011):

An effective information and communication framework within the charity is required for the Board (**Principle 1**) to exercise control and authority and manage the key risks in order to accomplish the charity's mission, vision and objectives as depicted in the various processes and responsibilities. (**Principle 2 to 9**).

13. CONCLUSION

This Risk Governance Workbook is timely and a useful guide for Boards in the Third Sector, setting the agenda for discussion and development of a practical risk governance framework within their organisations.

The Centre for Non-Profit Leadership's (CNPL) mission is to advocate planned leadership and to nurture leadership capability for the Non-Profit sector. Our goal is to help the Non-Profit sector create a leadership pipeline and build effective Boards.

About a year ago, I approached Woon Teck to develop a practical and easy-to-use guidebook to help the Boards of the Non-Profit sector develop a risk governance framework that guides leadership behaviour and manages risks. I am happy to see that Woon Teck and his team have developed the Workbook to include the wider Third Sector. This is critical in building trust and encouraging the development of more enterprises in Singapore's Third Sector as our societal challenges become more complex.

Charities are unique in that their key stakeholders of donors and beneficiaries rely heavily on the leadership to do well. There are existing legislation and the Corporate Governance Code to provide governance and timely disclosures to the public on how donations are applied to the social causes and objectives of these charities. However, the leadership and stewardship rest with the Boards in guiding and steering the management to develop and implement plans that are aligned to the missions and visions of the charities.

The development of a vibrant Third Sector landscape in Singapore must be driven by three key components – Strong Leaders, a Strong Value System and Strong Governance. This can only happen when there is an effective Board that sets the right tone, is prepared to lead from the top, plans and executes activities based on sound risk management principles, builds culture and capability, and instils discipline and accountability. This Workbook provides guidance to help the Board develop these three key components of Strong Leaders, a Strong Value System and Strong Governance.

We encourage you to engage your Board and Senior Management team to apply the guidance materials in this Workbook. This Workbook is not intended to be a 'one-size-fits-all' guide. Each Board has to consider its own capability and stage of development and tailor accordingly.



Yoon Wai Nam
CEO, Centre for Non-Profit Leadership

APPENDIX A: GENERIC LIST OF RISKS FOR ORGANISATIONS IN THE THIRD SECTOR

The nature of the Third Sector is diverse. Various activities, funding bases and structures expose organisations in the Third Sector to different types of risks and exposures. The following list of risks is generally applicable to the Third Sector and should be considered during a risk identification and assessment process. This list is not exhaustive and should be utilised by each organisation in light of its own risk universe and operating environment.

Strategic Risk	Operational Risk	Financial Risk	Compliance Risk
1. The enterprise lacks direction, strategy and forward planning.	1. Contract risk (liability for non-performance, unplanned subsidy of public provision).	1. Poor budgetary controls and inaccurate financial reporting.	1. Lack monitoring of regulatory compliance appropriate to activity, size and structure of entity, which may bring about fines, penalties, loss of licence and reputational damage.
2. Board does not have adequate skill sets or is not sufficiently committed.	2. Inability to properly handle dissatisfied beneficiaries (i.e. complaints, lack of income, loss of contracts).	2. Lack of sufficient reserves to meet existing and new payment obligations.	2. Lack of compliance with regulatory reporting requirements, resulting in fines and reputational damage.
3. Over-demeaning individuals within the Board who may exercise undue and biased influence over Board decisions.	3. Hindrance to programme or service development arising from lack of funding, project and skills viability.	3. Insufficient cash flow to meet operational requirements.	
4. Board receives benefits such as remuneration or other benefits in kind that are not properly disclosed.	4. Competition for funding and donors arising from similar organisations.	4. Uncompetitive pricing policy, leading to unplanned loss, loss of contracts.	
5. Conflict of interest may not have been duly and formally declared.	5. Lack of appropriate and transparent mechanisms to appoint suppliers.	5. Weak cash flow management, leading to inability to meet operating cash requirements.	
6. Ineffective organisation structure where there could be de facto control arrangements. Lines of responsibility and reporting may also not be clear and logical.	6. Underutilisation, obsolescence and mismatch of resources.	6. Existence of loss-making investments due to lack of monitoring of returns and investment performance.	
7. Engaging in activities outside of vision, mission and objectives, leading to resources diverted or withdrawn from legitimate deployment.	7. Volunteer management (inability to recruit, poor training of volunteers and delivery to beneficiaries).	7. Financial losses due to fraud/mismanagement and misappropriation.	
8. Loss of key staff due to inability to pay market rate.	8. Lack of proper health and safety practices and procedures (staff and public injury, product liability, ability to operate).		

GLOSSARY

Accountability:

Answerability, blameworthiness, liability and the expectation of account-giving.

Accumulated reserve:

This can include reserve accounts and refers to the earnings after deducting expenses or distributions.

Advanced charities:

Large Institutes of Public Character with annual receipts of S\$10 million or more.

Assets:

Economic resources that are tangible or intangible and capable of being owned or controlled to produce value, and are held to have positive economic value.

Audit Committee:

A sub-committee of the Board charged with oversight responsibility for financial reporting and disclosure.

Basic charities:

Institutes of Public Character with gross annual receipts of less than S\$200,000.

Basic II charities:

Institutes of Public Character with gross annual receipts of S\$200,000 and up to S\$10 million.

Beneficiary:

An organisation or person who receives benefits and is entitled to beneficial interest or advantage.

Board:

A governing body responsible for overseeing and managing a charity. It is also sometimes known as the council or management committee.

Budgets:

An estimated income or expenditure over a set period of time.

Capital expenditure:

Funds utilised to acquire physical assets.

Control environment:

The overall actions, attitudes and awareness of Directors and Senior Management regarding the internal control system and its importance to the organisation.

Control culture:

Values, systems, beliefs and practices that reflect support for good internal control.

Control failure:

Inability of an internal control process to detect errors and take corrective actions to minimise deviations from the organisation's objectives.

Custodianship:

Responsibility for the safekeeping of assets or monies.

De facto control:

Actual control that arises from direct or indirect influence.

Deficit:

The amount by which expenses exceed income, or where cost outstrips revenue.

Delegation of Authority:

Assignment of responsibilities to another person to carry out specific activities.

Donor:

An organisation or individual who contributes a gift to a non-profit, not-for-profit, charity or foundation.

Executive Director:

A Director who is appointed by the Board and responsible for the day-to-day activities of the organisation.

Enhanced charities:

Large charities with gross annual receipts of S\$10 million or more; and Institutes of Public Character with gross annual receipts of S\$200,000 and up to S\$10 million.

Enablers:

Persons, activities or objects that facilitate the achievement of a specific objective.

Grant makers:

Parties who disburse non-repayable funds.

Grant funding:

Monies available for the achievement of certain purposes, subject to qualifying conditions and administered by authorities.

Infrastructure:

Physical and organisational structures and facilities needed for the operation of a society/enterprise.

Internal control system:

A grouping of laws, policies and procedures that is to be adhered to and performed by Management.

Nominating Committee:

A sub-committee appointed by the Board to evaluate the Board of Directors, assess skill sets brought in by Board members and identify individuals for Board positions.

Non-Governmental Organisation ("NGO"):

An NGO is any non-profit or not-for-profit, voluntary citizen's group that is organised on a local, national or international level to perform a variety of services and humanitarian functions, bring citizens' concerns to governments, advocate and monitor policies, and encourage political participation through the provision of information.

Operating expenses:

Day-to-day expenses that the organisation incurs as part of its normal business operations.

Glossary

Programme partners:

Individuals or external organisations that collaborate with the organisation in order to provide support and/or funding to achieve the intended social objectives of the programme.

Risk Governance:

Applying principles of good governance to identifying, assessing, managing and communicating risks. Risk governance incorporates accountability, participation and transparency in the processes and structures for making decisions relating to risk management.

Related party transactions:

Transfer of resources or obligations between related parties who are considered related if one party has the ability to control the other party or exercise significant influence on the other party when making financial or operational decisions.

Remuneration Committee:

A sub-committee of the Board established to ensure that remuneration arrangements support the strategic goals of the organisation and enable recruitment, motivation and retention of senior staff, while complying with regulatory and governance requirements.

Reserves:

The part of the charity's income funds that is freely available for its operating purposes. "Reserves" excludes endowment funds and restricted funds. An endowment fund is a capital fund that is held on trust to be retained for the benefit of the charity. Restricted funds are donated funds to be used only for specific purposes according to the donor's expressed wishes or the terms of an appeal.

Reserve ratio:

The amount of operating reserves that is required, which can be described as a percentage of annual operating expenses or the number of months that the reserves can sustain operations. The reserve ratio can be defined by regulatory or internal Reserve Policies.

Risk culture:

This is the system of behaviours and values throughout an organisation that shapes how decisions on risk are made.

Risk management:

A coordinated set of activities and methods, used to direct an organisation and control the many risks that can affect its ability to achieve objectives.

Risk management framework:

The architecture established to manage risk, which comprises components (foundational and organisational) that support and sustain risk management throughout an organisation.

Risk maturity:

The standing of an organisation's risk management programme assessed against different levels of maturity such as ad hoc, preliminary, intermediate, defined and optimised.

Risk resilience:

The ability to withstand threats and events that affect the organisation and whether the risk management programme is able to assist in identifying, assessing and evaluating the risk from such threats and events.

Stakeholders:

Parties involved with the organisation in the Third Sector such as members, beneficiaries, donors, grant makers, regulators and partners.

Transparency:

A principle that allows those affected by business decisions to know the basic facts and figures as well as the mechanisms and processes involved in making these decisions.

Trustee:

A person or member of the Board who holds and administers assets for a third party and is required to make decisions that are in the best interests of the beneficiary.

Virement:

The administrative transfer of funds from one part of a budget to another.

Write-off:

The reduction of a recognised value of an asset or income.

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