

SOE Board Talk

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This week we continue and conclude on the topic of Board committees.

Please contact SOEMU if there are any concerns or clarifications needed.

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Committee Terms of Reference

The terms of reference for a board committee should be sufficiently specific to detail its composition (who sits on the committee and what attributes and skills are required by the committee) and its purpose, objectives and activities; and for ad-hoc committees determining the outputs expected from the committee.

Committee terms of reference should include:

- Nomination of the committee chairperson (preferably not the board chair),
- Delegated authorities and confirmation that any committees' role should be confined to making recommendations to the full board,
- Tenure of service, usually committee membership to be reviewed annually as part of the annual review of the committees' terms of reference and outputs,
- Mechanism for reporting back to board,
- Proposed meeting schedule, time and place,
- Requirement to keep minutes of committee meetings and recommendations.

There should be a section in the Annual Report where the board reports on the purpose, composition and outputs of all board committees. Often a summary of the committee terms of reference is included in the annual report.

The Audit Committee

The main purpose of an Audit Committee is to assist the board produce accurate financial statements in a timely manner, it acts as the liaison between the board and auditor. Audited financial statements are a core component in basic corporate governance. A board cannot manage a SOE if they do not have accurate and up to date financial statements. A key objective of a SOE Audit is to facilitate information to enable timely completion of the audit (within 3 months after the end of the financial year, in accordance with the SOE Act) and to satisfy auditor inquiries and mitigate the likelihood of audit qualifications.

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In some organizations and large SOEs it is usual for the Audit committee to also review findings of the internal audit department and to be a liaison between internal audit and the board.

Functions of the Audit Committee

- Quality of accounting records, procedures and internal reports,
- Ensuring annual financial statements comply with relevant standards and that accounting systems and procedures capture necessary information to satisfy standards,
- Monitoring internal controls and procedures and ensuring appropriate budget preparation tasks,
- Appointment recommendations and liaisons with external auditor,
- Responses to audit management letter points,
- Management of risk policies and risk management strategies,
- Compliance with taxation and other legislation and regulatory requirements.

Other Committees

The Finance Committee should focus on financial management, investments, banking facilities, foreign currency and/or interest rate risk management and may:

- Review investments, manage asset disposals, manage financial obligations,
- Review/work with management on the annual budget,
- Review/work with management on SCI and business plan,
- Oversee operational risk management,
- Insurance risk management and oversight,

Oversee assessment of specific investments and major contracts

The Remuneration Committee may address:

- Remuneration of the CEO and perhaps direct reports. It is usual for the board to be involved in setting, or at least approving, the remuneration of the CEO's direct reports,
- Bonus structure and payments to staff,
- Remuneration policies and practices for the SOE,
- Superannuation policy and implementation,
- Staff recruitment, retirement, succession planning, staff development and training.

A Human Resource committee may:

- Supervise the setting and management of HR policies,
- Undertake many of the roles of the remuneration committee if there is no separate remuneration committee,

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- Deal with HR disputes (particularly if involving senior management),
- Manage issues of Code of Conduct compliance,
- Manage the “whistle blower” process,
- Possibly manage health and safety compliance,

A Risk Management and/or Compliance Committee may address:

- All compliance issues - insurance, statutory, environmental, risk,
- Business continuity planning,
- Risk management policy and implementation.

The size, number and type of committee is determined by the needs of the SOE and the board. Overlaps in purpose and functions should be avoided through careful drafting of the committees’ terms of reference.

The board can’t delegate accountability, so the board should make sure that they have final decision rights for all material decisions. Committees should report to the full board and the board must ensure that the committees operate under a tight mandate which is regularly reviewed along with the committee’s performance against its mandate.

The chairperson of each board committee fulfils an important leadership role similar to that of the chairperson of the board. Committee chairpersons create the conditions for overall committee and individual committee member effectiveness.

RMI SOEs are encouraged to create an audit and or additional committees as soon as is practical

Good luck this week in the boardroom

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