BEST PRACTICE GUIDELINES

BC Governance and Disclosure Guidelines for Governing Boards of Public Sector Organizations

Prepared by:
The Board Resourcing and
Development Office of the Premier

TABLE OF CONTENTS

PREAMBLE

"Corporate governance". No longer is this term reserved for use by academics and consultants. With the publicity that has attended recent corporate failures and misconduct in the public and private sectors worldwide, everyone involved with governing boards has become aware of the requisite demand for high governance standards and open disclosure.

The Government of British Columbia, and the many public sector organizations that serve the Government and the people of British Columbia, are committed to achieving and maintaining exemplary standards of governance. This commitment is founded on the firm belief that while good governance does not, in itself, ensure organizational success, expected levels of performance are rarely achieved without the guidance and leadership provided by a sound governance structure.

The Board Resourcing and Development Office ("BRDO") has traditionally supported the goal of sound governance by assisting in the identification of well-motivated directors with the required competencies. The BRDO is now going a step further by providing the *Governance and Disclosure Guidelines for Governing Boards of British Columbia Public Sector Organizations* (the "*Best Practice Guidelines*") that establish a broad provincial standard for the review and assessment of governance practices in public sector organizations. [1]

It is recognized that many of BC's public sector organizations already have sound and innovative governance structures that address not only board operations but also such collateral issues as director recruitment, orientation, education and assessment.

Governance methodology continues to evolve, however, and organizations have a responsibility to constantly review and update their practices to match opportunities and changing needs. It is hoped that the information set out in the *Best Practice Guidelines* will make a useful contribution in the discharge of this responsibility.

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[1] The *Best Practices Guidelines* apply to all British Columbia public sector organizations that are governed by a governing board and to which the Government of British Columbia (by Order in Council, Minister's Order or shareholder's resolution) makes a majority of board appointments.

A "public sector organization" includes:

a) a separate legal entity established pursuant to British Columbia legislation that is classified as being within the "Government reporting entity" pursuant to the *Budget and Transparency and Accountability Act*, and
b) a corporation established under the BC *Business Corporations Act*, the *Society Act*, or other enabling statute in which the province of British Columbia has a controlling interest.

See Appendix 1 for a list of public sector organizations covered by the *Best Practice Guidelines*.

The presentation is organized in three parts. Part One describes the unique context in which public sector governing boards must function. Part Two sets out principle-based best practice guidelines. These guidelines are not meant to be prescriptive or to encourage a simple "tick the box" climate of compliance. They are meant to provide a reference for evaluating existing practices and to encourage change where change is justified. Part Three presents a guide for board governance disclosure, which is a best practice standard for public accountability. The Government's goal is that all public sector organizations in British Columbia will be in a position to meet these disclosure standards commencing in April 2006.

The *Best Practice Guidelines* apply to many different types of organizations ranging from commercial Crown Corporations to small, special purpose entities. Within this range are included health authorities and institutions in the public post secondary sector – universities, university colleges, colleges and provincial institutes – some of which possess special arrangements for bi-cameral governance and autonomy. While the factors influencing effective board performance are similar in different types of organizations, it is neither intended nor anticipated that every organization should have identical corporate governance practices. There is no "one size fits all" solution. Each organization is encouraged to develop governance tools specific to its individual needs and circumstances. Regardless of individual approaches, however, all public sector organizations should be committed to best practices in corporate governance and should embrace a progressive and engaged governance culture that reflects the principles set out in the *Best Practice Guidelines*.

The *Best Practice Guidelines* are evolutionary in nature. They will be reviewed and updated from time to time in response to changing needs, experience and new developments in the "art" of good governance. To that end, all public sector organizations are invited to put forward constructive suggestions and comments.

PART ONE:
CORPORATE GOVERNANCE IN PUBLIC SECTOR ORGANIZATIONS

1. Introduction

"Corporate governance" broadly refers to the structures and processes by which organizations are directed, controlled and held to account. It encompasses such things as who is in charge, who sets direction, who makes decisions, who monitors progress, and who is accountable for the organization's performance. The goal of effective governance is a robust, well-run organization that achieves peak performance and is accountable to the public it serves.

Historically, the term "corporate governance" was used more frequently in the context of commercial enterprises whereas public sector organizations often adopted the language of "stewardship". It is now common throughout the public and not-for-profit sectors to apply corporate governance methodologies within the various corporate[2] entities that make up these sectors.

Corporate governance is no less important in the public sector than in the private sector. Public sector organizations manage billions of dollars in assets and liabilities and oversee the delivery of core services such as health care, education and public utilities. Taxpayers, as both the source of funds and the beneficiaries of these enterprises, expect public sector entities to be well governed and to perform well.

In British Columbia, 41 Crown Corporations manage $31.2 billion in assets, $26 billion in liabilities and employ over 23,000 people. In addition, six health authorities oversee the delivery of $7.7 billion in health services (approximately 25 percent of the provincial budget) and employ 96,000 people. Public post secondary institutions receive $1.3 billion in public funds from Provincial sources and provide educational opportunities for approximately 300,000 students. For the 2004/5 fiscal year, it is estimated that BC public sector organizations will oversee expenditures of over $26 billion and employ over 172,000 employees.

Regardless of organizational type, corporate governance regimes are unlikely to be effective where there is lack of clarity about the participants involved, their relationships with each other and their respective responsibilities.

[2] The term "corporate" refers to a distinct legal entity, as distinct from an unincorporated association or department.

In the business sector, participants in governance include the shareholders, the board of directors and management. In the public sector, the Legislature, various branches of Government, the responsible Minister, the board and public stakeholders all play a greater or lesser governance role depending on the nature of the organization, its founding legislation, and any specialized protocols that have developed over time.

The board of directors[3] plays a central part in governance. Its general role is to cultivate the organization's short and long-term success consistent with the organization's mandate and objectives, and to do so in an accountable manner. When discharging its responsibilities, the board oversees the affairs of the organization, supervises management through the chief executive officer (CEO)[4], and sets standards for organizational conduct.

A board's effectiveness depends in large measure on the people who serve on it. Ideally, boards are comprised of dedicated individuals who are motivated to play an active role, and who have the necessary competencies to carry out their responsibilities. A well-defined governance structure is a necessary prerequisite for effectiveness, but good process cannot make up for the absence of good people.

As a consequence of historical issues, board governance has been studied extensively over the last decade providing a legacy of formal reviews and scholarly volumes. As a result of this work, consensus has emerged regarding the types of practices that improve director performance as well as the performance of boards as a whole. These practices include such things as closely defined roles and responsibilities, efficient use of committees, clear codes of ethical conduct, informed approaches to policy and strategic planning, risk management, director orientation, ongoing professional development, and board and director assessment.

Closely associated with the growth in knowledge about governance practice has been accompanying growth in the requirement for accountability. This is equally the case whether organizations raise money in the capital marketplace or expend public funds. In either case, accountability is encouraged through disclosure of governance practices for public scrutiny. Because accountability is based on disclosure, it is expected that organizations adopting the *Best Practice Guidelines* will be better positioned for public review and will add refinements to their governance practices at the same time.

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[3] The term "directors" is used in a majority of public sector organizations. However, in the public post secondary sector, board members are referred to as governors and the board as the Board of Governors. Throughout this document, any reference to "director" is equivalent to "governor" in the public post secondary sector.

[4] The term "chief executive officer" means the person who holds the principal management position of the organization. In the public post secondary sector this person is most often called the President. In Crown corporations, this person is most often referred to as the CEO.

2. The Public Sector Context

Public sector organizations, like private sector companies, are independent legal entities governed by boards of directors. The duties of public sector boards are similar in many ways to their private sector counterparts, but there are significant differences in the legal, regulatory and operational environments that shape the responsibilities and expectations facing public sector directors. Public sector boards must take these differences into account when constructing their governance regimes and it is particularly important for them to understand both the context in which public sector organizations are created and the Government's ongoing role in their governance.

2.1. Creation of Public Sector Organizations and Their Mandates

Public sector organizations are established by Government to serve the public interest and to advance overall public policy objectives. Each organization is given a specific mandate, which is communicated either through governing legislation, its constituting documents or, where applicable, by Government policy.

For most public sector organizations, the mandate is likely to be more diversified than typically would be the case in the private sector. This requires the organization to perform in a business-like manner while at the same time pursuing a range of objectives, which might deal broadly with civic well being or might target economic, social or cultural measures related to a specific development opportunity or regional initiative.

Government performs cyclical reviews of each organization's mandate to ensure that it continues to be relevant and that the service delivery model continues to represent value to taxpayers. Boards may be asked to participate in the review or provide input on specific mandate issues, but decisions regarding a public sector organization's overall mandate always remain within the purview of Government.

Where appropriate, Government may give a public sector organization a specific direction on a particular matter. This type of direction is usually made only after discussion with the organization.

While it is the case that public sector organizations are provided greater autonomy and flexibility in decision-making than Government ministries, their boards must nevertheless be alert to the Government's broad public policy objectives. They must also ensure that their organization's strategic initiatives are aligned with the mandate set by Government.

2.2. *Characteristics of Public Sector Organizations*

Public sector organizations generally have some or all of the following characteristics:

- the organization is established by statute, by regulation under an enabling statute, or under the *Business Corporations Act*, *Society Act*, *Canada Business Corporations Act* or other legislative authority;
- there is a Provincial interest in the function or service, especially in:
    - the organization fulfilling its statutory obligations;
    - the organization managing its resources effectively; and/or
    - the organization maintaining appropriate standards of service;
- the Government has controlling interest in the organization:
    - Government appoints a majority of the governing board;
    - Government may provide 50% or more of the operating funds;
    - Government may give sole authority to the organization to engage in commercial activity and generate revenues;
    - Government owns, directly or indirectly, 50% or more of the issued and outstanding voting shares of the organization (if the organization is a *Business Corporations Act* company or other corporate entity with share capital); and/or
    - Government may establish the organization as an agent of the Province.

2.3. *Performance Expectations*

In addition to setting each organization's mandate, Government provides public sector organizations with documentation outlining performance expectations and accountabilities. This documentation is developed in consultation with the organization.

Using Crown corporations as an example, Shareholder's Letters of Expectations are issued annually to record a joint understanding between Government and the organization over mandate, public policy issues, strategic priorities and performance. More specifically, the Letters of Expectations are intended to:

- confirm the corporation's mandate and core services;
- develop a common understanding between the Government and the Crown corporation regarding the Government's priorities, policy objectives and performance expectations for the organization over a three-year period;
- achieve consistency and alignment between the Government's priorities, policy objectives and performance expectations and the Crown corporation's goals, objectives and strategies; and
- serve as a key driver in the development of the Crown corporation's service and financial plans.

For other organizations such as health authorities or institutions in the public post secondary sector, an annual accountability letter from the organization's host ministry establishes budget levels, performance objectives and other expectations, supplemented by the production of annual service plans and reports based on an accountability framework.

2.4. Accountability in the Public Sector

Public sector organizations are owned by the people of British Columbia and are accountable to them. In practice, the ownership rights are exercised on the people's behalf by the Legislative Assembly and the Government. [5] The responsible Minister serves as the link between the organization, the Cabinet and the Legislative Assembly. As well, Treasury Board may play a significant role in approving capital and operating budgets, particularly for taxpayer supported organizations.

The following is a general overview of the accountability continuum:

- Government establishes the public sector organization and its mandate through statute or other legislative authority, and provides funding to the organization on behalf of the public.
- Government communicates broad objectives for the organization through the responsible Minister and empowers its board to oversee the organization's affairs.
- The board oversees the affairs of the organization, supervises management, which is responsible for day-to-day operations and, through the chief executive officer, sets the standards of organizational conduct.
- The CEO leads the development of the institution's strategic initiatives, policies, operating and capital budgets; makes recommendations for their approval to the board; implements board- approved initiatives; and manages the day-to-day business of the organization.

Roles and responsibilities must be clearly defined and understood by all participants in the accountability continuum to ensure that organizations account for the effective pursuit of their mandates and for the expenditure of public funds. When the respective roles of the board and the responsible Minister (or other "shareholder" representatives) are not clear, a poor governance environment will result.

[5] BC Auditor General Crown Corporations Governance Study, 1996

This problem was identified by the British Columbia Auditor General in 1996 when he stated in reference to Crown corporation governance: "We believe that resolving the uncertainties and ambiguities in roles would be a major step forward in improving the governance environment in Crown corporations."[6] Although there is now a Governance Framework for Crown Corporations[7], no single piece of legislation or Government policy captures the governance roles and responsibilities across all types of public sector organizations in British Columbia. In the absence of such a universal framework, it is important that each public sector organization defines its unique relationship with Government and with its other "shareholders", including the public.

When doing so, the public interest is best served where Government and the organization enter into a constructive exchange that ensures the open, timely and accurate flow of communications in both directions. Because the board occupies the mid-point in the accountability continuum, regular and informed dialogue between the board and the responsible Minister is a key element of accountability and is fundamental to the proper discharge of the board's responsibilities. Generally speaking, the chair of the board undertakes this obligation on the board's behalf.

In many instances, legislation or policy may allocate decision-making responsibilities among the board, Cabinet, Treasury Board, the responsible Minister or elsewhere. In other instances, an organization's decision-making might be limited by the parameters of a special requirement such as the *Public Sector Employers Act*. But there are many areas in which public sector boards have broad autonomy. For example, university governance is distinguished by statute-protected autonomy to establish policies and standards for teaching, research, student admission, graduation, and selection and appointment of staff.

Whatever the degree of decision-making autonomy, accountability is strengthened where each board identifies its areas of shared decision-making with authorities beyond the organization. By doing so, a board will better ensure effective leadership by removing ambiguities which might otherwise detract from its governance responsibilities or obscure its accountability.

[6] Ibid., 1996
[7] The Governance Framework for Crown Corporations, published by the Crown Agencies Secretariat ("CASe"), provides information on the governance structure applicable to Crown corporations. CASe is also in the process of developing Crown Agency Accountability Guidelines designed to help clarify the levels of authority and accountability associated with different types of public sector organizations.

2.5. *Regulatory Requirements and Other Legislation*

Public sector boards operate within a complex legal framework. In addition to the legislation under which they are established, public sector organizations are subject to many legislative requirements that do not apply in the private sector. These include provisions contained in the following Provincial statutes:

- *Auditor General Act*;
- *Budget Transparency and Accountability Act;*
- *Financial Administration Act;*
- *Financial Disclosure Act;*
- *Financial Information Act;*
- *Multiculturalism Act;*
- *Ombudsman Act;*
- *Public Sector Employers Act;* and
- *Freedom of Information and Protection of Privacy Act.*

In addition, public sector organizations are subject to statutes of general application such as the *Waste Management Act* or the *Environmental Assessment Act*. Certain public sector entities also fall within the jurisdiction of the *Public Service Act*, the *Public Service Labour Relations Act*, the *Public Service Pension Act* or the *Benefits Act*.

Every board should be aware of the legislation and policies that apply to its organization and should recognize how they affect decision-making.

2.6. *The Performance Culture*

Another feature that distinguishes private from public sector organizations is the way in which competitive pressures are brought to bear on their operations. In the private sector, an organization is motivated to perform by the competitive pressures of the market place. Those that do not perform go out of business. Although some public sector organizations have a commercial nature, they may not have an obvious reference point for acceptable or peak performance. Directors are motivated by the desire to fulfill a service mandate and/or achieve certain public policy objectives and must be diligent in monitoring the organization's performance by carefully selecting appropriate performance measures against which the organization's achievements can be measured. In addition to financial performance measures, these may include such measures as service quality, customer satisfaction, environmental compliance or other measures specific to each organization.

2.7. *Disclosure and Transparency*

As recipients of public funds and executors of the public trust, public sector organizations are held to high standards of scrutiny and disclosure. Their operations and decisions may be reviewed by such bodies as the BC Auditor General, the Ombudsman's Office or Select Standing Committees of the Legislature.

Various "shareholders", including members of the public, often bring diverse viewpoints to their examination of the decisions or decision-making processes used by public sector organizations, sometimes relying on the *Freedom of Information and Protection of Privacy Act* when making their inquiries. The scrutiny of public sector organizations also may extend to board members. Therefore, individuals joining public sector organization boards should be aware that their actions are potentially subject to the same level of interest and inquiry as other members of the public sector, such as public servants and politicians.

For these and other reasons, public sector organizations should have good systems in place to ensure that their operations and decision-making processes are consistent with public sector standards; and these systems should ensure that organizations report appropriately to all interested parties through accessible avenues of disclosure. In the sections following, some practical guidelines are offered describing best practice on factors affecting good governance and disclosure.

PART TWO:
BEST PRACTICE GUIDELINES: GOVERNANCE

The purpose of this section is to gather in one place a provincial standard for corporate governance practices in BC's public sector organizations and to provide a common benchmark against which governance arrangements can be understood and assessed.

The guidelines in this section have been organized into separate subject areas. They make no claim to be an exhaustive discussion of each topic.[8] However, they will have served their purpose if they shed some light on best practices and assist the boards of BC's public sector organizations reflect on their current approach to governance. Each entry contains a commentary on the subject area with particular attention to public sector realities. The commentary is then followed by an abbreviated list of best practices for easy reference.

1. Board Composition and Succession

Most experts agree that a first requirement for effective governance is having the right people on the board. This means putting together a group of individuals who have the appropriate combination of competencies (skills and experience) and personal attributes (behaviour and attitude) to support the organization's mission and contribute together as a highly motivated team.

The particular competencies sought will vary depending on an organization's mandate and the skills needed to complement its management team. The requisite skills and experience will change over time as the organization evolves to face changes in its operating environment.

In addition to specific competencies, directors should possess appropriate personal attributes. These include integrity and high ethical standards, sound judgment, an ability and willingness to question conventional assumptions, strong interpersonal skills, and a high level of commitment to the organization and its success.

Unless the governing legislation specifies otherwise,[9] the general practice in British Columbia is that all appointees to public sector boards are individuals who are independent of management and have no material interest in the organization. A comprehensive process for appointing directors to public sector organizations in British Columbia is set out in the BRDO's *Appointment Guidelines*.[10]

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[8] A list of reference material in the area of corporate governance is available on the BRDO web site.
[9] See, for example, the *University Act* and the *College and Institute Act*.
[10] http://www.fin.gov.bc.ca/oop/brdo/appoint.htm

Where Government appoints some or all members of a board, the ultimate selection of appropriate candidates remains solely within the prerogative of Government. However, it is important that the appointment process be collaborative, with both Government and the organization taking an active role in the recruitment and evaluation of candidates.

To assist in the appointment process, all boards should consult with BRDO to:

a) develop director selection criteria for board membership as a whole and for specific vacancies;

b) recommend a recruitment and evaluation process to fill vacancies;

c) identify and recommend candidates to Government for appointment or re-appointment; and

d) develop a plan and a process to recommend to Government the orderly long-term renewal of board membership.

These responsibilities are normally assigned to a governance committee or a separate nominating committee. Whatever its name, the committee will benefit from developing a competency matrix listing the specific competencies and personal attributes desired for the board membership as a whole. This information can then be used as a guide to determine which competencies and personal attributes might be missing from the board and should be sought when looking for new candidates.

Once board members are appointed, it is important that the public and all members of the organization are informed. As part of an organization's communication strategy, the name, appointment term and biographical background of each director should be publicized and retained on the organization's web site.

Best Practices Guideline 1

a) The board is made up of individuals who, collectively, have the required competencies and personal attributes to carry out their responsibilities effectively.

b) Unless specified otherwise in the governing legislation, board members are independent from management and have no material interest in the organization.

c) The board has a committee that develops director selection criteria and identifies and evaluates potential candidates.

d) The board has a competency matrix that is updated annually and when vacancies arise. The competency matrix is used to identify competency "gaps" on the board and direct the search for new candidates.

e) The board has a board succession plan to recommend to Government the orderly turnover of directors.

f) The board publishes the name, appointment term and a comprehensive biography of each director.

2. Board Responsibilities

The board of directors occupies a central position in the governance of all public sector organizations. The board's general role is to foster the organization's short and long-term success consistent with its mandated objectives and accountability to other stakeholders. In the discharge of its mandate, the board oversees the affairs of the organization, supervises management, which is responsible for day-to-day operations and, through the CEO, sets the standards of organizational conduct.

In carrying out these duties, the board's role in policy-making, guidance of the strategic planning process, and performance monitoring, is separate from responsibility for the day-to-day management of the enterprise. This responsibility resides with the CEO who leads the organization in achieving board-approved directions and in turn recommends new initiatives to the board.

The board provides leadership with specific responsibility to:

- select, assess, compensate and (if necessary) replace the CEO and plan for CEO succession;
- oversee development of and approve a strategic plan that takes into account the opportunities and risks facing the organization;
- approve the organization's capital and operating budgets and ensure the integrity of financial statements, internal controls, financial information systems, projections, forecasts and audited statements;
- approve the organization's material policies;
- work with management to identify the principal risks to the organization and ensure that systems to manage those risks are in place;
- monitor the organization's performance against agreed goals and objectives;
- approve major transactions;
- ensure compliance with legal and regulatory requirements;
- ensure that reporting, monitoring and accountability obligations are met;
- ensure that controls, codes or guidelines are in place governing ethical conduct, conflict of interest, environmental protection, personal and public safety, equity and similar concerns;
- ensure that the organization has an appropriate communications strategy;
- provide for the board's good management and on-going effectiveness, including establishing of the committees, task forces and work groups required to assist the board in the effective discharge of its mandate; and
- in consultation with BRDO, identify the required competencies and personal attributes required on the board and recommend to Government the orderly succession of board members.

The board should possess and make publicly available a written charter that describes the board's responsibilities as set out above. If particular areas of responsibility are specified in governing legislation or in the organization's constituting documents, these should be noted. The charter also should include commentary on the following:

- any limitations to the board's decision-making powers;
- a list of all required approvals and reports;
- the board's method of interaction with the responsible Minister;
- board organizational issues, including any official delegation of responsibility to management or to committees;
- board decision-making processes, including meetings in non-executive session without management present;
- a statement acknowledging and defining the distinction between governing and managing;
- the general legal obligations of the board; and
- a commitment to ongoing board assessment and improvement.

Best Practices Guideline 2
a) The board publishes a charter that details its roles and responsibilities and the governance processes used to fulfill them.

3. Committees

Boards typically use committees to undertake detailed reviews and to provide in-depth supervision in key areas of board responsibility. Task forces or other temporary working groups also may be established to address time-limited projects.

For committees or working groups to function effectively, their mandates should be spelled out in written terms of reference that define their purpose, composition and working procedures. The terms of reference for a task force or a working group should also set a termination date. All terms of reference should be published on the organization's web site.

The use of committees helps directors gain a more comprehensive understanding on matters requiring specialized decision-making or approval. The four most common core committees of any governing board operate in the following areas:

- Finance
- Governance
- Human Resources and Compensation
- Audit

A board may establish other committees – such as environment, health and safety, pension or academic affairs committees – where they are relevant to the organization's activities. Where workload and requisite skills allow, committees may also serve in a dual role such as Audit & Finance. The terms of reference for an individual committee may also be broadened to cover related board interests. For example, the Finance Committee may be assigned responsibility for ensuring that an information technology plan that effectively supports the strategic planning process is in place.

The chair and membership of individual committees are generally as recommended by the board chair and confirmed by the board as a whole. With the prior approval of the board chair, committees should have the authority to engage consulting advice and independent counsel.

Best Practices Guideline 3

a) The board has committees that address the Finance, Governance, Human Resources and Compensation, and Audit functions, as well as any other committees relevant to board operations.

b) Each board committee has written terms of reference that are available publicly and that outline its composition and responsibilities.

c) Each committee keeps informed about emerging best practices in corporate governance relevant to its functions.

d) Every board task force and working group established to address special board needs, has written terms of reference outlining its composition, responsibilities, working procedures and termination date.

3.1. Finance Committee

The terms of reference for a Finance Committee will vary according to the nature of the organization. Generally, the Finance Committee oversees the organization's budget, financial operations and results; monitors the adequacy and condition of capital assets; reviews and makes recommendations on capital activities; and appoints the organization's signing officers or other financial delegates.

Typically, the Finance Committee is responsible to:

- examine the budget methodology and recommend the operating budget for approval by the board;
- review planned expenditures and recommend annual capital budgets for approval;
- review and recommend major tenders or contracts;
- recommend investment guidelines and receive annual information on investment performance;
- approve appointments to boards such as Pension Trusts; and
- ensure that the board receives timely, meaningful reports on the organization's financial situation including up-to-date forecasts of year-end results.

3.2. Governance Committee

The Governance Committee oversees the board's nominating and governance activities. Typically, the Governance Committee is responsible to:

- review the skills and experience required on the board;
- identify new directors for recommendation to Government;
- review the relevance of individual committees and committee terms of reference;
- manage evaluations of board, committee, chair and director performance;
- ensure appropriate board orientation and ongoing professional development;
- articulate roles and responsibilities for the board, its committees, the chair and individual directors and recommend to the board any needed changes;
- prepare and update a board manual containing all documents relevant to the board's governance structure; and
- provide oversight to the organization's codes of conduct and ethics.

It is essential that the Governance Committee keep up to date with developments and emerging best practices in corporate governance.

3.3. Human Resources and Compensation Committee

In British Columbia, the appointment and compensation of a CEO is subject to policies developed by the Public Sector Employer's Council (PSEC). When a new CEO is being recruited, the Human Resources and Compensation Committee must ensure conformity with Government policies in this area.

Typically, the Human Resources and Compensation Committee is responsible to:

- oversee the evaluation and compensation of the CEO;
- develop CEO performance objectives together with the CEO, the chair and the board;
- ensure the organization has a sound plan for management succession; and
- ensure that the organization has appropriate human resources policies and compensation policies that satisfy PSEC conditions.

4. Audit Committee

Following highly publicized scandals in the United States, the *Sarbanes-Oxley Act* and other regulatory measures were adopted. Other countries, including Canada, kept pace by imposing stringent new requirements on the membership and responsibilities of Audit Committees.[11] With the heightened attention given to this area of governance, the work and responsibilities of Audit Committees warrant an extended discussion.

The Audit Committee's job is to assist the board fulfill its financial accountability and oversight responsibilities. The committee does this by reviewing the financial and performance information provided to the stakeholders, monitoring the systems of internal controls that management and the board of directors have established, and overseeing the internal and external audit processes.

4.1. Audit Committee Membership

Audit Committee members should be independent and financially literate. At least one member of the committee should have a financial designation or relevant financial management expertise.

In this context:

- "independent" means having no material direct or indirect association with the organization, which could, in the view of the organization's board of directors, reasonably interfere with the exercise of the member's independent judgment; and
- "financially literate" means that the member has the ability to read and understand a set of financial statements which present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the organization's financial statements.

[11] See for example:

- Guidelines for Audit Committees in Crown Corporations and other Public Enterprises (Treasury Board of Canada Secretariat, September 2003): http://www.tbssct.gc.ca/pubs_pol/opepubs/TB_71/ccgac-ldse1_e.asp#the
- Ontario Securities Commission Multilateral Instrument 52-110: http://www.osc.gov.on.ca/Regulation/Rulemaking/Current/Part5/rule_20040326_52-110-audit-comm.jsp;
- BC Securities Commission Proposed Rule 52-509: http://www.bcsc.bc.ca:8080/comdoc.nsf/comdoc.nsf/webpolicies/9A15C66BD0ADABBC88256EA20074D3F5?OpenDocument

4.2. Audit Committee Responsibilities

Typically, the Audit Committee is responsible to:

- review and approve the financial information that will be provided to Government and other stakeholders, and ensure that this information accurately represents the business activities of the organization;
- review and approve the systems of risk management and the internal controls established by management and the board to:
  - ensure the organization's sound financial performance;
  - ensure that the organization's internal controls have integrity and will lead to the production of accurate financial statements and performance reports;
  - ensure that management has appropriate systems in place to identify and manage risk;[12] and
  - prevent financial mismanagement;
- recommend the appointment and compensation of the external auditor;[13]
- oversee the independence of the external auditor, including where appropriate, the development of an auditor independence policy;
- work with the auditor to:
  - define the purpose of the audit;
  - formulate and approve the audit plan; and
  - review audit results;
- evaluate the need for an internal audit function and make appropriate recommendations to the board;
- where an internal function is in place:
  - hire, evaluate and (if needed) replace the head of the internal audit unit;
  - approve the internal audit unit's terms of reference;
  - approve the internal audit unit's short and long-term plans and related resources;
  - initiate and approve specific requests for audits;
  - review audit reports (or summaries) and ensure that recommendations are implemented; and
  - evaluate the internal audit unit's performance.

The external auditors should be engaged by the board, not by management, and should report to the Audit Committee. From time to time, the Audit Committee should meet

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[12] While risk management has traditionally been a concern of the Audit Committee, there is an emerging recognition that the risks to the enterprise embrace not only financial issues, but also human resource, governance, and sometimes quality issues, and that the organization should have an integrated risk management system which has accountabilities to several or all committees of the board.

[13] Members of public sector organizations should be aware that under the *Auditor General Act*, the BC Auditor General has the right to recommend to the Public Accounts Committee that his office be the external auditor for any public sector organization that is a corporation or an unincorporated body classified as a Government entity and reported through the consolidated revenue fund.

with the external auditors without management present. Any work to be performed by the external auditors in addition to audit duties should be pre-approved by the board on the recommendation of the Audit Committee.

The Audit Committee should determine whether the organization requires an internal audit function. Criteria to be considered in assessing the need for an internal auditor include:

- whether the existing management processes are adequate to identify and monitor significant risks facing the organization, and whether the existing internal control system operates effectively;
- whether those who are responsible for managing risks and operating the control system take a wholly objective and systematic view of their own performance;
- whether the board receives the quality of information from management needed to support the organization's risk management and internal controls effectively.

Organizations that require an internal audit capacity generally are those with high risk or high profile operations, and are medium to large in size, with very complex operations.

In British Columbia, the Office of the Comptroller General, Internal Audit and Advisory Services unit, provides advice to Audit Committees on establishing an internal audit function. On request, the Internal Audit and Advisory Services unit will provide internal audit functions to those organizations that do not have their own internal audit capacity. This office also manages an informal association of internal auditors for Crown agencies, which meets regularly to discuss internal audit issues.

The Audit Committee should have written terms of reference detailing the committee's composition and responsibilities.

Best Practices Guideline 4

a) Audit Committee members are financially literate and at least one member has accounting or related financial management expertise.

b) Members of the Audit Committee are independent from the external auditors.

c) The Audit Committee has written terms of reference that set out its roles and responsibilities.

d) The Audit Committee annually reviews its terms of reference and assesses its effectiveness in meeting the needs of the board of directors.

e) The external auditor reports directly to the Audit Committee, not to management.

f) The Audit Committee has an auditor independence policy or reviews and pre-approves all non-audit services to be provided to the organization or its subsidiaries by the external auditor.

g) The Audit Committee periodically reviews the need for an internal audit function.

h) If the organization has an internal audit function:

   i) the internal audit group reports functionally to the Audit Committee and administratively to the Chief Executive Officer;

   ii) the Audit Committee oversees the work of the internal audit group.

i) The Audit Committee meets from time to time with the external and internal auditors without management present.

j) The Audit Committee reviews any proposed changes to the position of the organization's chief financial officer.

k) The Audit Committee has the authority to engage independent counsel and other advisors, with prior approval from the board chair.

5. The Board Chair

The position of board chair demands singular skills and abilities, and some experts argue that the chair's leadership skills are the most important factor in determining overall board effectiveness.

The chair should be a person who can set the board's agenda; run meetings effectively; control discussion appropriately; manage dissent; work toward consensus; communicate persuasively with colleagues, management, the public and Government; and most important, establish a culture of active and constructive board engagement.

A typical position description for a chair describes responsibility for:

- managing board affairs;
- effective board performance;
- regular board, chair, committee and director evaluations (sharing responsibility with the governance committee);
- managing conflicts of interest should they arise ;
- building and maintaining a sound working relationship with the CEO, the responsible Minister and other Government representatives;
- working with management; and
- serving generally as the board's spokesperson.

Other than in exceptional circumstances, the chair and CEO should not be the same individual. When this situation does occur, the board should select an independent director (lead director) to act as an effective leader of the board and ensure that the board's agenda will enable it to successfully carry out its duties. The lead director should have a position description that includes the responsibility to lead meetings of the directors without management present.

In the public sector, the chair plays an important role as the main liaison between the board and Government. As designated spokesperson for the board, the chair should communicate regularly with the responsible Minister to build a positive working relationship and support two-way accountability through dialogue. Ideally, this should involve at least quarterly meetings in person and regular telephone communication. The CEO should assist the chair's work in this area and should participate in related discussions as appropriate.

For those responsible Ministers whose portfolios include a particularly large number of public sector organizations such as the Minister of Advanced Education, alternate liaison strategies may be needed. For public post secondary institutions, it is expected that a higher degree of direct engagement with the CEO will be both necessary and appropriate.

Best Practices Guideline 5

a) The position of chair and CEO are separate.

b) The board publishes a position description that sets out in detail the responsibilities of the chair.

c) The chair and responsible Minister communicate regularly to build their working relationship.

6. Individual Directors

Individual directors, working together, execute the board responsibilities set out in the board charter. Board effectiveness depends on all directors understanding their responsibilities and adhering to a high standard of performance.

Directors owe a fiduciary duty as well as a duty of care to the organization. The fiduciary duty requires directors to be loyal and to act honestly, in good faith and in the best interests of the organization. It requires directors to avoid conflicts of interest, maintain appropriate confidentiality with respect to organizational matters, and to disclose to the organization any information the director might obtain that could be considered material to the organization's business or operations.

The duty of care requires that directors do their job well. They should exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. They should be diligent; reading all of the material in advance, attending all of the meetings, asking relevant questions, being prepared to discuss all issues, and keeping informed about the organization. Directors should be provided with sufficient information to consider all matters coming before the board and they should spend the time necessary to make informed decisions.

The board of every public sector organization should develop a charter of expectations or an equivalent statement of role for individual directors outlining the board's expectations about their duties, responsibilities and performance.

A charter of expectations for directors typically addresses:

- the director's fiduciary duty and duty of care to the organization;
- the expected standards of behaviour regarding:
    - communication and interaction with other board members and with management;
    - advance preparation for meetings and other duties;
    - attendance;
    - confidentiality;
- compliance with the organization's Code of Conduct and Ethics;
- commitment to be informed about the organization and its operating environment;
- commitment to represent the interests of the organization as a whole rather than the interests of individual constituents;
- commitment to director assessment;
- commitment to orientation and ongoing education; and
- commitment to disclose director attendance and compensation.

The charter of expectations should be reviewed with candidates prior to their appointment as directors so they understand the expectations attached to the position. Candidates also should be informed that persons appointed to BC public sector boards must be prepared to engage fully in board activities. For example, it is expected that directors will attend 100% of regular board meetings in person, and will attend all education and strategy sessions. While teleconferencing may be available to some boards in exceptional circumstances, this is a poor substitute for face-to-face meetings.

Not only should boards rely on a charter of expectations, directors also should be informed about the kinds of personal behaviour considered desirable when conducting the board's business[14].

- Directors should ask penetrating questions that ensure a full understanding of the issues in question and the consequences of the actions proposed.
- Debate among directors should be encouraged, and pressures for conformity to majority opinion should be acknowledged and guarded against.
- Directors should not put managers or other directors on the defensive. Instead, they should respect the opinions and expertise of others when engaging in the discussion of relevant issues, and they should be committed to the goal of reaching consensus.
- Directors should understand when to listen and learn from management and from each other, and when to stimulate discussion.
- Any discussion between executives and directors should be two directional. Executives should be at liberty to disagree with directors if they believe the latter

[14] Adapted from: Jay Lorsch and Colin Carter, *Back to the Drawing Board*, Harvard Business School Press, 2004

are misinformed or wrong, and directors should listen to management's views in such circumstances.
- Directors should respect the agenda. They should be aware of the agenda's schedule and understand the importance of staying focused on the important issues. Discussion should be encouraged, but everyone should recognize the limits imposed by time.

The board should speak with one voice. Once debate in the boardroom is over and a decision is made, that decision stands as a united position of the board. It is very important that board members respect issues of confidentiality and not disclose information they learn at board meetings which has been imparted in confidence.

In some circumstances, most notably the public post secondary sector, legislation provides for employee representatives to be elected to the board. These representatives have the same duties and responsibilities as all other board members.

Best Practices Guideline 6

a) The board publishes a charter or similar document for directors that details the expectations of individual board members.

b) The board develops and publishes minimum attendance expectations for directors and makes public the directors' attendance records.

c) As part of public sector transparency, the organization annually discloses the amount of compensation paid to each individual director for the preceding year.

7. The Chief Executive Officer or President

One of a board's most important jobs is hiring, compensating, evaluating and (if necessary) replacing the CEO -- referred to as the "President" in the public post secondary sector. The CEO is responsible for leading management, developing and implementing the organization's strategy, and reporting to the board of directors.

The relationship between the board and the CEO is crucial to the ongoing success of the organization. Ideally, the relationship is one of trust and mutual respect where each party understands and appreciates the role of the other. Nevertheless, there can be tensions. On the one hand, the board provides oversight and holds the CEO to account for the organization's performance and, in so doing, must probe and critically evaluate management's proposals and decisions. On the other hand, the board and its directors provide strategic advice and give support to the CEO. Should this dynamic relationship become adversarial, dysfunction and poor decision-making will invariably result.

In order to establish the proper relationship between the board and the CEO, the board should, with the input from the CEO, develop a job description for the CEO, annually develop appropriate performance expectations and have a formal process in place to evaluate the CEO's performance.

7.1. Job Description

The job description should describe the CEO's designated duties and responsibilities as well as the division of responsibility between the CEO and the board. This document also should recognize that it is characteristic in the public sector for the CEO to have regular contact with Government representatives, while making explicit that the CEO remains fully accountable to the board. The CEO's job description should be publicly available.

7.2. Performance Expectations and Evaluation

The process for setting the CEO's performance expectations and his or her subsequent evaluation should be agreed upon annually in advance by the board and the CEO. The annual review should provide an opportunity for open and frank discussion, and it should allow the CEO to talk to the board about past performance assessments and to set goals for the upcoming year. The process should allow opportunity for the directors to discuss the CEO's performance among themselves, and feedback to the CEO should be delivered professionally in keeping with the nature of the review. While the evaluation might be managed by a board committee, it should always involve input from the board as a whole.

CEO compensation and tenure should be tied to performance and measured against written performance expectations. It should be remembered that, in the public sector, CEO compensation is subject to the executive compensation guidelines and approvals developed by Public Sector Employers Council (PSEC).

7.3. Recruitment

Recruiting a new CEO is a major undertaking. In the public sector, boards should keep in mind that they must communicate with PSEC throughout the process to ensure that the proposed terms of employment are consistent with PSEC guidelines.

Unless the governing legislation provides otherwise (as in the public post secondary sector) the CEO is not normally a member of the organization's board of directors.

7.4. Board Meetings without Management Present

It is now commonly accepted practice for members of a board to meet regularly without the CEO or other management representatives in attendance. This type of meeting is customarily held at the end of a regular board meeting and allows board members to explore freely any issues they wish to raise privately. At the end of every such meeting, the chair should give the CEO feedback on the contents and results of the discussion.

Under the *University Act*, the *Royal Roads University Act* and the *College and Institute Act*, the president, as well as persons elected from the student population, faculty and staff, are members of the board. For public post secondary institutions, each board should describe the circumstances where the exclusion of a member is warranted such as *in camera* discussions of a president's annual performance review or situations governed by the organization's conflict of interest policy.

Best Practices Guideline 7

a) The board has a job description that sets out in detail the responsibilities of the CEO.

b) The board annually establishes performance expectations for the CEO.

c) The board annually assesses the CEO's performance against the position description and the performance expectations.

d) The directors regularly meet together without management present.

8. Corporate Secretary

All boards should have access to the advice and services of a corporate secretary to assist in performing their duties.

The corporate secretary is accountable to the board and reports to the chair. Normally, corporate secretaries combine their board function with a senior administrative or managerial role in the organization, reporting operationally to the CEO. The organization and the corporate secretary must exercise great care in maintaining a separation between the two roles.

A corporate secretary typically:

- organizes and records the activities of board and committee meetings;
- ensures that the organization complies with its governing legislation, articles of association or bylaws;
- keeps and maintains all of the organization's corporate and historical records;
- coordinates publication of the organization's annual report and other governance related information;
- reviews and keeps up-to-date on developments in corporate governance and promotes strong corporate governance practices throughout the organization;
- advises and assists directors with respect to their duties and responsibilities;
- facilitates the orientation and ongoing education of directors (with direction from the governance committee);
- acts as a channel of communication and information for directors;
- administers the organization's Code of Conduct and Ethics; and
- advises the chair on any matters where conflict, potential or real, might occur between the board and the CEO.

The organizational bylaws may provide that the CEO shall be the secretary to the board. In this situation the board may, at its discretion, re-assign the duties and responsibilities of the secretary in part to a board assistant or other member of the staff.

Best Practices Guideline 8

a) The board has a position description that sets out in detail the responsibilities of the corporate secretary.

9. Code of Conduct and Ethics

Directors of public sector organizations are expected to demonstrate high standards of personal and professional conduct to maintain public confidence in their actions and their organizations. These standards include the need to avoid real or perceived conflicts of interest.

The check for conflict of interest starts with the appointment process. As part of due diligence in director recruitment, all candidates are required to complete a *Candidate Profile and Declaration* designed to help identify potential conflicts. Organizations are encouraged to work with the Board Resourcing and Development Office to customize the *Candidate Profile and Declaration* to include reference to particular conflict of interest issues that might be unique to their operations.

In January 2005, the BRDO published *The Standards of Ethical Conduct for Public Sector Organizations*, which outlines ethical conduct principles for directors. Each public sector organization should develop a code of conduct and ethics that fits its own legislative mandate and institutional culture while complying at the same time with the minimum standards established by the BRDO.

A code of conduct and ethics for directors, officers and employees should address the following issues:

- conflict of interest;
- the protection and proper use of the organization's assets and opportunities;
- confidentiality of information obtained through the director's role;
- compliance with laws, rules and regulations;
- ability to grant waivers against the code and, if the board can, the process for considering and approving requests for waivers and for reporting publicly any waivers the board has granted; and
- the obligation to report to the board any breach of the code of conduct and ethics, or any illegal or unethical behaviour.

The organization's Code of Conduct and Ethics should be disclosed publicly on the organization's web site.

Best Practices Guideline 9	
a)	The board has adopted a Code of Conduct and Ethics that is consistent with *The Standards of Ethical Conduct for Public Sector Organizations*.
b)	The organization publishes its Code of Conduct and Ethics.

10. Orientation and Professional Development

All new directors should receive a comprehensive orientation about the organization's mandate, its nature and operations, the role of the board, and the expectations for individual directors. The orientation's objective should be to help new directors become as effective as possible as soon as possible.

The orientation should[15]:

- ensure that each new member of the board fully understands the formal governance structure, the constitution, the bylaws, the role of the board, its supporting committees, and the expectations in respect to individual performance as set out in the charter of expectations or equivalent statement;

[15] Adapted from the Higgs Report (UK, 2003)

- build an understanding of the organization's nature, its operations and working environment including:
    - the organization's products or services;
    - summary details of the organization's principal assets, liabilities, significant contracts and major stakeholders;
    - the organization's structure, including any subsidiaries or joint ventures;
    - the organization's major risks and its risk management strategy;
    - key performance indicators;
    - any operational or regulatory constraints; and
    - requirements for reporting and public disclosure (e.g., *Budget Transparency and Accountability Act*, *Financial Information Act*, etc);
- build a link with the individuals who make up the organization, including:
    - opportunities to meet and get to know fellow directors;
    - meetings with senior management; and
    - visits to the organization's sites to learn about operations and to meet employees;
- build an understanding of the organization's main relationships, including those with:
    - the responsible Minister;
    - key Government representatives who deal with the organization;
    - people served by the organization;
    - employee unions or associations; and
    - academic Senates or Councils if the organization is located in the public post secondary sector.

The orientation should provide a comprehensive set of written briefing materials that directors may use as reference material. The following materials would be useful for this purpose:

- the *Best Practice Guidelines*;
- the board's manual (which should include the board charter; committee terms of reference; the directors' Charter of Expectations; the Code of Conduct and Ethics; and the organization's bylaws, operational policies and relevant legislation);
- the organization's most recent service plan;
- the host Ministry's most recent service plan;
- the most recent annual and quarterly financial and accountability reports;
- an explanation of the organization's key performance indicators;
- a summary of director's liability insurance and indemnity;
- details of any major litigation involving the organization;
- minutes from the last 3-6 board meetings;
- a schedule of dates for upcoming board meetings;

- biographical information and contact information for all directors and key executives; and
- details of board committees and copies of the minutes from the last 3-6 meetings if a new director will be joining a specific committee.

Depending on the organization's nature and scope, an orientation program might be delivered over several days in addition to the time required for the review of written materials. Each orientation program should be customized to take into account the background and skills displayed by individual directors.

When new directors attend their first board meeting, they should be welcomed and encouraged to start participating right away.

Beyond the initial orientation, the board should provide ongoing professional development to ensure that its members maintain or improve their skills, and that they continue to deepen their understanding of the organization and its operating environment. Professional development should include education in the area of director effectiveness.

The education program for directors should be funded by the organization, and the budget for this expenditure should be controlled by the board under direction of the Governance Committee. Ongoing education may take place as part of regular board meetings, as part of the board's annual retreat or in separate educational sessions.

Best Practices Guideline 10

a) The board has a comprehensive orientation program for new directors.

b) The board has a culture that encourages new directors to participate fully and effectively in board activities as soon as possible.

c) The board provides ongoing educational opportunities for directors to learn about the organization, its sector and its corporate governance practices, and maintains a policy encouraging directors to take advantage of these opportunities.

11. Board, Committee and Director Assessment

Boards require feedback on how they are performing as a group, how their committees are functioning, and how individual members are dispatching their responsibilities. The purpose of any assessment is to evaluate effectiveness and make improvements where required. There is no one correct way of carrying out an effective assessment, and the process should be modified over time to retain interest and relevance.

The assessment methodology for individual directors may include self-evaluation or peer evaluation. Whatever the approach, the assessment must be carried out against clear expectations. These expectations will come from the relevant charters and position descriptions.

It is generally recommended that boards introduce evaluation in stages, starting with the full board and committee evaluations, and then moving to assessments of the chair and individual directors. The actual form of the assessment should be tailored to each board and there is no universal template that captures all boards regardless of their stage of development. It follows that an assessment process should be crafted individually by each board in order to best address its own issues.

Board and committee assessments should cover such topics as:

- whether the board or committee has adequately discharged its responsibilities (e.g., strategic planning, budgeting, CEO evaluation and compensation, risk management, etc.);
- the adequacy of board or committee operations and decision-making processes (e.g., adequacy of information, committee structure, board composition, adequate discussion time, etc.); and
- board or committee effectiveness (e.g., board culture, opportunities for meaningful participation, communications with the responsible Minister and Government representatives, communications with management).

Individual director assessment should be conducted with reference to the directors' charter of expectations and should cover such topics as:

- the level of the director's skills, experience and demonstrated expertise;
- the level of a director's preparation for board discussions and the degree of participation in them;
- the director's knowledge about the organization, its strategic direction and its operational environment;
- the director's record of attendance;
- the director's ability to express views and hear the views of others;
- ethical standards; and
- the director's commitment to the best interests of the organization.

It is important that the assessment used by the board be robust and meaningful. It is equally important that there be appropriate follow-up. Once an assessment is completed, the board should make certain that steps are taken where necessary to improve the effectiveness of individual directors, committees or the board as a whole.

Best Practices Guideline 11

a) The board annually assesses its performance and the performance of each of its committees against their respective charters or terms of reference.

b) The board annually assesses the performance of the chair against the chair's position description.

c) The board annually assesses the performance of individual directors against the directors' Charter of Expectations.

12. Communications Strategy

Public sector organizations should be accessible and responsive when communicating with their stakeholders, their employees, the public and Government. It follows that the board should ensure that management has adopted an appropriate communications strategy. The communications strategy should reflect the fact that the organization is part of the public sector where transparency is an important feature of accountability. The board should be satisfied that all salient information about the organization and its operations is made accessible by management. Web-based technologies are well suited for this purpose.

In addition to providing general access to information about the organization, its mandate and activities, a good communication strategy should promote two-way exchange between the organization and Government. This applies especially to communication with the responsible Minister who may be called upon to answer publicly for the organization's actions. Advance briefings are helpful in such circumstances and should be part of the regular dialogue. On these and other occasions, the chair is the authorized spokesperson for the board and the CEO is the primary spokesperson for the organization.

Best Practices Guideline 12

a) An appropriate communication strategy is in place that meets the needs of all stakeholders, employees and Government and reflects a public sector organization's requirement for transparency and accountability.

b) The board chair is the authorized spokesperson for the board and the CEO is the primary spokesperson for the organization.

PART THREE:
BEST PRACTICE GUIDELINES: DISCLOSURE

Disclosure is at the heart of best practice in corporate governance. The duty to disclose information on governance applies with special force in public sector organizations where there are high expectations for public service and accountability. For these organizations, the duty to make governance practice accessible to public view accompanies other disclosure requirements established by provincial legislation or policy.

While some public sector organizations in British Columbia publicize their governance practices, full public disclosure is not yet commonplace. The commentary which follows provides boards with an easy reference guide to their disclosure obligations by enumerating them alongside companion statements about the best practices described in Part Two. The guide will help boards determine whether or not they are meeting best practices in disclosure. Many of the required disclosure items refer to the publication of documents which will require amendment only if and when the document is revised. A few items will require a short paragraph annually to explain the preceding year's practices (e.g., board evaluation process used in the preceding year).

Even for those who have well-developed governance practices and procedures, it will take time for organizations to review these *Best Practice Guidelines*, amend their practices if required, and develop documentation for publication. It is hoped that those organizations that are prepared, will begin to report on their governance practices as soon as possible and that all other organizations will be in a position to meet the disclosure standards set out in this document commencing with their first annual report or service plan report filed after April 2006. Should organizations require assistance with respect to governance practices, documentation or disclosure requirements, the BRDO is available to assist.

1. Board Composition and Succession

Guideline 1	Disclosure Requirement
a) The board is made up of individuals who, collectively, have the required competencies and personal attributes to carry out their responsibilities effectively. b) Unless specified otherwise in the governing legislation, board members are independent from management and have no material interest in the organization. c) The board has a committee that develops director selection criteria and identifies and evaluates potential candidates. d) The board has a competency matrix that is updated annually and when vacancies arise. The competency matrix is used to identify competency "gaps" on the board and direct the search for new candidates. e) The board has a board succession plan to recommend to Government the orderly turnover of directors. f) The board publishes the name, appointment term and a comprehensive biography for each director.	1.1 Describe the process by which the board identifies new candidates for recommendation to Government. 1.2 Disclose whether the board has a committee that identifies and recommends candidates for appointment or reappointment. If the board does not have a nominating committee, describe the process used to identify required competencies and potential candidates. 1.3 Disclose board members' names, appointment terms and detailed biographies on the organization's web site.

2. Board Responsibilities

Guideline 2	Disclosure Requirement
a) The board publishes a charter that details its roles and responsibilities and the governance processes used to fulfill them.	2.1 Disclose the text of the board's charter. If the board does not have a charter, describe how the board delineates its roles and responsibilities.

3. Committees

Guideline 3	Disclosure Requirement
a) The board has committees that address the Finance, Governance, Human Resources and Compensation, and Audit functions as well as other committees relevant to board operations. b) Each board committee has written terms of reference that are available publicly and that outline the committee's composition and responsibilities. c) Each committee keeps informed about emerging best practices in corporate governance relevant to its functions. d) Every board task force and working group established to address board needs has written terms of reference outlining its composition, responsibilities, working procedures and termination date.	3.1 Disclose the members of each committee. 3.2 Disclose the terms of reference for each committee. If the board does not have written terms of reference for any committee, describe how the committee delineates its roles and responsibilities. 3.3 Disclose the terms of reference, including the termination date, for all board task forces and working groups.

4. Audit Committee

Guideline 4	Disclosure Requirement
a) Audit Committee members are financially literate and at least one member has accounting or related financial management expertise. b) Members of the Audit Committee are independent from the external auditors. c) The Audit Committee has written terms of reference that set out its roles and responsibilities. d) The Audit Committee annually reviews its terms of reference and assesses its effectiveness in meeting the needs of the board of directors. e) The external auditor reports directly to the Audit Committee, not to management. f) The Audit Committee has an auditor independence policy or reviews and pre-approves all non-audit services to be provided to the organization or its subsidiaries by the external auditor. g) The Audit Committee periodically reviews the need for an internal audit function. h) If the organization has an internal audit function: i) the internal audit group reports functionally to the Audit Committee and administratively to the Chief Executive Officer; ii) the Audit Committee oversees the work of the internal audit group. i) The Audit Committee meets from time to time with the external and internal auditors without management present. j) The Audit Committee reviews any proposed changes to the position of the organization's chief financial officer. k) The Audit Committee has the authority to engage independent counsel and other advisors, with prior approval from the board chair.	4.1 Disclose the members of the Audit Committee. 4.2 Describe the financial expertise of audit committee members. 4.3 Disclose the text of the Audit Committee's terms of reference. If the Audit Committee does not have written terms of reference, describe how the Audit Committee delineates its roles and responsibilities.

5. The Board Chair

Guideline 5	Disclosure Requirement
a) The positions of chair and CEO are separate. b) The board publishes a position description that sets out in detail the responsibilities of the chair. c) The chair and the responsible Minister communicate regularly to build their working relationship.	5.1 Disclose the text of the chair's position description. If the board has not developed a written position description for the chair, describe how the board delineates the chair's roles and responsibilities. 5.2 Disclose how the board maintains its working relationship with the responsible Minister.

6. Individual Directors

Guideline 6	Disclosure Requirement
a) The board publishes a charter or similar document for directors that details the expectations of individual board members. b) The board develops and publishes minimum attendance expectations for directors and makes public the directors' attendance records. c) As part of public sector transparency, the organization annually discloses the amount of compensation paid to each individual director for the preceding year.	6.1 Disclose the charter of expectations for directors. If the board does not have a charter of expectations for directors, explain how the board makes clear its expectations for individual directors. 6.2 Disclose the annual attendance record of the chair and each director. 6.3 Annually disclose the total remuneration paid to the chair and each director for the preceding fiscal year.

7. The Chief Executive Officer or President

Guideline 7	Disclosure Requirement
a) The board has a job description that sets out in detail the responsibilities of the CEO. b) The board establishes annual performance expectations for the CEO. c) The board annually assesses the CEO's performance against the position description and the performance expectations. d) The directors regularly meet together without management present.	7.1 Disclose the text of the CEO's position description. If the board has not developed a written position description for the CEO, describe how the board delineates the CEO's roles and responsibilities. 7.2 Describe the annual assessment process for the CEO. If there is no formal assessment process, describe how the board satisfies itself that the CEO is performing effectively. 7.3 Disclose the organization's policy on board meetings without management.

8. Corporate Secretary

Guideline 8	Disclosure Requirement
a) The board has a position description that sets out in detail the responsibilities of the corporate secretary.	8.1 Disclose the text of the corporate secretary's position description. If the board has not developed a written position description for the corporate secretary, describe how the board delineates the corporate secretary's roles and responsibilities.

9. Code of Conduct and Ethics

Guideline 9	Disclosure Requirement
a) The board has adopted a Code of Conduct and Ethics that is consistent with the *Standards of Ethical Conduct for Public Sector Organizations*. b) The organization publishes its Code of Conduct and Ethics.	9.1 Disclose whether the board has adopted a written Code of Conduct and Ethics for directors, officers and employees. 9.2 If the board has adopted a written code: i) disclose how an interested party can obtain a copy of the code; and ii) describe how the board monitors compliance with the code. 9.3 If the board has not adopted a written code, describe the steps taken by the board to foster a culture of ethical business conduct. 9.4 Describe the process whereby directors disclose real or potential conflicts of interest. 9.5 If the organization's Code of Conduct and Ethics allows the board to grant waivers for any of its provisions, disclose whether the board granted any such waivers during the preceding year and, if so, the reasons for so doing.

10. Orientation and Professional Development

Guideline 10	Disclosure Requirement
a) The board has a comprehensive orientation program for new directors. b) The board has a culture that encourages new directors to participate fully and effectively in board activities as soon as possible. c) The board provides ongoing educational opportunities for directors to learn about the organization, its sector and its corporate governance practices, and maintains a policy encouraging directors to take advantage of these opportunities.	10.1 Describe what measures the board takes to orient new directors regarding: i) the relationship and division of responsibilities between the board and Government; ii) the role of the board, its committees and directors; and, iii) the mandate and operations of the organization. 10.2 Describe what measures the board takes to provide members with ongoing education. If the board does not provide ongoing educational opportunities, describe how the board ensures that its directors maintain the skills and knowledge necessary to meet their obligations as directors.

11. Board, Committee and Director Assessment

Guideline 11	Disclosure Requirement
a) The board annually assesses its performance and the performance of each of its committees against their respective charters or terms of reference. b) The board annually assesses the performance of the chair against the chair's position description. c) The board annually assesses the performance of individual directors against the directors' charter of expectations.	11.1 Describe the assessment process that was used in the preceding year for the board, its committees and individual directors. If there was no formal assessment process for the board, its committees or individual directors, describe how the board satisfies itself about effective performance.

12. Communications Strategy

Guideline 12	Disclosure Requirement
a) An appropriate communications strategy is in place that meets the needs of all stakeholders, employees and Government and reflects a public sector organization's requirement for transparency and accountability. b) The board chair is the authorized spokesperson for the board and the CEO is the primary spokesperson for the organization.	12.1 Describe the organization's practice for reporting on financial and other affairs of the organization.

APPENDIX 1:
LIST OF PUBLIC SECTOR ORGANIZATIONS

BC Assessment Authority
BC Buildings Corporation
BC Games Society
BC Housing Management Commission
BC Hydro and Power Authority
BC Immigrant Investment Fund Ltd.
BC Innovation Council
BC Pavilion Corporation
BC Railway Company
BC Transit Corporation
BC Transmission Corporation
College - Camosun College
College - Capilano College
College - College of New Caledonia
College - College of the Rockies
College - Douglas College
College - Langara College
College - North Island College
College - Northern Lights College
College - Northwest Community College
College - Selkirk College
College - Vancouver Community College
Columbia Basin Trust
Community Living BC
First Peoples Heritage, Language and Culture Council
Forestry Innovation Investment Ltd.
Health Authority - Fraser
Health Authority - Interior
Health Authority - Northern
Health Authority - Provincial Health Services Authority
Health Authority - Vancouver Coastal
Health Authority - Vancouver Island
Homeowner Protection Office
Industry Training Authority
Institute - British Columbia Institute of Technology
Institute - Emily Carr Institute of Art and Design
Institute - Institute of Indigenous Government
Institute - Justice Institute of British Columbia
Institute - Nicola Valley Institute of Technology
Insurance Corporation of British Columbia
Land and Water BC Inc.
Legal Services Society of British Columbia
Organized Crime Agency of British Columbia
Partnerships British Columbia
Provincial Capital Commission
Provincial Rental Housing Corporation
Royal British Columbia Museum
Tourism British Columbia
University - Royal Roads University
University - Simon Fraser University
University - University of British Columbia
University - University of Northern British Columbia
University - University of Victoria
University College - Kwantlen University College
University College - Malaspina University-College
University College - Okanagan University College
University College - University College of the Cariboo
University College - University College of the Fraser Valley
Vancouver Convention Centre Expansion Project