

An Effective Accountability Framework for the Non-Profit and Volunteer Sector



George Morfitt
FCA

*CCAF is pleased to be able to share with our members, through our website, an excellent presentation on accountability in the context of non-profit and volunteer organizations. George Morfitt, FCA, Associate Director, Capacity Development Network, School of Public Administration, University of Victoria, who served as Auditor General of British Columbia from 1988 to 2000, made the presentation last autumn to not-for-profit and voluntary sector leaders at the conference entitled *The New Financial Environment of Nonprofit and Voluntary Organizations* organized by Queen's University. In this edition of UPDATE, our Executive Director Michael Eastman summarizes some of the key points from his enlightening presentation.*



Michael P. Eastman
CMA

*(To view Mr. Morfitt's full presentation, follow this link:
http://www.ccaf-fcvi.com/english/jul04_morfitt_update_entry.html)*

According to George Morfitt, a comprehensive accountability regime is an essential element in the success of any entity, including non-profit and volunteer organizations. Such a regime assists an organization and its stakeholders in strengthening operational capacity and achieving objectives over the short and long term.

An effective accountability framework, in his view, rests on a set of principles that guide its development and implementation. These principles include:

- Openness and transparency
- Consistency
- Comparability and equivalency
- Comprehensiveness.

Good Governance

In large measure, he says, the quality of an organization's governance determines whether it will thrive or even survive. An obscure and poorly understood governance process could produce costly inefficiencies and, in some circumstances, disastrous consequences resulting from the misuse of human and financial resources.

Good governance in the non-profit and volunteer sector, says Morfitt, has three main attributes:

- Clear assignment of roles and responsibilities
- Clear direction, and
- Effective accountability responsibilities and processes.

Members of an organization's governing body have three important statutory duties:

- A fiduciary duty – to act honestly and in good faith
- A duty of care – to exercise the care and diligence of a reasonably prudent person
- A conflict of interest duty – to disclose any direct or indirect interest in affairs of the entity.

As for the governing body itself, its roles are to:

- Set strategic direction and goals
- Hire and evaluate the performance of the CEO
- Ensure the entity has adequate resources
- Monitor the achievement of goals and objectives
- Ensure that accountability obligations are discharged.

He draws attention to the list of attributes of effective governing bodies developed by CCAF. Boards should:

- Be composed of people with the necessary knowledge, ability and commitment to fulfill their obligations
- Understand their purposes and whose interests they represent
- Understand the objectives and strategies of the organizations they govern
- Understand what constitutes reasonable information for good governance and obtain it
- Once informed, be prepared to act to ensure that the organization's objectives are met and that performance is satisfactory
- Fulfill their accountability obligations to those whose interests they represent by reporting on their organization's effectiveness.

Where to start? He suggests a well-designed, objective, transparent appointment process. A governing body's size and composition should consider the present and future needs of the organization, assessed on an annual basis rather than in response to vacancies. A graduated

approach to turnover in governing body membership will assist in maintaining continuity in budget development, strategic planning, and dealing with key initiatives.

The relationship between the governing body and management is an important one. Morfitt says a governing body can be most effective when there is a relationship of trust and collaborative sharing of information and views between its members and management. However, directors must ensure they are in a position to exercise their judgment and assume their fiduciary and supervisory responsibilities independent of the influence of management.

Stakeholders increasingly expect the boards of non-profit and voluntary organization to report publicly on their governance practices, Morfitt says, in the same way that publicly listed companies are now required to do.

Public Performance Reporting

Stakeholders also expect boards to report on their performance. Morfitt identifies several ways in which non-profit and voluntary organizations account for their performance, including newsletters and news releases, periodic meetings of members, financial statements, annual reports, and annual statutory meetings. It is critically important to ensure that the information so communicated meets the desires and expectations of organizational stakeholders.

He notes that the CCAF's 2002 document, [Reporting Principles: Taking Public Reporting to a New Level](#), is relevant to public reporting by non-profit and volunteer organizations. The document contains nine principles that define better performance reporting and sets out the characteristics of good performance information.

Also potentially helpful to non-profit and volunteer organizations, he says, are the criteria used by the Government of Canada to select winners for awards of excellence in departmental and agency public performance reports. The criteria, developed in cooperation with CCAF, are:

- Does the reader understand and appreciate the reasons for the organization's existence

(organizational purpose and operating environment)?

- Does the reader understand the 3 or 4 essential characteristics or features that allow the organization to succeed in pursuing its objectives?
- Does the reader understand and appreciate what results the organization has achieved (compared to planned results, past performance and the performance of other similar organizations; shortcomings as well as achievements; what might be reasonable to expect in terms of future achievements)?
- Does the reader understand and appreciate the relationship between achievements (results) and investments (resources)?
- Does the report contain significant, credible, readable and balanced information that will help the reader determine the value of results?

committees, those that have find them valuable in providing a critical review of accountability information as well as assurance to boards that they are appropriately addressing their fiduciary responsibilities.

Finally, he says that for all organizations, effective financial controls must be in place to facilitate sound strategic planning and operational implementation.

Ethics and Integrity

Morfitt cites the work of the 1995 Committee on Standards in Public Life, which proposed to the British Prime Minister seven general principles of conduct that should govern service to the public:

- Selflessness
- Integrity
- Objectivity
- Accountability
- Openness
- Honesty
- Leadership.

These, he says, have direct application to persons serving in the non-profit and voluntary sectors. They can be bolstered through the use of codes of conduct, independent scrutiny (e.g. audits), and education. He notes that although few non-profit and volunteer organizations have established finance or audit