



# Governance 101 for Directors

(Small and Medium-Sized Enterprises)

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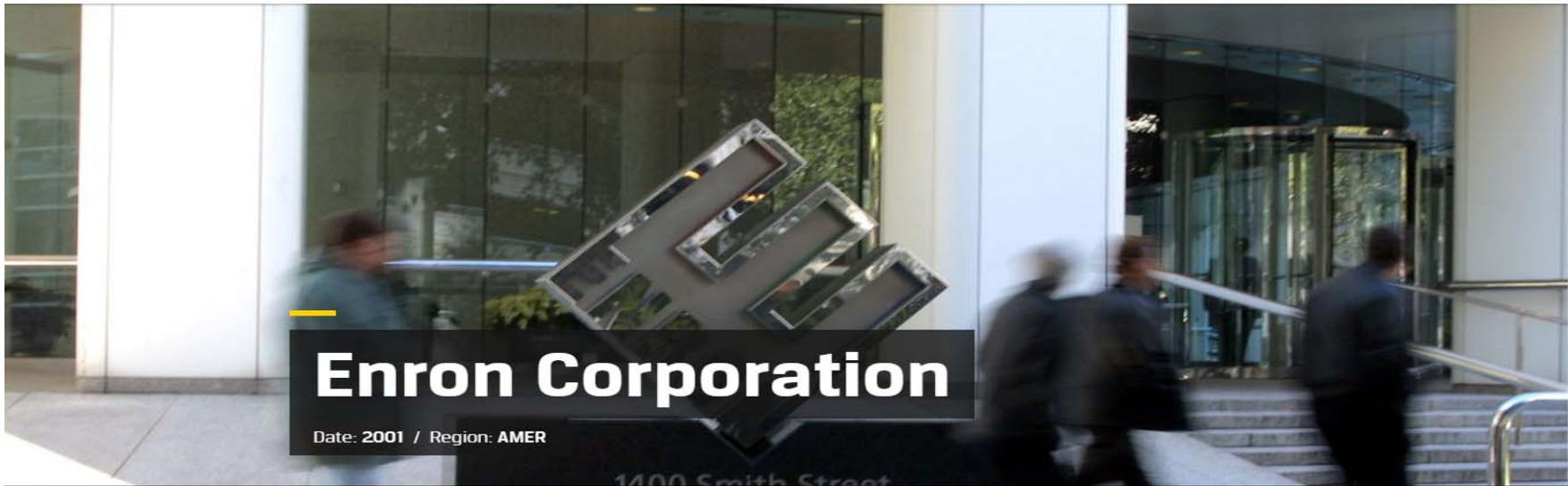
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# Hindu Credit Union Directors 'spent big' while members' cheques bounced

By Staff Editor June 13, 2012

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(Trinidad Express) On one hand members of the Hindu Credit Union (HCU) were unable to retrieve their funds and on the other, the board of directors was approving "very big expenditures".

This "dichotomy" was revealed as Queen's Counsel Edwin Glasgow yesterday cross-examined former secretary to the HCU board, Gainlal Ramnath, at the Commission of Enquiry into the collapse of CL Financial and the HCU at the Winsure Building in Port of Spain.

The enquiry heard yesterday that on October 28, 2004 the HCU board of directors approved the expenditure of TT\$375,000 for the "refurbishment of a pool and the establishment of a gym" at one of its facilities.

During that meeting the board also approved loans totalling TT\$26.3

## Related Coverage

**Hindu Credit Union Directors 'spent big' while members' cheques bounced**

June 14, 2012

**TT\$78m was withdrawn from troubled credit union accounts though members could not access deposits**

May 15, 2012

**TT\$78m was withdrawn from troubled credit union accounts though members could not access deposits**

May 16, 2012

**Former T&T HCU president flew to India, UK, USA, Mexico as credit union**



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# Agenda

- **Introduction and Background**
- **Corporate Governance Defined**
- **Corporate Governance in Trinidad and Tobago**
- **Corporate Governance for SMEs**
- **The Corporate Governance Code for Small and Medium Enterprises**
  - **Corporate Governance Policies and Procedures**
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  - **Control Environment**
  - **Stakeholder Relations**
  - **Family Governance**



# Introduction & Background

## Corporate Governance

The phrase “corporate governance” describes the framework of rules, relationships, systems and processes within and by which authority is exercised and controlled within corporations. It encompasses the mechanisms by which companies and those in control, are held to account.

(Source: Australian Institute of Business)



# Introduction & Background

## Corporate Governance

Why is it important?

Good corporate governance promotes investor and lender confidence, which is crucial to the ability of entities listed or unlisted to compete for capital.



# Introduction & Background

## Governance and Management

- Corporate governance concerns way power is exercised over corporate entities
- Differs from management
- Management is running the enterprise in line with board direction
- Executive management responsible for day-to-day management
- Directors responsible for governing company: policies, strategy, supervising management



# Corporate Governance Defined

*Corporate governance involves a set of relationships between a company's management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined. Good corporate governance should provide proper incentives for the board and management to pursue objectives that are in the interests of the company and its shareholders and should facilitate effective monitoring.*

~ OECD 2004





# Corporate Governance in Trinidad and Tobago

- Central Bank of Trinidad and Tobago, Corporate Governance Guideline
  - Financial Institutions
- State Enterprises Performance Monitoring Manual
  - State Enterprises
- The Trinidad and Tobago Corporate Governance Code 2013
  - Entities with public accountability



# Corporate Governance for SMEs



- No universally approved standard model for SMEs.
- What?

Seek guidance from available sources, e.g. Corporate Governance Code For Small and Medium Enterprises (Dubai)
- Why?
  - less risk of conflict between family members or other owners actively managing the business and those who are not
  - enhanced access to credit
  - faster business growth
  - greater resilience to fraud, theft or other financial costs due to poor internal controls





# The Corporate Governance Code for Small and Medium Enterprises

- Established by Dubai SME
- Serves as a set of recommendation, as well as a benchmark for best practices
- Contains 9 Pillars for SMEs



# Corporate Governance Policies and Procedures

- 1 Adopt a formal corporate governance framework outlining the roles of the key bodies such as partners, shareholders, board of directors and management
  - Shareholders need to be clear about their rights and those of other shareholders from the outset
  - Shareholders, directors and managers need to be clear about roles and responsibilities
  - Determine and document which decisions require approval from shareholders, directors and managers



# Corporate Governance Policies and Procedures

## 2 Conduct a succession planning process

- Should have plans for orderly succession in cases of planned and emergency scenarios
- Lack thereof represents risk to business continuity and survival
- Provides assurance to shareholders, employees, customers and other stakeholders
- Should address both management and ownership succession
- Should be aligned with company's business objectives

Source: The Corporate Governance Code for Small and Medium Enterprises – Dubai SME



# Transparency and Shareholder Relations

- 3 Establish a timely, open and transparent flow of information with shareholders
- Treat all shareholders equitably
  - Establish clear lines of communication with shareholders
  - Timely and accurate disclosure of information on company's activities
  - Annual Meeting is opportunity for directors and shareholders to discuss performance of company

Source: The Corporate Governance Code for Small and Medium Enterprises – Dubai SME



# Board of Directors

## 4 Endeavour to set up a formal Board of Directors to accompany the growth of the company

Smaller companies may wish to set up an “advisory” board with no formal decision making powers but which offers its expertise and networks to guide and support the business.

- Establish formal board and subcommittees with formal procedures
- Adopt formal procedures for meetings – agenda, minutes
- Consider appointing independent board members
- Induction program for new directors



# Board of Directors

- 5 Develop a clear mandate for its Board of Directors to oversee the operational performance of the business as well as evaluating and improving business strategies
  - Board's role should be defined in clear terms
  - Should meet as regularly as needed
  - Board papers should be informative and timely
  - Monitor and evaluate management's performance
  - Should undergo regular performance evaluation – self or third party assessment
  - Regularly review structure, size and composition of board – skills, knowledge and experience
  - Large companies should consider separating the roles of chairman and chief executive

Source: The Corporate Governance Code for Small and Medium Enterprises – Dubai SME



# Control Environment

- 6 Maintain credible books of accounts, which are annually audited by an external auditor
  - Follow internationally recognised accounting practices
  - Use reputable independent accounting firm to prepare financial statements
  - Disclose and justify any changes in accounting policies
  - Formally evaluate the effectiveness of the external audit
  - Formulate policies on preserving the independence of the audit function



# Control Environment

- 7 Set up an internal control framework and conduct regular review of risk
  - Establish formal process for identifying significant business risks
  - Management should adopt formal control mechanisms
  - Board should make its risk management expectations explicit
  - Board and management to have common understanding of risk tolerance levels
  - Consider establishing an internal audit function - helps provide assurance that appropriate corporate governance processes are in place

Source: The Corporate Governance Code for Small and Medium Enterprises – Dubai SME



# Stakeholder Relations

## 8. Recognize the needs of stakeholders

*(Employees, customers, suppliers, creditors, regulators, the community, the environment, and generally any party enjoying a relationship with the organisation)*

- Formulate policies outlining values and objectives for customer satisfaction, product safety, employee relations, health and safety, environment and community where company operates.
- Identify appropriate KPIs relating to key policies
- Set targets and monitor progress

Source: The Corporate Governance Code for Small and Medium Enterprises – Dubai SME



# Family Governance

- 9 Formulate a framework setting out the family's relationship with the business
  - Develop clear lines of authority and decision making
  - Develop policies on employing family and clarifying separation of family business and business of the family
  - Written procedures to facilitate effective communication and coordination between family members and the company

Source: The Corporate Governance Code for Small and Medium Enterprises – Dubai SME



# Closing remarks

- All corporate entities need governing - corporate governance is relevant to companies of all sizes.
- One size does not fit all. Corporate governance frameworks are likely to vary from one company to another.
- The standards for good governance, for the most part, assume voluntary adherence by organisations.
- Aegis can help you improve your corporate governance.



# Any further Questions?

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