



Corporate Governance

VOLUME ONE: THE CODE OF BEST PRACTICE

for Consumer Co-operative Societies
in membership of Co-operatives^{UK}

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CONTENTS

	Pages
Corporate Governance Code of Best Practice	
Preamble	d
The Principles of Good Governance for Co-operatives	e
A1 Members	1
A1.1 Members at the Centre	
A1.2 Identifying the Membership	
A1.3 Encouraging Active Members and New Members	
A1.4 Member Education	
A1.5 The Monitoring of Member Participation Policies	2
A2 Voting Opportunities and the AGM	3
A2.1 The Annual General Meeting	
A2.2 Publicising the AGM	
A2.3 Member Voting	
A2.4 The Acquisition or Disposal of Significant Assets	4
A2.5 Transfer of Engagements	
A2.6 The Remuneration Report	
A3 Withdrawable Share Capital	5
B1 The Board	6
B1.1 The Role and Purpose of the Board	
B1.2 Statement of Directors' Responsibilities	
B1.3 Board Size	7
B1.4 Committees of the Board	8
B1.5 Lower-tier Board Structure	
B1.6 Society Subsidiaries	9
B2 Election, Renewal of the Board and Succession Planning	10
B2.1 Information About Candidates	

B2.2	Refreshing the Board	
B2.3	Succession Planning	
B2.4	The Search Committee	
B2.5	Co-option of Professional External Directors	11
B2.6	Letter of Appointment	12
B2.7	Due Diligence	
B3	Board Balance and Independence	13
B3.1	Employees on the Board	
B3.2	Encouraging Diversity on the Board	
B3.3	Independence of Directors and the Management Executive	
B3.4	Conduct and Probity	14
B3.5	Removing Directors	
B4	The Chair	15
B4.1	The Appointment of the Chair	
B4.2	The Roles and Responsibilities of the Chair	
B4.3	Length of Service and Independence of the Chair	
B5	The Chief Executive and the Secretary	17
B5.1	The Appointment of the Chief Executive and Secretary	
B5.2	The Chief Executive Succession Plan	
B5.3	The Key Roles of the Chief Executive	
B5.4	The Key Roles of the Secretary	18
B6	Information and Professional Development	19
B6.1	Content and Timing of Information	
B6.2	Induction	
B6.3	Development Programmes for Directors	
B6.4	Independent Professional Advice	
B6.5	Management Executive Training	20
B7	Board Skills and Performance Evaluation	21
B7.1	Board Skills	
B7.2	Appraisal of the Board	
B7.3	Appraisal of the Individual Director	

B7.4 Appraisal of the Chair

C1	Remuneration	22
C1.1	Determination of Directors' Fees	
C1.2	The Remuneration Committee	
C1.3	Performance Related Pay	23
C1.4	Compensation Commitments/Pension Contributions	
C1.5	Notice or Contract Periods	
D1	Disclosure	24
D1.1	The Annual Report and Financial Statements	
D1.2	The Interim Report	
D2	Audit Committee and Auditors	25
D2.1	The Audit Committee	
D2.2	Training for Audit Committee Members	
D2.3	Whistle-Blowing Procedures	26
D2.4	The External Auditor	
D2.5	The Auditor's Report to the Board	
D2.6	Financial Reporting	27
D3	Internal Control and Risk	28
D3.1	Internal Control	
D3.2	Internal Audit and Risk Management	
E1	Co-operative and Social Responsibility	29
E1.1	Accountability to Wider Stakeholders	
E1.2	Equality of Opportunity	
F1	Compliance Assessment	30
F1.1	Conforming to the Code	
F1.2	Presenting Results	
F1.3	Monitoring Compliance	
F1.4	Updating the Code	

CORPORATE GOVERNANCE CODE OF BEST PRACTICE

Preamble

This Code is based on the Combined Code on Corporate Governance published in July 2003 by the Financial Reporting Council. It replaces the existing Code of Best Practice, adopted in 1995, for consumer co-operative societies, but has been developed to allow for its adaptation and use by other co-operative sectors. The Code builds on the first Code of Best Practice and follows extensive review and consultation with the Movement.

Societies are advised to consider amending their rulebooks, standing orders and other governance documentation so that they support and facilitate the implementation of this Code. This Code should be read in conjunction with both the separate volume two which contains appendices and model terms of reference, and the report of the Corporate Governance Review Group.

As members of Co-operatives^{UK}, societies are required to be committed to the implementation of this Code and should comply with any requests from Co-operatives^{UK} for information relevant to the monitoring of this Code. This Code requires societies to provide statements in their annual reports disclosing the extent to which they have followed the best practice recommendations in the reporting period. Recognising that societies differ in scale, size, trading profile and resources, it is inevitable that levels of implementation will differ. Societies unable or unwilling to implement specific recommendations should identify the recommendations concerned and give reasons for non-compliance in their annual reports.

The Principles of Good Governance for Co-operatives

Corporate governance refers to the way in which organisations are governed and powers are distributed and exercised by different groups. It is concerned with practices and procedures for trying to ensure that an organisation is run in such a way that it achieves its objectives. Although this Code is specifically for the use of consumer co-operatives there are overriding governance principles that are applicable to all co-operative enterprises.

The governance of co-operatives seeks to support their legal commitments through registration as a bona fide co-operative. The board is responsible for safeguarding and acting in a way which reflects the *Statement of Co-operative Identity* established by the International Co-operative Alliance (ICA) in 1995.

The International Co-operative Alliance Statement of Co-operative Identity

Definition:

A co-operative is an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly owned and democratically controlled enterprise.

Values:

Co-operatives are based on the values of self-help, self-responsibility, democracy, equality, equity and solidarity. In the tradition of their founders, co-operative members believe in the ethical values of honesty, openness, social responsibility and caring for others.

Principles:

The co-operative principles are guidelines by which co-operatives put their values into practice. All co-operative boards should act in accordance with these following seven principles: -

1st Principle: Voluntary and Open Membership

Co-operatives are voluntary organisations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political, or religious discrimination.

2nd Principle: Democratic Member Control

Co-operatives are democratic organisations controlled by their members, who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership. In primary co-operatives members have equal voting rights (one member, one vote), and co-operatives at other levels are also organised in a democratic manner.

3rd Principle: Member Economic Participation

Members contribute equitably to, and democratically control, the capital of their co-operative. At least part of that capital is usually the common property of the co-operative. Members usually receive limited compensation, if any, on capital subscribed

as a condition of membership. Members allocate surpluses for any or all of the following purposes: developing their co-operative, possibly by setting up reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the co-operative; and supporting other activities approved by the membership.

4th Principle: Autonomy and Independence

Co-operatives are autonomous, self-help organisations controlled by their members. If they enter into agreements with other organisations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their co-operative autonomy.

5th Principle: Education, Training and Information

Co-operatives provide education and training for their members, elected representatives, managers, and employees so they can contribute effectively to the development of their co-operatives. They inform the general public – particularly young people and opinion leaders – about the nature and benefits of co-operation.

6th Principle: Co-operation Among Co-operatives

Co-operatives serve their members most effectively and strengthen the co-operative movement by working together through local, national, regional, and international structures.

7th Principle: Concern for Community

Co-operatives work for the sustainable development of their communities through policies approved by their members.

Key Board Responsibilities

In addition to acting in accordance with these co-operative values and principles, all boards have particular duties and responsibilities when acting in their capacity as the directors of the business. Co-operative businesses range dramatically in their purpose, scale, size and complexity. However, the following responsibilities transcend these differences and are applicable to the boards of all co-operative enterprises. The board should: -

1. Be accountable to the members and endorse their rights

The board should respect the rights of members and facilitate the effective exercise of those rights. The board is accountable to its member-owners and should safeguard their rights and ensure that it acts in accordance with their wishes at all times. As such it should take care that it monitors member education and involvement programmes. Induction training and continuing education arrangements for directors, potential directors and the management executive should include co-operative education.

2. Lay solid foundations for management and oversight

The board should provide strategic guidance for the co-operative and effective oversight of management, clarify the respective roles and responsibilities of board members and senior management and ensure a balance of authority so that no single individual has unfettered powers. There should be effective systems for internal delegation, so that the co-operative can work on a day-to-day basis.

3. Structure the board to add value

The board should ensure that it is of an effective composition, size and commitment to adequately discharge its responsibilities and duties.

4. Safeguard integrity in financial reporting

The board should have a structure to independently verify and safeguard the integrity of the co-operative's financial reporting.

5. Make timely and balanced disclosures

The board should promote timely and balanced disclosure of all material matters concerning the business.

6. Recognise and manage risk

The board should establish a sound system of risk oversight and management. There should be an effective and proper means by which the co-operative audits its work internally and externally

7. Encourage enhanced financial and co-operative performance

The board should fairly review and actively encourage enhanced board and management effectiveness. The board should be provided with the information it needs to efficiently discharge its responsibilities. It should measure its success against key commercial performance indicators, key social and co-operative performance indicators, co-operative accounting standards and this Code of Corporate Governance.

8. Remunerate fairly and responsibly

The board should ensure that the level and composition of directors' fees is sufficient and reasonable and that management executive remuneration is determined in a transparent manner and its relationship to corporate and individual performance is defined.

9. Recognise the legitimate interests of stakeholders

The board should recognise legal and other obligations to all legitimate stakeholders, including employees and, where applicable, corporate members.

What follows is the Corporate Governance Code of Best Practice for consumer co-operative societies in membership of Co-operatives^{UK}.

A1	Members
A1.1	<p>Members at the Centre</p> <p>Co-operatives are member-owned democratic organisations and the board should seek to encourage members to play their part in the governance of the business.</p> <p>Members have clearly defined rights and responsibilities and should hold the board to account for the policies and performance of their society. Members should ensure that policies and performance are in accordance with the stated aims of the society and the International Co-operative Alliance Statement of co-operative Identity which is the basis of all co-operative enterprises.</p> <p>[See Appendix 1 - Rights and Responsibilities of Members]</p>
A1.2	<p>Identifying the Membership</p> <p>The secretary should maintain an accurate and up to date membership register. This involves taking action from time to time to cleanse and refine the society's membership records in accordance with the society's rules.</p> <p>The board should then seek to identify 'active' members and to maintain close relations with them.</p> <p>[See Appendix 2 - Reporting Lines for the Secretary and His/Her Corporate Governance Role and Duties]</p>
A1.3	<p>Encouraging Active Members and New Members</p> <p>It is the responsibility of the board to encourage the expansion of membership and encourage members to become involved in the governance of their society. Societies should develop structures and policies that permit and promote greater active member involvement at a level below the board.</p> <p>The board has a responsibility to ensure that members are aware of their right to stand for election to the board and/or regional boards and area committees, and what that will entail, and to make clear what the relevant qualifications for standing for office are.</p>
A1.4	<p>Member Education</p> <p>The board should ensure that preparatory training is available to members indicating an interest in participating in elections to main boards, regional boards, and/or area/branch committees.</p> <p>The board should ensure that information on the availability of such programmes is widely publicised.</p>

A1.5	<p>The Monitoring of Member Participation Policies</p> <p>In monitoring member participation policies the board should take note of the following: -</p> <ul style="list-style-type: none">• Number of members joining and leaving the society• Number of members attending members' meetings• Number of members' committees and/or other member groups and schemes, and the number of members attending• Turnout at elections to ascertain whether the electoral turnout is demographically representative of the membership.• Extent of member economic involvement with the society• Number of employees becoming members of the society• Participation of members in training and education <p>The board should monitor the experience of other societies in all these areas and seek to implement best practice. Significant efforts should be made to improve these figures on an annual basis.</p> <p>The board should endeavour to put inclusive and enthusiastic member participation policies into practice and ensure that elections are contested.</p>
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A2	Voting Opportunities and the Annual General Meeting
A2.1	<p>The Annual General Meeting</p> <p>Societies must hold an Annual General Meeting and where appropriate an Interim Meeting in order to communicate with members and encourage their participation.</p> <p>All members, entitled to be present at the Annual General Meeting(s) and Interim Meeting(s), should be encouraged to attend.</p> <p>The format, organisation and content of the meeting should be as open and accessible as possible. The board should take care when organising members' meetings that they will be held at times and in venues that will be convenient to the greatest number possible of the society's members. Provision should be made for members with disabilities.</p>
A2.2	<p>Publicising the Annual General Meeting</p> <p>Members should be informed about the Annual General Meeting (AGM) and director elections. Societies should advertise such events by the most appropriate means possible e.g. mail-outs, posters in stores, advertisements in the local press and on the society's website.</p> <p>At least twenty-one days before the AGM the following information should be made available, ideally by post, to all active members:</p> <ul style="list-style-type: none"> • A summary financial statement illustrating the profitability, growth, gearing and return of capital employed in the business • A summary of the Key Social and Co-operative Performance Indicators • A summary of the corporate governance compliance figures • Details of any rule changes and other matters to be considered by the AGM <p>Such information should be available on request and on the society's website and, where appropriate, in stores.</p> <p>[See Appendix 3 - Annual Report Checklist]</p>
A2.3	<p>Member Voting</p> <p>Societies should seek to encourage the maximum level of participation in elections. There should be a formal, rigorous, transparent and wide reaching voting procedure. The board should consider which procedures are appropriate for them in order to maximise members' participation in elections including postal, telephone and electronic ballots, and ensuring that voting facilities are provided at appropriate premises. The board should put in place a fair and transparent method of counting votes cast and this procedure should</p>

	<p>be explained to members.</p> <p>Any uncontested elections for positions onto the board, regional boards and/or area committees should be documented in the annual report, along with any efforts made by the board to enhance member participation in the governance of their society.</p> <p>Members have a responsibility to make considered use of their votes.</p>
A2.4	<p>The Acquisition or Disposal of Significant Assets</p> <p>A board proposing transactions, acquisitions or disposals, involving 25% or more of the society's fixed tangible assets should report to members at a consultative meeting. Societies may wish to go further and invite members' approval for such decisions in the interests of democratic accountability.</p>
A2.5	<p>Transfer of Engagements</p> <p>A board considering a transfer of engagements to another society must satisfy themselves that members' interests are safeguarded in transfer of engagements negotiations, and they must provide members with all the information they need to make an informed choice as to whether or not to approve the transfer.</p> <p>A board considering the acceptance of a transfer of the engagements of another society, where this transaction is over 25% of the accepting society's net tangible assets, must also be mindful of the interests of members and should consult members and provide them with all the information they need to express an informed preference as to whether or not the transfer should be approved.</p>
A2.6	<p>The Remuneration Report</p> <p>Details of the individual remuneration packages of the society's chief executive, members of the management executive, professional external directors and the fees of elected directors', and the process by which their remuneration and fees has been determined, should be provided in the annual report or financial statements. The remuneration committee's report should be subject to an advisory vote by members. [See Sections C1.2 and D1.1]</p>

A3	Withdrawable Share Capital
	<p>The board must ensure that their society conforms to the governing principles and requirements of Co-operative^{UK}'s Code of Practice relating to the acceptance of Withdrawable Share Capital by member societies and their dealings with members. The board should be particularly mindful of money laundering regulations.</p> <p>[See Appendix 4 - Code of Practice on Withdrawable Share Capital]</p>

B1	The Board
B1.1	<p>The Role and Purpose of the Board</p> <p>Every society should be headed by an effective board which is collectively responsible for the success of the business.</p> <p>All directors are equally responsible in law for the board's decisions. Directors are bound by the overriding fiduciary duty to act in good faith in the pursuit of the best interests of the society as a whole. A summary of the legal duties of directors is contained in Appendix 9.</p> <p>The board should have at least ten meetings a year and must retain full and effective control over the society and monitor the management executive. At least once a year the board should meet, or hold a part of their meeting, without the management executive present.</p> <p>Given the nature of co-operative governance, with the existence of lay boards and a professional management executive it is important that there should be a formal schedule of matters specifically reserved to the board. The board should consider the schedule of reserved matters listed in Appendix 5, and decide which matters to reserve to the board for decision. The society's rules should clearly specify the respective duties and responsibilities of the board and of the management executive.</p> <p>The secretary should arrange appropriate insurance cover in respect of potential legal action against its directors.</p> <p>[See Appendix 5 - Matters Reserved for the Board]</p>
B1.2	<p>Statement of Directors' Responsibilities</p> <p>The basic responsibilities of directors, which should be clearly set out in the society's rulebook, are as follows: -</p> <p><u>Co-operative Ethos</u></p> <p>The board has a direct responsibility to ensure that the society carries out its commitment to be a <i>bona fide</i> co-operative. The board must have a commitment to adhere to the International Co-operative Alliance's Statement of Co-operative Identity and to support co-operatives in other sectors. The board should always ensure that in running the business, the management executive maintains the society's co-operative values and standards, and they should ensure that the society's obligations to its members and others, in particular employees, customers, suppliers and the community, are understood and met.</p> <p>In the event of a solvent dissolution any surplus arising should be distributed in accordance with co-operative principles.</p>

	<p><u>Strategy</u></p> <p>The role of the board is to direct and not to manage the society. The board should help develop and approve proposals on strategy. It is the role of the management executive to implement and deliver the strategy.</p> <p><u>Monitoring</u></p> <p>The board is responsible for holding the management executive to account. Directors should scrutinise the performance of the management executive, through the chief executive, in meeting agreed goals and objectives and should monitor the reporting of performance. The board collectively should have the requisite skills to challenge the management executive. The board has full responsibility for the contractual arrangements between the society and both the chief executive and the secretary and for overseeing the contractual policy relating to other members of the management executive.</p> <p><u>Risk</u></p> <p>The board should satisfy themselves, having received advice from the management executive, on the integrity of financial information and other critical structural and operational procedures. The board should ensure that controls and systems of risk management are robust and defensible. [See Section D.3]</p> <p><u>People</u></p> <p>The board is responsible for ensuring that people with the best possible commercial and financial acumen, who have an affinity with the co-operative mode of business, are leading the management team. The management executive is responsible for managing human and financial resources in accordance with the policies agreed by the board.</p>
B1.3	<p>Board Size</p> <p>The board size of the society should reflect the nature, diversity and scale of the enterprise and the complexity of the risks faced by the business and the need to ensure appropriate representation. The board should normally have a minimum of seven members and a maximum of fifteen members.</p>

B1.4	<p>Committees of the Board</p> <p>Boards should establish committees to work on specialist aspects of their work. Such committees should cover, at least, the following responsibilities: membership; audit and risk matters; remuneration policies; and nomination, search and succession planning for the management executive and any specific positions on the board. The society may wish to combine some of these functions: it should however have a separate committee which focuses on the audit or audit and risk function.</p> <p>The board should regularly review the work, structures, composition and terms of reference of committees.</p> <p>Committee membership should be frequently reviewed so that undue reliance is not placed on particular individuals. However, individuals should be selected for their specialised experience and qualifications especially in relation to the membership of the audit committee. A director who is also a consultant of the society, or who has a paid contract, other than as a director, should not sit on the audit or remuneration committees.</p> <p>Only members of a committee, and the secretary or officer servicing that committee, have the right to attend that committee's meetings. However, other individuals such as the chief executive, the chief finance officer and the chair may be invited to attend for all, or part of, any meeting as and when appropriate.</p> <p>Committees operate under the delegated power of the board. In the case of disputes, decisions made by the board must override those of any committee. However, the audit and risk committee(s) should have the right to report any decision by the board to override its recommendations to the external auditors and to the members.</p> <p>The chairs of all board committees or a nominated deputy should attend the Annual General Meeting(s) and be prepared to answer any questions from the members on their work and the production of their final year and interim reports. Where a society helpfully holds an AGM over a number of locations, the chairs of board committees, or their nominated deputies, should attend the final meeting.</p> <p>Committees should be provided with sufficient resources to undertake their duties.</p>
B1.5	<p>Lower-tier Board Structure</p> <p>Members of area committees or regional boards who directly elect the main board should be equipped in terms of information and resources to hold the main board to account.</p>

	<p>Such elected representatives need to receive sufficient information appropriate to their role, and not necessarily confined to their region, in order for them to discharge this function. In respect of such information these representatives should be subject to obligations of confidentiality equivalent to those applicable to main board directors. Lower-tier board directors should conduct themselves in accordance with a director's code of conduct suitably adapted to the purpose by the society. [See Section B3.4]</p>
B1.6	<p>Society Subsidiaries</p> <p>The board should ensure that it has appropriate means of controlling and receiving information on any subsidiary trading businesses. The board should report on the performance of any material subsidiaries in the annual report.</p> <p>An appropriate amount of time should be spent by the main board discussing reports on the progress of all society subsidiaries.</p>

B2	Election, Renewal of the Board and Succession Planning
B2.1	<p>Information about Candidates</p> <p>Directors should be subject to election by members, and to re-election thereafter by members, at intervals of no more than three years.</p> <p>Those standing for re-election should submit suitably updated information. Attendance figures for board meetings, details of committee membership, and training progress and achievements should be provided by the secretary. Sufficient information should be given to members to enable them to make an informed decision on their vote.</p>
B2.2	<p>Refreshing the Board</p> <p>Procedures should be in place to ensure the regular renewal of the board. The board can achieve this in one of two ways:</p> <p>Societies can either maintain an age rule, whereby upon reaching 68 years a director is no longer eligible to stand for re-election; or they can impose a mandatory break in service after a director has served more than three consecutive three-year terms.</p>
B2.3	<p>Succession Planning</p> <p>The board should satisfy itself that plans are in place for orderly succession for appointments to the management executive and significant posts within the board, so as to maintain an appropriate balance of skills and experiences within the society and on the board.</p>
B2.4	<p>The Search Committee</p> <p>The board should establish a search committee that should be responsible for the following duties:</p> <ul style="list-style-type: none"> • Formulate plans for succession for members of the management executive in particular for the key role of the chief executive. • Regularly evaluate the balance of skills, knowledge and experience on the board. • Inform the secretary of any skills deficiencies on the board and ensure that the necessary training be provided • Manage the search programme for professional external directors if and when they are needed and if the members agree such a policy. <p>The search committee should evaluate the balance of skills, knowledge and experience on the board. After undertaking this evaluation, it should prepare a recommendation to the board on the profile of individuals that would be required to fill any significant skills shortages. It may also be appropriate to inform members of such identified skills gaps and encourage those with the</p>

	<p>necessary skills to come forward for election.</p> <p>Members of the committee shall be appointed by the board and shall be made up of at least three members.</p> <p>Appointments to the committee should be for a period of three years, which may be extended for two further three-year periods.</p> <p>A separate section of the annual report should describe the work of the search committee, including (if relevant) the process it has used in relation to the appointment of professional external directors.</p> <p>The search committee should make available to the members of the society its terms of reference explaining its role and the authority delegated to it by the board.</p> <p>[See Appendix 6 - Terms of Reference of the Search Committee]</p>
B2.5	<p>Co-option of Professional External Directors</p> <p>If the board wishes to have the policy of co-option available to them it should set out to members why it feels the society would benefit from the co-option of professional external directors, and members should be given the opportunity to vote on this policy at a members' meeting.</p> <p>The board will then have the power, if and when it decides, to co-opt professional external directors. The name of the co-optee(s) should be submitted at the next general meeting for ratification by the members.</p> <p>It is the responsibility of the search committee to make recommendations to the board on the need for co-option and to identify suitable candidates to take on this role [See Section B2.4]. The board may wish to consider using appropriate professionally managed search techniques. In conjunction with utilising a professional recruitment firm, the vacancy could also be advertised in local and/or national press. The board could also work in partnership with Co-operatives^{UK} during this process. Co-operatives^{UK} should establish the minimum quality and qualifications required of candidates to serve on the boards of societies. Co-operatives^{UK} should compile a pool of suitable candidates which will be made available on request to those societies wishing to enact this policy.</p> <p>Professional external directors should be appointed for specified terms and their continuing appointment should be reviewed at least every three years and reaffirmed by members at the Annual General Meeting. It is recommended that in order to safeguard the democratic status of the board a society should ensure that professional external directors are always in the minority.</p>

B2.6	<p>Letter of Appointment</p> <p>The terms and conditions of elected directors and co-opted professional external directors should be made available for inspection by the members. A letter of appointment should be provided with a broad indication of the time involved and the work and responsibilities expected of directors.</p> <p>[See Appendix 7 - Sample Letter of Appointment for Newly Elected and/or Co-opted Professional External Directors]</p>
B2.7	<p>Due Diligence</p> <p>Before undertaking the appointment a director should feel that s/he would have enough time to fulfil the role to the best of his/her ability. S/he should determine whether they would be provided with sufficient training to equip them for their role to allow them to give strategic direction to a business at both times of growth and periods of challenge.</p> <p>A director should undertake his/her own thorough examination of the society to satisfy themselves that it is an organisation they can have faith in and in which they will be well suited to work in.</p> <p>[See Appendix 8 - Due Diligence for Directors]</p>

B3	Board Balance and Independence
B3.1	<p>Employees on the Board</p> <p>The number of directors, who are also employees of the society, should not exceed 33 per cent of the total membership of the existing board and the combined number of current employees, superannuated recently retired employees¹ and the spouses/partners of the foregoing and any co-opted external directors should not exceed 49 per cent of the total membership of the board.</p> <p>Directors, who are also current employees, should not be allowed to sit on the audit committee. Current and superannuated recently retired employees should not be eligible for the position of chair of the board.</p>
B3.2	<p>Encouraging Diversity on the Board</p> <p>Every board should develop a written diversity policy. The board should hold its meetings on days and at times that will be conducive to those directors that work full-time; all meetings should be made as accessible as is practical; the society should at least reimburse directors for loss of earnings; and should ensure, where appropriate, that carer facilities are provided.</p>
B3.3	<p>Independence of Directors and the Management Executive</p> <p>Directors and the management executive should be aware that issues involving conflicts of interest might arise.</p> <p>The board should review the society's rules to ensure that any conflicts of interest affecting directors and the management executive are dealt with appropriately and in accordance with this Code. All directors and the management executive should inform the society's secretary of any connections they have that may lead to a potential conflict of interests. The secretary should maintain a register of directors' interests and management executive's interests that is available for inspection by members.</p> <p>In addition, persons closely associated with the society's competitors; or with suppliers, which in the opinion of the board are dependent on the society's patronage to a material extent (and the partners of the foregoing), should be disqualified from service on the board.</p> <p>The annual report should include a listing of external directorships for each director and member of the management executive.</p> <p>[See Appendix 9 – The Duties of Directors and Directors' Code of Conduct, and Appendix 3 – The Annual Report Checklist]</p>

¹ Recently retired employees are those individuals who have been employed by the society in the past three years

B3.4	<p>Conduct and Probity</p> <p>Directors and members of the management executive owe general legal duties to the society which are set out in Appendix 9. These duties include the following;</p> <ul style="list-style-type: none"> • Honesty and good faith • Taking care • At all times acting in the best interests of the society <p>Directors must comply with these legal duties, including avoiding conflicts of interest, and disclosing relevant interests held by themselves or their spouse or partner.</p> <p>The board should adopt a code of conduct for directors. All directors upon election shall sign an acceptance of the code of conduct. [A model code of conduct is also contained in Appendix 9.]</p> <p>Where a director has a concern that cannot be resolved about the running of the society or a proposed action, he/she should ensure that his/her concerns are recorded in the board minutes. On resignation, a director should provide a written statement to the secretary, for circulation to the board, if they have such concerns.</p>
B3.5	<p>Removing Directors</p> <p>The board is responsible for ensuring that it is able to operate effectively in carrying out its duties and responsibilities. The rules of a society should enable the board, with the support of a majority at a members' meeting, to remove a director from office if the director has committed a substantial breach of the code of conduct, and the board considers that it is not in the best interests of the society for the director to remain in office.</p> <p>The board, without first consulting a members' meeting, should also have the power to suspend a director for a limited time where the director has committed a substantial breach of the code of conduct.</p>

B4	The Chair
B4.1	<p>The Appointment of the Chair</p> <p>The board should appoint from its own number a chair and at least one deputy chair. Individuals should be selected on the basis of their chairing skills, leadership capacity, interpersonal skills, ability to challenge the management executive and knowledge of the business.</p> <p>It is normally expected that a chair should have served at least one term of office as a director before being appointed to the role.</p>
B4.2	<p>The Roles and Responsibilities of the Chair</p> <p>The chair is responsible for the leadership of the board and should ensure that the board is in effective control of the society's affairs and alert to its obligations to its members. He/she should ensure that at all times the strategy of the society is in line with co-operative values and the International Co-operative Alliance's Statement of Co-operative Identity.</p> <p>The chair should act as the primary link between the board and the chief executive and secretary. He/she should promote an effective relationship between directors and the management executive and should hold regular meetings with the chief executive and secretary outside the board cycle. The chair, and where appropriate the vice-chair, should also attend a pre-board meeting with the chief executive and secretary to discuss the major issues of the forthcoming agenda. These meetings should be reported upon to the main board.</p> <p>The chair should encourage the active engagement of all the members of the board.</p> <p>The chair should establish effective links with regional boards/area committees (where appropriate) and any other groups designed to facilitate consultation with members.</p> <p>[See Appendix 10 – Guidance on the Role of the Chair and Appendix 11 – Guidance on the role of the Vice-Chair]</p>
B4.3	<p>Length of Service and Independence of the Chair</p> <p>The term of office of the chair should be for no longer than three years.</p> <p>The chair should serve for a maximum of six years before standing down. He/she will not normally be eligible for the office of chair again.</p> <p>There should also be a mechanism in place for removing a poorly performing chair.</p>

	<p>The chair should not be a current employee or recently retired superannuated employee.²</p> <p>Care should be taken in ensuring the integrity and independence of the relationship between the chief executive and chair. At all times the chair should be confident of his/her ability to challenge the chief executive where necessary.</p> <p>The chair should not be allowed to be a member of the audit committee.</p>
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² Recently retired employees are those individuals who have been employed by the society in the past three years

B5	The Chief Executive and the Secretary
B5.1	<p>The Appointment of the Chief Executive and the Secretary</p> <p>The chief executive and the secretary are officers of the society and key members of the management executive. Their appointment and removal should be a matter for the board as a whole.</p>
B5.2	<p>The Chief Executive Succession Plan</p> <p>There should be a chief executive succession plan in place. The board, or a nominated committee of the board (normally the Search Committee) should review the chief executive succession plan at least annually. The content of the plan should include the following procedures:</p> <ul style="list-style-type: none"> • Assessment of the society's current leadership needs • Assessment of the current chief executive and management executive's strengths and weaknesses • Identification of internal candidates to succeed the current chief executive • Consideration of the need to seek external candidates • Transitional and/or emergency succession plans
B5.3	<p>The Key Roles of the Chief Executive</p> <p>The chief executive of the society is the person responsible for the executive management of the society's operations. He/she is the senior executive in charge of the management executive team and to whom all members of the management executive report. The chief executive is answerable to the board for the way the business is run and its performance.</p> <p>The posts of chair and chief executive should never be combined in one individual.</p> <p>Normally the positions of chief executive and secretary should not be combined in one individual.</p>

B5.4	<p>The Key Roles of the Secretary</p> <p>The secretary has specific responsibility to the society as a whole for its sound governance and for the guidance of the board in the discharge of its responsibilities and in particular to ensure appropriate and timely information.</p> <p>The board has a right to expect the secretary to give impartial advice and to act in the best interests of the society.</p> <p>The secretary should ensure that directors have the opportunity to update their skills and knowledge to fulfil their role both on the main board and on board committees. The society should provide the necessary resources for developing and updating directors' knowledge and capabilities.</p> <p>The secretary's main reporting line is to the board and in between board meetings his/her first point of contact is the chair.</p> <p>The secretary is also responsible for ensuring that committees of the board are serviced.</p> <p>[See Appendix 2 – Reporting Lines for the Secretary and His/Her Corporate Governance Role and Duties]</p>
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B6	Information and Professional Development
B6.1	<p>Content and Timing of Information</p> <p>The board, having established its objectives for the future direction of the business, will require from the management executive, proposals for the achievement of those objectives. It will require reports from the management executive to enable it to evaluate progress against those plans and the general conduct of the business, including profitability, so that the board can monitor progress in the context of effective internal control.</p> <p>The secretary is responsible for ensuring that the directors receive accurate and clear information at least a week in advance of the board meeting. The management executive has an obligation to provide such information but directors should seek clarification or amplification where necessary. Directors must ensure that they receive all the information which is necessary for them to discharge fully their responsibilities as directors.</p>
B6.2	<p>Induction</p> <p>Every board should develop its own comprehensive, formal induction programme that is tailored to the needs of the society and its individual directors. The objective of induction is to educate the director such that he/she can become as effective as possible, as quickly as possible, in their new role. On appointment, a new director should be provided with an up-to-date copy of the society's rule book and Co-operatives^{UK}'s Corporate Governance Code of Best Practice and documents detailing board issues, directors' duties and the society's business.</p> <p>(See Appendix 12 - Model Induction Checklist)</p>
B6.3	<p>Development Programmes for Directors</p> <p>The board should recognise the importance of frequent and structured training for directors by incorporating into the society's rules a requirement for all directors to undertake training.</p> <p>All directors should have a programme of continuing development and this should be reported on in the annual report.</p>
B6.4	<p>Independent Professional Advice</p> <p>The board may occasionally need to have access to independent professional advice at the society's expense, in order to discharge their responsibilities as directors.</p> <p>Where a minimum of three directors or a third of the board, whichever is the greater, considers it to be necessary, they may obtain such independent professional advice through the secretary, or Co-operatives^{UK}, if the matter is</p>

	<p>directly related to the secretary.</p> <p>Any committee of the board should also be authorised to obtain, at the society's expense, outside legal or other professional advice on any matters within its terms of reference.</p>
B6.5	<p>Management Executive Training</p> <p>The board should plan and implement appropriate, structured training programmes for current and potential senior executives. In particular these should include specific training on co-operative values and principles. The board should ensure it receives periodic reports on the management executive's training accomplishments.</p>

B7	Board Skills and Performance Evaluation
B7.1	<p>Board Skills</p> <p>The board should undertake a periodic skills audit which should be used to identify the training needs of directors and the board collectively.</p>
B7.2	<p>Appraisal of the Board</p> <p>The board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors. The board should have in place an effective means for appraising its own performance and that of its individual directors.</p> <p>The board should state in the annual report how performance evaluation of the board, its committees, and its individual directors has been conducted.</p>
B7.3	<p>Appraisal of the Individual Director</p> <p>Individual evaluation should aim to identify how the training needs of a director have been met. It should also identify the effectiveness of a director's contribution to the board and should demonstrate his/her commitment to the role (including his/her contribution to board and committee meetings).</p>
B7.4	<p>Appraisal of the Chair</p> <p>Appraisal of the chair should be carried out at least annually, in his/her absence, to evaluate his/her performance and on other such occasions as are deemed appropriate. The process would normally be led by the vice-chair and/or could be carried out by a professional external director.</p>

C1	Remuneration
C1.1	<p>Determination of Directors' Fees</p> <p>The members should have responsibility for deciding fee levels for all elected directors at the Annual General Meeting on the basis of board recommendations.</p> <p>The remuneration committee should make recommendations on the levels of remuneration for professional external directors; these should be agreed by the entire board.</p>
C1.2	<p>The Remuneration Committee</p> <p>The board should establish a remuneration committee which should be responsible for the following duties:</p> <ul style="list-style-type: none"> • Make recommendations to the board on the level of remuneration for directors • Determine and agree with the board the remuneration and terms of employment of the chief executive, secretary and such other members of the management executive as it is designed to consider • Oversee contractual arrangements for the management executive • Set an expenses policy for directors • Prepare a remuneration report each year for inclusion in annual report <p>The remuneration committee should judge where to set fees and salaries in relation to other businesses of a similar size and nature. The committee should be sensitive to pay and employment conditions elsewhere in the business when determining annual remuneration increases. Management executive and director remuneration should be paid in relation to the size, complexity and turnover of the business. Some external advice on remuneration/fees should be obtained. The overall process by which remuneration is determined should be explained to members in the remuneration report.</p> <p>Members of the committee shall be appointed by the board and shall be made up of at least three members. No director, who is also a current employee of the society, should serve on the remuneration committee. No director or manager shall determine his/her own remuneration.</p> <p>Appointments to the committee should be for a period of three years, which may be extended for two further three-year periods.</p> <p>The committee should meet at least once a year. This meeting should be held close to the year-end to prepare the remuneration report which will be included in the annual report. [See Appendix 13 –Terms of Reference of the Remuneration Committee]</p>

C1.3	Performance Related Pay The remuneration committee should approve the design of, and determine targets for, any management executive performance related pay schemes operated by the society and approve the total annual payments made under such schemes.
C1.4	Compensation Commitments/Pension contributions The remuneration committee should carefully consider what compensation commitments (including pension contributions and all other elements) the management executive's terms of appointment would entail in the event of early termination.
C1.5	Notice or Contract Periods The service contracts of the chief executive and other senior executives, where applicable, should not provide notice periods in excess of one year. In instances where a member of the management executive is provided with a notice period in excess of twelve months, reasons for this must be stated in the annual report.

D1	Disclosure
D1.1	<p>The Annual Report and Financial Statements</p> <p>It is the responsibility of the board to ensure that the annual report presents a balanced and understandable assessment of the society's position. The report and financial statements should include a coherent explanation of the society's performance and prospects. Areas of poor performance should be shown with the same prominence as business success areas.</p> <p>The annual report should include a statement of how the board operates, including a high level statement of which types of decision are to be taken by the board and which are to be delegated to the management executive. It should also include a statement of compliance with the Code of Best Practice, and explain any reasons for non-compliance. [See section F1.3]</p> <p>The annual report should identify the chair, the deputy chair (where there is one), the chief executive, secretary and the chair and members of the audit, risk, search and remuneration committees. It should also set out the number of meetings of the board and those committees and individual attendance by directors.</p> <p>Details of the individual remuneration packages of the society's chief executive, members of the management executive, professional external directors and the fees of elected directors', and the process by which their remuneration and fees has been determined, should be provided in the annual report or financial statements. Any compensation payments for loss of office that have been made to any members of the management executive and any inconsistencies with their current employment contracts should be disclosed in full in the annual report. The remuneration committee's report should be subject to an advisory vote by members. [See Section A2.6]</p> <p>Directors should report to the members each year on the reasons for their view that the society can be regarded as a going concern with the necessary supporting assumptions or qualifications.</p> <p>[See Appendix 3 – The Annual Report Checklist]</p>
D1.2	<p>Interim Report</p> <p>The board should provide half-yearly Interim Statements of Trading Activities for their members which, according to IPS law, should be subject to an external audit review.</p>

D2	Audit Committee and Auditors
D2.1	<p data-bbox="320 353 614 389">The Audit Committee</p> <p data-bbox="320 421 1283 488">The board should establish an audit committee. This committee should <i>inter alia</i>: -</p> <ul data-bbox="368 528 1315 846" style="list-style-type: none"> • Monitor the integrity of the financial statements of the society • Monitor and review the external auditor’s independence, objectivity and effectiveness • Help the board to fulfil its obligations in respect of financial reporting • Strengthen the independence of external auditors by providing them with another channel of communication with the board, other than via the chief executive and the chief finance officer • Ensure members’ confidence in the credibility of the society’s financial statements <p data-bbox="320 887 1305 1048">Audit committee arrangements need to be proportionate to the task and will vary according to the size, complexity and risk profile of the society. Members of the committee shall be appointed by the board and should have a minimum of three and a maximum of seven members. The audit committee should not comprise the whole board.</p> <p data-bbox="320 1088 1318 1187">The board should satisfy itself that at least one member of the audit committee has recent and relevant financial experience and preferably a professional accountancy qualification.</p> <p data-bbox="320 1227 1286 1326">The chair of the society should not be a member of the audit committee. No director, who is also a current employee or superannuated recently retired employee, shall serve on the audit committee.</p> <p data-bbox="320 1361 1273 1429">Appointments to the committee should be for a period of three years, which may be extended for two further three-year periods.</p> <p data-bbox="320 1464 1318 1532">The minutes of the audit committee should be reviewed at the next appropriate meeting of the board.</p> <p data-bbox="320 1568 1318 1635">The role and responsibilities of the audit committee should be set out in written terms of reference.</p> <p data-bbox="320 1671 1126 1706">[See Appendix 14 – Terms of Reference of the Audit Committee]</p>
D2.2	<p data-bbox="320 1727 852 1762">Training for Audit Committee Members</p> <p data-bbox="320 1803 1311 1928">The society should provide an induction programme for new audit committee members. Training should also be provided on an ongoing and timely basis. The induction programme and ongoing training may take various forms, including attendance at formal courses, internal society talks and seminars, and</p>

	briefings by external advisers.
D2.3	<p>Whistle-Blowing Procedures</p> <p>The board should have a documented process to enable staff to raise concerns, in confidence, in matters of financial reporting, financial control or any other issues. This should be in line with the Public Interest Disclosure Act 1998. Possible improprieties should be investigated in a consistent, proportionate and independent manner and appropriate follow-up action taken. All employees should be made aware of these procedures.</p> <p>The audit committee should ensure that the above process is effective and review the key conclusions and actions arising from investigations stemming from whistle-blowing.</p> <p>The board should also make clear its policy about disciplining employees found to have been making malicious allegations. This policy should make it clear that no action will apply to those allegations which are made honestly and in good faith.</p> <p>(See Appendix 15 – Whistle-blowing)</p>
D2.4	<p>The External Auditor</p> <p>The audit committee should monitor and review the independence, objectivity and effectiveness of the external auditor. The audit committee should, at least annually, meet the external auditors, without management to discuss matters relating to its remit and any issues arising from the audit.</p> <p>No audit engagement partner should remain in charge of the audit of a society for a period exceeding five years.</p> <p>The audit committee should develop and implement a policy for the engagement of the external auditor to supply non-audit services. Fees paid to audit firms for non-audit and audit work should be disclosed in the society's annual report.</p> <p>The audit committee should make recommendations to the board in relation to the appointment of the external auditor and approving the remuneration and terms of engagement of the external auditor following appointment by the members. The board should have an agreed policy for re-tendering the provision of the external audit at least every ten years.</p>
D2.5	<p>The Auditor's Report to the Board</p> <p>Every director should receive a copy of the auditor's report which contains the auditor's findings from the external audit. The board should be given the opportunity to raise any queries and feedback their comments at a designated board meeting.</p>

	<p>In addition, adequate time must be provided for the audit committee to: -</p> <ul style="list-style-type: none">• Discuss in full the auditor's report and the management executive's response;• Consider remedial actions or changes to procedures proposed by the management executive;• Monitor progress in carrying out the proposed actions.
D2.6	<p>Financial Reporting</p> <p>The management executive should prepare accurate financial statements and disclosures in accordance with financial reporting standards and applicable rules and regulations on behalf of the board. However, the audit committee should consider significant accounting policies, any changes to them and any significant estimates and judgements.</p> <p>In the event that a board chooses not to observe the recommended Co-operative Accounting Standards, this must be reported clearly to the society's members in the annual report and the reasons for non-compliance should be fully explained.</p>

D3	Internal Control and Risk
D3.1	<p>Internal Control</p> <p>The board should ensure that the management executive maintains a sound system of internal control to safeguard members' investment and the society's assets.</p> <p>The head of internal audit and risk, or equivalent, should assist the board to identify the major risks their society is facing and then work with them in developing plans to control, monitor and minimise these risks. The board and the management executive have the primary responsibility for identifying the key business risks faced by the society.</p> <p>The audit committee should, at least annually, conduct a review of the effectiveness of the society's system of internal controls and should report to members that they have done so. The review should cover all material controls, including financial, operational and compliance controls and risk management systems.</p>
D3.2	<p>Internal Audit Function and Risk Management</p> <p>The audit committee should ensure that it receives independent reviews on control effectiveness. These should be from the society's own internal audit function, or equivalent, or from an outsourced provision of internal audit services.</p> <p>Where there is no internal audit function, the audit committee should consider annually whether there is a need for an internal audit function and make a recommendation to the board, and the reasons for absence of such a function should be included in the annual report.</p> <p>The resources allocated and nature of the provision of internal audit services should be reviewed annually by the audit committee and based on the size, complexity and risk profile of the society. Issues relating to the appointment, dismissal or resignation of the internal auditor should be considered by the audit committee who should make recommendations to the board.</p> <p>The audit committee should review the effectiveness of the internal audit services and ensure that the provider of internal audit services has direct access to the audit committee including meeting them at least annually without the management executive present.</p> <p>The board and the management executive have the primary responsibility for identifying the key business risks faced by the society.</p> <p>The audit committee should review the risk management process and the risks identified at least on an annual basis. This should ensure that control review work is focused on the society's key risks.</p>

E1	Co-operative and Social Responsibility
E1.1	<p>Accountability to wider stakeholders</p> <p>The board should ensure there is continuing focus on the implementation and monitoring of environmental, sustainable and ethical business policies.</p>
E1.2	<p>Equality of Opportunity</p> <p>The board should ensure that the society has an equal opportunities policy which sets out the organisation's commitment to equal opportunities and the development and use of employment, and other, procedures and practices which do not discriminate on the grounds of gender, sexuality, marital status, ethnic origin, religious belief, age and disability.</p>

F1	Compliance Assessment
F1.1	<p>Conforming to the Code</p> <p>The board has a responsibility to ensure that the society complies with those recommendations of the Code that are appropriate to the organisation's circumstances or to explain, where this is not the case, the reasons why to its members and Co-operatives^{UK}.</p>
F1.2	<p>Presenting Results</p> <p>Societies should submit to Co-operatives^{UK}: -</p> <ul style="list-style-type: none"> • A completed questionnaire, as provided by Co-operatives^{UK}, outlining its implementation of each of the recommendations in the Code of Best Practice • A commitment in the annual report to make this statement available to members upon request.
F1.3	<p>Monitoring Compliance</p> <p>In order to ensure the integrity, transparency and accountability of the process, every year the annual report and financial statements should include a governance page or section referring to the existence of the Code, outlining the society's adherence to the Code and providing reasons for any decisions not to implement a recommendation.</p> <p>The chair/president, chief executive and society secretary should sign off the society's statement of compliance with the Code, contained in the annual report. This should be prepared in a parallel format to that adopted with the signing off of the financial statements.</p> <p>As well as reporting annually to each society on its annual implementation profile, Co-operatives^{UK} will publish in aggregate form the results of societies compliance with the Code. An assessment of compliance will also be published in Co-operatives^{UK}'s annual report explaining the patterns of compliance assessment.</p> <p>Co-operatives^{UK} reserves the right to expel or suspend any society that persistently fails to significantly comply, or appropriately explain any reasons for non-compliance, with any material respects with the Code of Best Practice.</p>
F1.4	<p>Updating the Code</p> <p>Co-operatives^{UK} will ensure that appropriate arrangements are established to keep the model rules updated to reflect this Code of Best Practice and that the Code itself is revised as and when necessary.</p>