



Finding the right Board for you

10 Questions to ask
before joining a Board

CPA
AUSTRALIA







Foreword

This guide, produced by CPA Australia and Cameron Ralph Pty Ltd, is designed to be a helpful and easy-to-read tool for business professionals contemplating non-executive directorships on boards or committees of Australian businesses and organisations.

Although not a substitute for complete and thorough due diligence before accepting a directorship, the guide highlights some important questions and issues you may want to explore on your own and with your prospective fellow board or committee members.

Whether your directorship is in the corporate, not-for profit or public sectors, we hope you will find this guide useful.



Seeking to join a Board or looking for a Board member?

The CPA Directors Register is an initiative of CPA Australia. It endeavours to match suitably qualified and experienced CPA Australia members for board and audit committee positions with public and private companies, not-for-profit organisations, SMEs and the public sector.

The CPA Directors Register is a broad list of experienced finance, accounting and business professionals who are interested in holding key positions on independent boards, audit committees or advisory panels.

A valuable resource for organisations seeking quality board and committee members, the CPA Directors Register provides access to appropriately skilled FCPAs (Fellows of CPA Australia), who are eligible for key board appointments.

For further information on joining the CPA Directors Register visit www.cpaaustralia.com.au/links?directorsregister or email directorsregister@cpaustralia.com.au



ABOUT CPA AUSTRALIA

CPA Australia is the largest professional business body in Australia, with more than 105,000 members globally.

CPA Australia's primary role is to support its members through education, specialist training, technical advice and intellectual capital.

The CPA postnominal is the preferred designation for finance, accounting and business leaders.



ABOUT CAMERON RALPH PTY LTD

Cameron Ralph Pty Ltd is a privately held business established to assist boards to improve their effectiveness through the provision of in-depth, independent reviews of their governance practices.

For more information about Cameron Ralph Pty Ltd visit www.cameronralph.com.au

01 | CAN YOU PLEASE TELL ME ABOUT THE BUSINESS?

Assuming that you are being asked onto a board for your financial/accounting skills, you may not necessarily be familiar with the industry and/or company you are getting involved with, so take some time to find out what they do. Visit their website and search the Internet (including articles in press) for background information about the company. If the company is listed, visit the Australian Stock Exchange (ASX) for the history of its share price and company announcements.

Listening to how the Chair explains the business will not only give you a picture of the sort of environment you are joining, but also gives you an idea of the competency and knowledge of the people you will be working with and depending on.

QUESTIONS TO ASK

- What does the business do?
- How does it make money?
- What is its sustainable competitive advantage?
- What is the biggest challenge facing the company?
- What is its biggest threat?
- What is the biggest opportunity?
- Could you please describe the culture?

02 | WHAT IS THE COMPANY'S CURRENT FINANCIAL POSITION?

You need to know up front whether you are facing a potential solvency problem or if there are any accounting secrets.

Request a copy of the last two financial reports and review them for their comprehensiveness, any qualification, or unusual or aggressive accounting techniques.

Knowing the accounting standards and policies used should give you a clearer picture of the tone of the accounting practices of the business (aggressive etc.) when reviewing its financial reports.

QUESTIONS TO ASK

- What is the current and forecast cash flow, borrowings and interest cover?
- Can I speak with the Chair of the Audit Committee?
- Who is the Auditor, and are there any current disputes with them?
- What accounting standards and policies have been used by the business?

03 | WHAT LEGAL AND REGULATORY ENVIRONMENTS DOES THE COMPANY OPERATE IN?

Many companies have regular litigation in the normal course of business but you need to know if there are any major or unusual actions pending.

Based on the nature of the business you should consider what the major risks for the organisation are and the extent to which the board is effectively monitoring those risks.

QUESTIONS TO ASK

- Are there any legal actions or major disputes pending against the company, including action by any regulator?
- How does the board oversee risk management?
- What is the legal form of the business?

04 | WHAT IS THE QUALITY OF THE INFORMATION WHICH I WILL BE PROVIDED WITH?

As a director you will be dependent on the quality of both management and the information they provide. Review the materials provided to directors for comprehensiveness, completeness, clarity, timeliness and thorough analysis of any proposals. Look carefully for evidence of any worrying signs of 'hope' (do all the forecasts follow a straight-line up or do they seem overly optimistic?) or 'denial' (budgets or plans not being met and no evidence of corrective action being taken).

REQUEST

- the last 12 months' board minutes and any committee minutes;
- the last set of board papers;
- the last two years' annual reports;
- the board charter and any committee charters; and
- the company's code of ethics and/or conduct.

QUESTION TO ASK

- What protocols are in place for directors having access to management outside of board meetings?

05 | CAN YOU PLEASE TELL ME ABOUT THE BOARD?

You should meet face-to-face with at least the Chair, CEO and two or three other directors in order to ensure you share common attitudes and approaches to the company, its vision and risk. If possible, conduct a reference check through your own network or do an Internet search on each individual.

Make sure the board charter clearly outlines the role of the board and its governance practices.

QUESTIONS TO ASK

- Who is the Chair?
- Who are the other directors?
- How long have they been on the board?
- Who is the CEO? Can I meet them?
- What are the relationships between the directors, and between the directors and the CEO, like?

06 | WHY DOES THE BOARD NEED A NEW DIRECTOR AND WHAT ARE THEY LOOKING FOR?

A good board has a well-thought out succession plan and clear expectations of the type of contribution they are seeking in a new director.

Make sure their expectations of you (and in particular, the expertise you bring and time you can commit) matches what you believe you can contribute. Ensure any departing director isn't leaving for reasons of substance or relationships.

The letter of appointment should clearly set out details of your responsibilities, term, any committee roles or other roles you will be expected to take on, plus your remuneration.

QUESTIONS TO ASK

- What contribution am I expected to make?
- Is there a draft letter of appointment I could review?
- Why are you seeking a new director now?
- Is someone leaving? Can I speak with them?
- What are you looking for in a new director?
- Why did you approach me?
- Who else will be joining at the same time?
- Is there a succession plan for the board, and in particular the Chair?

07 WHO ARE THE SHAREHOLDERS AND STAKEHOLDERS?

Make sure your appointment will be 'welcomed' by the key stakeholders. Listen carefully to how the key stakeholders are described. Be aware of any issues or dissatisfaction with the current board and/or management.

QUESTIONS TO ASK

- What is the ownership/corporate structure of the company?
- What is the current attitude of shareholders and stakeholders to the company, board and management?
- What is the attitude of the board to stakeholders?
- Has the company been receiving positive or negative media coverage lately?
- What happens at AGMs and how are they run?

08 WHY AM I INTERESTED IN TAKING THIS DIRECTORSHIP?

It's flattering to be asked to become a director, but don't get tempted for the wrong reasons. Even well-paying directorships carry huge liabilities and responsibilities. Unless you have a real passion for the company and share common values with the board, wait for the right appointment.

09 | WHAT CAN I CONTRIBUTE?

Making a genuine contribution and impact is probably the best (and most likely) form of satisfaction from being a director.

Carefully assess the situation of the board and the company, and your own skills and experience in order to determine whether there is good potential for you to add value.

Ask yourself “Do I have the expertise (financial, commercial, interpersonal, etc.) expected of this role on the board?”.

Ask a friend or mentor to frankly assess your ‘fit’.

10 | DO I HAVE THE CAPACITY TO DO THE JOB?

Make sure you understand what time commitment and other demands may be placed on you. Ask whether you will be expected to take on additional committee work.

As far as remuneration, the risk/reward ratio is rarely satisfactory, but you should at least be paid for your time.

QUESTIONS TO ASK

- What is the time commitment?
- When, where and how long are the meetings?
- What style of meeting does the Chair favour?
- What does it pay?
- Will I be expected to buy/sell shares?
- Can I see a copy of the Directors and Officers insurance policy?
- Do I have any conflicts of interest?

Sector specific questions

The following are additional questions which should be asked if you are considering joining a not-for-profit or government board.

NOT-FOR-PROFIT

Since your main reward on a not-for-profit board is your sense of contribution, you should fully understand the mission of the organisation. Often individuals are invited onto a board for their fundraising connections or for their financial skills, and only find out later that more is expected of them than they can deliver.

In many instances boards of not-for-profit organisations are comprised in a representational fashion which can create issues of competency and group dynamic.

QUESTIONS TO ASK

- What is the organisation's mission?
- Is the board representational in its composition?
- How does it measure its achievement of its non-financial goals?
- Will I be expected to raise or contribute funds personally?
- Will I be expected to make introductions for purposes of fundraising?
- Will I be expected to oversight the finances or accounts?
- Who are the stakeholders?
- Who and with which other organisations, does the organisation have affiliations?
- Will I be expected to perform any "hands on" operational activities?

GOVERNMENT

Government organisations operate under a variety of models, which can affect the duties and responsibilities of the board, as well as give the Minister and Department powers to direct the organisation or make key decisions.

Reporting and accountability are especially important in government and you should understand who your actions will be scrutinised by.

Make sure the board has a good mix of appropriate skills and is not merely populated by people friendly to the current government.

QUESTIONS TO ASK

- What legislation does the organisation operate under?
- Is it a corporate entity, a state department or some mixed model?
- What are your lines of accountability reporting?
- Can the Minister and/or Department(s) give direction/limited direction?
- Does the Minister or the board appoint the CEO?
- Who are you scrutinised by (Parliament, Auditor General, others)?
- With whom must you consult before acting?
- Which Departments are you responsible to?
- Who are the stakeholders?
- Is the board representational in its composition?
- What is the policy on public comments from the board?

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Finding the Right Board for You

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Insurance

It is the responsibility of the individual to obtain insurance and should form part of any due diligence to be performed before joining an organization. The individual should ensure that the organization holds Directors and Officers Insurance (D&O).

D&O Insurance is designed to protect both the assets of the company and the personal assets of the individual and covers those liabilities that may result from an individual or group performing their task(s) as directors or officers. Anyone acting as a director or officer for a legal entity is covered under most policies. This includes positions of Chairman, Deputy Chairman, President or Vice President of the Board of Directors, Managing Director, General Manager, Financial Controller, Secretary or Treasurer and any other person who performs the corporate functions similar to those performed by an officer of the company.

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