

Rules of Governance

Last review: 15 May 2025

1. Roles and responsibilities of the Board of Directors

Mercy Hands Europe (MHEU) is led by its Board of Directors (hereby named “the Board”). The Board is collectively responsible for ensuring that MHEU delivers its objectives, and complies with its governing documents and all relevant laws and regulations. Primary responsibilities of the Board include:

- **Strategic Guidance:** The Board sets, approves and monitors the MHEU’s core strategies, developed by the management team, and ensures that the necessary financial and human resources are in place to meet the MHEU’s objectives.
- **Executive Director and Management Supervision:** The Board recruits, supports, evaluates, rewards, and if necessary, terminates the MHEU’s Agency Head (or equivalent position within the MHEU). The Board also establishes a framework within which the management team operates under the Board’s direction, including the expected results.
- **Risk Oversight and Management:** The Board is responsible for ensuring the integrity of the MHEU’s financials, and it is also responsible for ensuring that the MHEU’s risk management systems/controls (which may include internal approval and decision-making processes, depending on the nature of the MHEU’s operations) are suitable and that they are being followed in practice.
- **Accountability:** The Board is accountable and responsible to the MHEU’s stakeholders. Therefore, the Board should act in a transparent manner, and should communicate and make information available to its members, other stakeholders and the public upon request.

The Chairman is responsible for running the Board and approving Board meeting agendas, which should take into account Board of directors’ concerns and issues. The Chairman should manage all meetings and lead the Board’s actions to ensure that MHEU is operating in compliance with its corporate governance framework.

The responsibilities and functions of the Board should be clearly defined in the Bylaws so that the Board is equipped to discharge its duties and responsibilities effectively.

It is important to note that, under Section 465 of the CO, the Executive Director of an organization (including an MHEU) is legally required to conduct himself or herself in a manner comparable to that of a reasonably diligent person with (i) the general knowledge, skill and experience that may be reasonably expected of a person carrying out the functions carried out by the director in relation to the MHEU; and (ii) the general knowledge, skill and experience the Executive Director has. For instance, a “reasonably diligent” director would be expected to complete filings to the Organizations Registry in a timely manner, and provide accurate material in all statements and reports.

In other words, a director's conduct will be evaluated in the context of both (i) the knowledge, skill and experience that the director should have had for the position and (ii) the knowledge, skill and experience that the director actually has. The standard that a director must satisfy cannot be adjusted downwards – not being remunerated or lack of management experience does not excuse the Executive Director from his or her duties. In addition, if the Executive Director has special knowledge, skill or experience, he or she is held to a higher standard of conduct. As such, the Board of directors should receive the necessary induction, training and ongoing support needed to help them in the discharge of their duties.

FIDUCIARY DUTIES OF THE BOARD OF DIRECTORS

The fiduciary duties of a director are as follows:

- **Duty of Care:** The Board of Directors must attend meetings, read the information provided and request additional information if needed, make informed decisions and carry out their duties in a reasonable and responsible manner.
- **Duty of Loyalty:** The Board of Directors must place the interests of the organisation ahead of their own interests at all times. This means they must disclose any conflicts of interest (further explained in the Code of Ethics section below at page 9) and they must not use Board service as a means for personal or commercial gain.
- **Duty of Obedience:** The Board of Directors must act consistently with, and be faithful to the MHEU's mission.

The Board should be fully informed of the types of liability it may face. It should also be fully informed of its legal responsibilities including, but not limited to, those arising from the ordinance under which the MHEU is established.

2. Board meetings

An effective Board should meet regularly. All the business of the Board should be conducted through formal and appropriately constituted meetings. The [Bylaws](#) should document the procedures and rules for the Board's decision-making activities. These would include procedures/rules relating to attendance requirements, quorum and voting and the managing of conflicts of interest.

For example, these rules may:

- set a minimum frequency for Board meetings;
- set out the procedures for a director to call additional meetings;
- clarify whether a director may attend a meeting by telephone or video conference; and
- set out the procedures for adjourning meetings if a quorum is not satisfied.

In addition, it is good practice for Board meetings to include the following:

- meeting agenda;

- Board meeting pack and any other materials circulated to the Board in connection with the Board meeting; and
- minutes of the previous meeting for review and approval at the subsequent Board meeting.

DELEGATIONS TO COMMITTEES AND STAFF

The Board of MHEU has the responsibility to govern the organization and has to do it effectively, efficiently and within the bounds of the law. Where the Board has the power to engage in an activity, it can choose to delegate that responsibility to another person or body if doing so will help it lead the MHEU more effectively or efficiently.

Accordingly, the Board may set up committees, advisory groups, panels or other bodies to assist its work, the details of which may be included in the Bylaws. The decision to establish committees will depend on the needs of the Board as well as the operations and size of MHEU. Examples of committees that may be established include the following: Executive Committee, Audit Committee, Board Nomination Committee, Planning and Evaluation Committee and/or Staff Remuneration Committee. In addition, the Board may wish to establish committees to steer specific initiatives or programs.

3. Effective Delegation

Before the Board can delegate any of its powers or authority it should first set out in a clear manner all the functions and responsibilities of committees, individual directors, officers, other staff, consultants or agents. Delegation does not absolve the Board of its responsibility to be accountable for the actions of its delegates.

Delegation should be organized in a practical manner and must comply with the terms of the MHEU's governing documents and any relevant legislation. Practical recommendations for effective delegation include the following:

- the structure, roles and responsibilities of delegated authorities should be clearly defined in writing;
- delegation must comply with the terms of the MHEU's policies, procedures, governing documents and any relevant legislation;
- delegates should be given sufficient authority to discharge their duties;
- all delegated authorities must have clear limits relating to expenditure, authority, budgetary and other matters;
- all delegated authorities must be subject to regular monitoring by the Board and should report regularly to the Board; and
- delegation should be recorded in Board meeting minutes, and where relevant, in the staff members' job descriptions or in a separate list.

The organization should establish and maintain an up-to-date framework of delegated or reserved powers, including a formal schedule of those matters specifically reserved for the

collective decision of the Board. The framework for delegating certain powers to the management team should be in an explicit written form. All of this should be made clear in the Bylaws.

4. Board Review/Appraisals

It is recommended that MHEU's Board of Directors undertake regular appraisals and reviews to assess their strengths and weaknesses and develop strategies to address any limitations. Appraisals may involve confidential peer and self-evaluations as well as review meetings or interviews. Giving members the opportunity to provide anonymous reviews of other members of the Board helps facilitate frank examinations. Even minor improvements to a Board's performance can have a significant impact on an MHEU's effectiveness.

In addition to evaluating the Board's collective performance in managing MHEU (as discussed below), the performance of individual members should also be evaluated. Areas that should be considered include: (i) whether the member allocates sufficient time and effort to prepare for and attend meetings; (ii) whether the member's behaviour is disruptive or undermines Board decisions; and (iii) whether the member properly discloses his or her business interests and acts in the interest of MHEU.

Board reviews/appraisals should include evaluating:

- communication and understanding of responsibilities and expectations for the Board of directors and the management team;
- adequacy of training and induction provided for the Board of directors;
- functioning and effectiveness of the Board and directors;
- working methods and procedures of the Board, including the sufficiency of (i) Board materials provided before meetings; (ii) time provided at Board meetings to discuss critical matters; and (iii) processes for handling issues between meetings;
- mechanisms for internal control and performance reporting;
- mechanisms for planning and budgeting;
- effectiveness and supervision of committees, working groups and advisory bodies;
- proper documentation of any delegated authorities; and
- the Board's compliance with law, governing documents, contractual obligations and internal controls.

If a Board chooses to conduct such a review/appraisal, it should ideally use the results to:

- make necessary changes and improvements to its Board activities;
- generate a creative and innovative approach to the Board's development;
- improve teamwork among the Board of Directors;

- clarify goals and expectations for the Board of directors, the management team, employees and volunteers;
- provide appropriate training programme and guidance to its Board of directors; and
- provide guidance in connection with Board renewal and the recruitment of Board of Directors members.

When a MHEU Board member elects to engage in reviews/appraisals, it should ideally outline in the MHEU's Bylaws the process to be followed (including any evaluation guidelines and timing requirements).

5. Board Renewal

MHEU Boards – regardless of size – should have a clear strategy for their own renewal, recruitment of new directors and director reappointments. The processes should be open, transparent and focused on creating a diverse and effective Board. The implementation of the strategy can be delegated to a committee or a panel.

In the case of an MHEU where the directors are nominated by an external body, or elected by a wider membership, the Board should work closely with the organisations or people involved in this process to ensure that they are aware of the specific skills and experience required from new members.

Key points that the Board should consider in connection with the recruitment process:

- the Board should agree on and set out specifications of the role;
- directors must be appointed in accordance with the MHEU's governing documents and the CO;
- new directors, prior to their appointment, should be scrutinised to assess whether they have the attributes, knowledge and the right set of skills to succeed in their roles - interviews should be formal and appointments on merit;
- a maximum fixed term of office is recommended to ensure a steady renewal of directors; these may be provided for in the internal policies or in an MHEU's governing document; and
- the Board should ensure that the procedures for joining and leaving the Board are understood by all directors and other relevant stakeholders.

Much of the above may be included in the Bylaws.

Documenting and communicating performance standards to potential and existing directors during the recruitment and evaluation processes can be useful in ensuring an effective Board. This can include defining roles and responsibilities through formal role/duty statements and clearly setting

out expectations (such as minimum time commitments). This helps directors understand their obligations and also facilitates difficult discussions when evaluating non-performing members by providing an objective standard.

When a Board member is not performing his or her responsibilities, it may make sense for the Chairman to first approach the Board member privately. If this initial step does not solve the issue, the whole Board should be involved in discussions to address the problem. Depending on the MHEU's governing documents and the requirements of any external organisations or people involved in the director election/appointment process, the Board may seek the removal or replacement of the non-performing Board member.

6. Controls and risk management

Boards of directors must ensure that funds are used properly. This can be done by implementing appropriate internal and external controls and risk management systems. Controls are processes implemented to provide reasonable assurance that:

- operations are conducted efficiently and effectively;
 - fraudulent transactions or reporting are blocked or detected early; and
 - MHEU is in compliance with applicable laws.
- These controls could include:
- internal authorisations required for payments exceeding pre-set thresholds;
 - designated signatories required for bank transactions;
 - internal review and approval of reports; and
 - internal and external audits.

It is good practice for the Board to also regularly check that any such controls and systems are applied properly, and they should consider taking a more active role as and when necessary. The Boards should also regularly monitor an MHEU's financials including the income statement and balance sheet. The accuracy of the MHEU's financial statements should be externally audited by a certified public accountant and the Board is responsible for the performance of the independent auditors it hires.

7. Internal Reporting

Below are good practices designed to foster effective internal reporting:

- the Board should share with its management team the matters it has discussed;
- the Board should work closely with any committees it establishes;
- regular and informative reporting to the Board provides for an effective decision-making process and assists in the overall performance of the MHEU;

- reports and minutes of Board meetings should be formally circulated having regard to confidentiality requirements (e.g., commercially confidential information). The deliberations and resolutions should be reported within the MHEU, and lines of reporting within MHEU should be formalised and observed.

The Board is a steward of MHEU's resources and must protect its assets and ensure compliance with all relevant fiscal requirements. It must conduct the financial affairs of MHEU in a responsible and sound manner and comply with all applicable laws. This means that the Board must be briefed about and have a full understanding of, the organisation's current and projected financial position and its financial health. Financial statements are the primary source of information about MHEU's financial position and operational results. The Board can delegate the task to prepare financial information, but the Board is ultimately responsible for reviewing financial reports and ensuring their accuracy and credibility.

The basic financial functions of the Board are to:

- approve a budget that reflects MHEU's priorities and is based on realistic assumptions of funding, costs, and other factors: the Board must agree on a budget regardless of how modest the resources of the organisation are;
- set out the planned expenditures and predicted income in its budget and monitor on a regular basis the actual performance against the budget;
- monitor and control expenditures and cash-flow on the basis of appropriate accounting procedures;
- review up-to-date financial statements at each Board meeting and take action to remedy financial difficulties, if any;
- oversee the stewardship of MHEU's assets and liabilities; and
- approve annual reports, including financial statements.

The basic requirements for managing the financial responsibilities of the Board are to:

- ensure that the management team operates in accordance with an annual budget that has been approved by the Board;
- ensure that the management team prepares accurate financial reports on a timely basis, allowing the Board to monitor financial performance of MHEU;
- ensure that the management team prepares internal financial statements no less frequently than quarterly and provides them to the Board (these statements should identify and explain any variation between actual and budgeted revenues and expenses);
- have proper internal controls in place to ensure money can be accounted for and is not misused;
- provide staff with confidential means to report suspected financial impropriety or misuse of MHEU's resources; and
- have written policies governing the investment of the assets of MHEU, internal control procedures, procurement, etc,

These basic functions and requirements should be detailed in the Bylaws.

Procurement is typically an activity that can be highly vulnerable to abuse. Therefore, it is essential that the Board sets out minimum standards to mitigate the risk of corruption. This could include ensuring the management team implements the following:

- open competitive procedures for purchases above a certain threshold;
- proof of submission of several offers where the proposed procurement will exceed a certain threshold;
- the requirement for the justification of the decision to select a particular vendor, product or service provider over a competitor; and
- anti-bribery policies adopted by the Board and the pro-active communication of the same to all agents, intermediaries and suppliers.

MHEU's are encouraged to develop robust financial management processes through:

- the use of basic accounting tools (books of accounts, general ledger, general journal, cash receipt book, cash disbursement book, bank account records);
- the separation of key functions (approving officer, bookkeeper, cash custodian) and the requirement for two signatures by relevant staff; and
- the preparation of annual financial statements of income and expenditure, as discussed above.

8. External Reporting

All organizations established as MHEU are required to file annual returns (together with audited accounts) and to report any change of registered office, director or company secretary. Registered societies are required to report any change of office-bearer(s), principal place of business, society name and object. In addition, if an organization receives public funds or support, it may be required to provide enhanced disclosures regarding its finances.

9. Risk Management

The Board must prudently protect MHEU's service users, beneficiaries, volunteers, staff, reputation, assets and property and avoid undertaking activities that might place an undue risk on them. This includes avoiding actions that are likely to cause reputational harm to the organization (such as partnering with another organisation without conducting proper due diligence on the potential partner), which may also expose the organization and its stakeholders to litigation risk down the road. As another example, the Board will want to avoid approving speculative investments or other transactions that place an undue risk on MHEU's assets and property. The Board should also consider other risks that may be specific to MHEU's operations.

The Board must ensure that any proposed investing of MHEU's funds or borrowing of funds for MHEU's use complies with any requirements that may be set forth in MHEU's governing

documents and any applicable legal requirements. For example, MHEU's governing documents may include guidelines on acceptable categories or risk-return profiles of investments for cash management purposes. In addition, the Board should ensure the terms, such as the applicable interest rate, of loans provided to MHEU by related parties (such as a member of the Board or a company owned by a member of a Board) are on reasonable commercial terms that are consistent with the market (or more favourable to MHEU). Also, in the case of restricted funds MHEU Boards have a duty to ensure that the funds are used for the purpose/project they were given.

10. Code of ethics

Conflicts of Interest

A conflict of interest arises when the "private interests" of a Board member conflict with the interest of MHEU or the Board member's official duties. "Private interests" include any financial or other personal interests of directors, their family members or other relations, their personal friends, the clubs and associations to which they belong, any other groups of people with whom they have personal or social ties or any person to whom they owe a favour or are obligated in any way. Conflicts of interest can arise when there are insufficient checks and balances established within an organisation. No Board member should be able to approve, on his/her own, decisions that will benefit them. To ensure that, MHEU's board of directors put in place and enforce policies, procedures and practices that ensure that such decisions are taken, reviewed and endorsed by appropriate third parties.

The Board of directors, staff and volunteer workers of MHEU should not use their position in the organisation as a means to further their private business or other interests outside the organisation.

The Board of directors should always act and make decisions based on the interest of MHEU and not in order to gain any benefits for themselves, their family, friends, etc.

The Board must manage conflicts of interest properly. Board of Directors should disclose the nature of their interests in any contracts, transactions and arrangements of the organisation in which the director has material interests. Apart from legal consequences, failure to properly manage conflicts of interest may also have a serious impact on MHEU's reputation, giving rise to criticism of favouritism, abuse of authority or allegations of corruption. All decision-making should be guided by principles of integrity, honesty, transparency and good faith. To manage conflicts of interest, through the direction of the Board, MHEU will adopt the following measures:

- design a standard form for declaration of conflict of interest and specify the line of reporting and the follow-up action required;
- establish a system to manage declared conflict of interest and to record the declarations and actions taken to mitigate declared conflicts (e.g., for the director with the conflict to abstain from the discussion, participation or decision-making process in relation to that matter);
- implement clear policies specifying under which conditions gifts and entertainment may/may not be accepted (and reported) or family members may/may not be recruited;

- implement a written conflict of interest policy governing directors and staff who have decision-making authority over the resources of MHEU. The organisation should brief new directors and provide regular sessions for all members that keep them up-to-date with important issues that affect their governance roles;
- ensure that MHEU has a good complaint handling mechanism in place. Policies and procedures should be established to state clearly the roles and functions of each member in each complaint handling level and to keep fairness and avoid conflict of interest;
- directors, staff and volunteers of MHEU must declare any actual or perceived conflicts of interest as and when they arise, particularly when they are engaged in any actions that might potentially interfere with the performance of their MHEU- related duties or obligations; and
- directors should disclose their general interest on appointment to the Board.
The declaration should be made on a registration form, which should be made available for inspection, and a register of directors' declaration of interests should be maintained and made available for inspection.

Transparency and Accountability

The Board needs to be open, transparent, responsive and accountable to those who have an interest in its work. The Board must decide who the stakeholders are and establish procedures that foster effective communication with them and provide guidance with respect to their engagement in the decision-making process. However, accountability and transparency must be balanced with the Board's confidentiality requirements, such as those relating to data privacy and any confidentiality undertakings under agreements entered into by MHEU.

Non-Discrimination and Equal Opportunities

MHEU's Board should set policy strategies with clear targets (where practicable) and receive regular reports to ensure that the MHEU promotes and applies equal opportunities and diversity in all areas of its activities.