

TRAINING: Summarized.

ROLES & RESPONSIBILITIES OF THE BOARD OF DIRECTORS, CREDIT COMMITTEE AND SUPERVISORY COMMITTEE

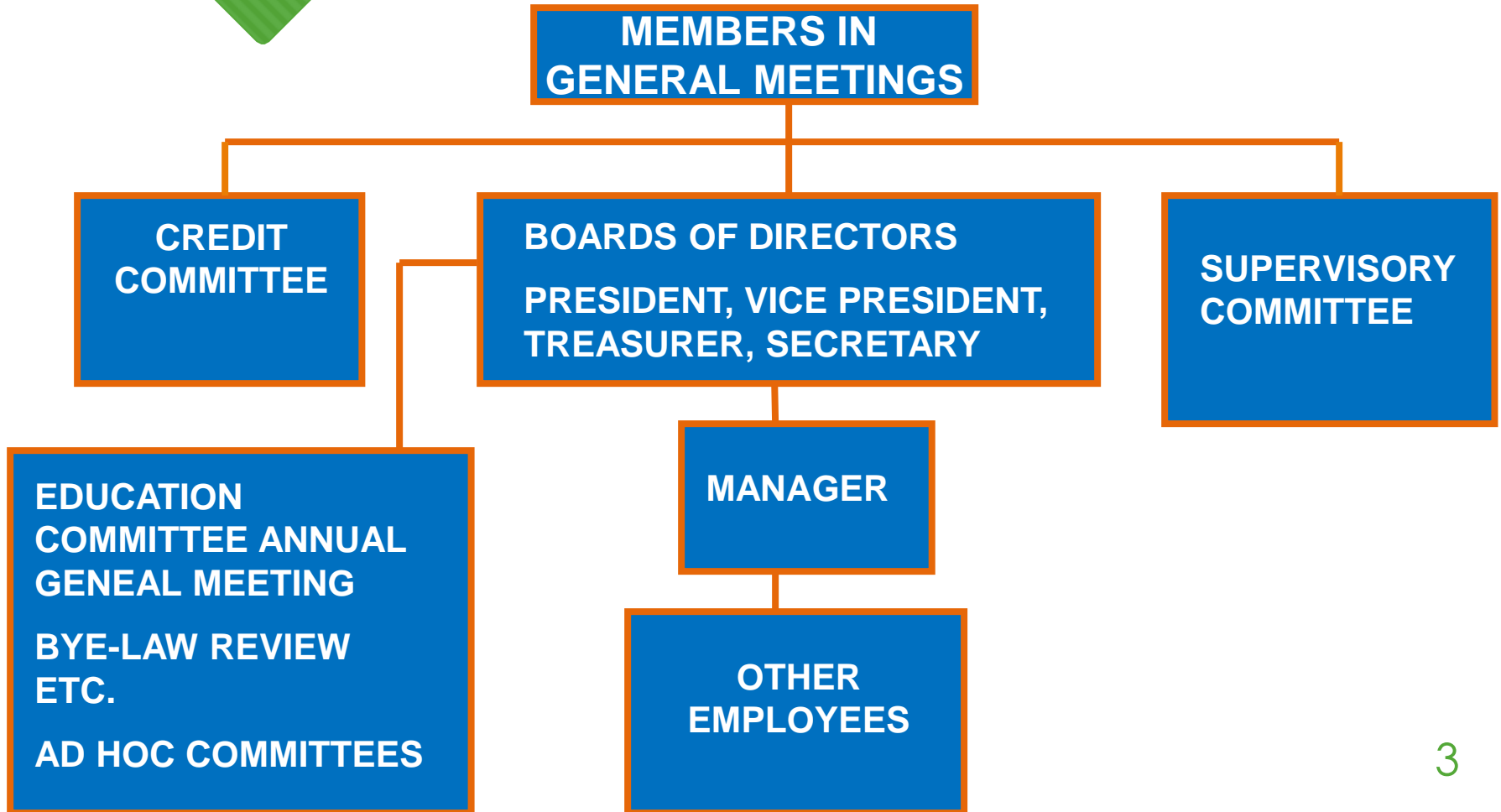
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Objectives

To give participants an understanding of:

Roles and Responsibilities of Board and Statutory Committees

Structure of a Typical Credit Union



Board of Directors

- It refers to the Board of management or other directing body to whom the management of the affairs of the society is entrusted.

Authority CSA:- Section 22

Regulations 24, 25

GEACU's Bye Laws

BOARD OF DIRECTORS- Authority

The Board shall be elected at the Annual General Meeting of the Society in accordance with the Bye-Laws of the Society.

CSA - Regulations 24 , 50 (3) ©

Role and Responsibilities of the Board

To act on behalf of the members in relation to the affairs of the Co-operative

To be responsible for the general management of the Co-operative

Board of Directors

**The Board shall exercise all the powers
of the
Society except.....**

**Those reserved to the General
Meeting of the members .**

Board of Directors

- **Establish the strategic direction of the credit union, adhere to all policies regardless of personal opinion, facilitate movement toward the desired direction through choice of management, ensuring adequate resources, monitoring progress and fulfilling fiduciary responsibilities.**

(WOCCU)

Board's Responsibility for Internal controls

- **Credit unions should have in place an appropriate level of internal controls commensurate with the size and complexity of the institution and its activities**
- **This should include arrangements around delegations of responsibilities, authorizations, segregation of duties, reconciliations and accounting (ICURN)**

Board's responsibility for Risk Management

- **Credit unions must have appropriate and adequate risk management processes and systems in place**
- **Risk management system must be able to identify, evaluate, monitor, manage and control the risks to which the credit union may be exposed (ICURN)**

Board- Risk management

- **Cooperative financial institutions should have an effective risk management function, such as a chief risk officer or equivalent, with appropriate qualification, expertise, sufficient authority, stature, independence, resources and access to the board.**

Board's responsibility for Standards

- Standards help Board and Management understand what is expected,
- Developed in collaboration with directors, managers and recommendation by statutory committees,
- Adherence to standards ensures compliance.(ICURN)

Board's Responsibilities

- **Board Members have a Fiduciary responsibility to their Membership;**
- **Each Board Member should be able to assess the financial condition of the Credit Union;**
- **The Board should not be reliant on the operational management to interpret financial data and other information received. - (WOCCU)**

Boards Responsibilities

- **Assess the adequacy of insurance of credit union assets;**
- **Determine the physical security needs of the credit union and inventory of fixed assets. - (WOCCU)**

Boards Responsibilities

- Keep the business of the credit union and its members confidential;
- Promote the credit union and its services as appropriate in day to day interactions;
- Ensure minutes are in writing and prepared within ten (10) days of the meeting. Such minutes shall contain the names of the members present, the date, time, and place of the meeting and a record of material discussions and all decisions made Reg. 23. –(WOCCU)

Boards Responsibilities

- **To approve security/fidelity bond of financial officers;**
- **To present and obtain approval to write off bad debts from the books of the society;**

Board Assessment Criteria

- It is a sound business and financial practice that the Board of Directors of an institution understands its responsibilities, exercises independent judgment, addresses the material risks to which the institution is exposed, and regularly evaluates its own effectiveness and that of management.
(ICURN)

Minimum Qualifications?

Given the importance of the Board of Directors in the governance of credit unions, should Board of Directors have certain minimum qualifications?

WHY??

FIT AND PROPER

- **A person is considered to be fit and proper if the person essentially is of good character, competent, honest, financially sound, reputable, reliable and is likely to discharge his/her responsibilities fairly.**

FIT AND PROPER

Fit and Proper

Expertise and integrity of proposed board members and senior management.

The fit and proper criteria should include, but may not be limited to:

- **(1) an individual's skills and experience which can contribute to the safe and sound operation of the Society**
- **(2) any record of criminal activities or adverse judgments that can make a person unfit to serve**

COMPETENCIES OF THE BOARD

- Ability to read and interpret Financial Statements ;
- Basic understanding of Laws governing the Credit Union;
- Knowledge of Risk Measurement and effective management; - WOCCU

Competencies of the Board

- Knowledge of and a commitment to Credit Union Philosophy;
- Familiarity with Asset Liability Management;
- Familiarity with Lending and Collections ;
- Familiarity with Marketing Concepts

Competencies of the Board

- Ability to work as part of a team;
- Ability to commit enough time to successfully complete all of the job duties and responsibilities; and
- Strong Oral Communication Skills.- WOCCU

Conflicts of Interest

- **Board members must disclose all conflicts of interest with any CU business and refrain from voting on issues relating to the conflict of interest;**

(woccu)

Board of Directors cont'd

Each Director must be familiar with the following:

- **the role, functions and duties and responsibilities of the Board, Supervisory Committee, other Committees established by the Board**
- **the duties of the Manager**
- **the Co-operative Societies Act and Regulation**
- **the Co-operative's Byelaws and Policies**

Board of Directors – from Bye-Laws

- Principal duties and responsibilities of the Board include:

- (a) Establish overall policies, goals and objectives
- (b) Direct the society's affairs in accordance with its byelaws
- (c) Make decisions on applications for membership
- (d) Contract loans, authorize expenditure and the distribution of surplus

Board of directors cont'd

- (d) Appoint, suspend or dismiss Manager and other Staff and determine term of employment**
- (e) Appraise Manager's performance**
- (f) Appoint agents to act on behalf of the society**

Board of Directors

- **Send to Commissioner financial/requested information. (CSA - Regulation 33);**
- **Exercise prudence and diligence in management of operations;**

International Credit Union Safety and Soundness Principles

- **Overseeing investment of funds in accordance with directives and /or guidance given by the Commissioner for Co-operative Development CSA 45;**
- **Approving the credit union's annual operating budget for each calendar year for presentation to the Annual General Meeting;**
- **Hiring a manager to be directly responsible for the day-to-day operations;**

INTERNATONAL CREDIT UNION AND SAFETY AND SOUNDNESS PRINCIPLES

- **Appointing an Internal Auditor to perform the internal audit function;**
- **Appointing a senior, qualified professional to act as Compliance Officer to perform the compliance function required under the Financial intelligence Unit (FIU) guidelines;**
- **Developing and regularly updating a management succession plan;**

International Credit Union Safety and Soundness Principles

- **Approving a Disaster Management and Recovery Plan;**
- **Establishing standards of business conduct and ethical behaviour;**
- **Establishing appropriate and prudent risk management policies and developing Risk Management system for identifying, assessing , evaluating and managing risks.**

Roles and Functions of Executive Officers

- **The President and Vice President**
- **The Secretary and Assistant Secretary**
- **The Treasurer**
- **The Manager**

President

- Shall summon and preside at general and board meetings.
- Shall have a casting vote.
- Shall sign cheques along with other signatories
- Shall sign the minute book

Vice President

- Shall perform the role of the President in his absence.

Secretary

- To summon all meetings in consultation with the president.
- To maintain accurate minutes of meetings.
- To receive and send out correspondence.
- To keep all books, registers and documents under the byelaws.
- To have custody of the seal.

Assistant Secretary

- To Assist the secretary in the performance of her duties.

Treasurer

- **Accountable for the funds of the co-operative**
- **Responsible for safeguarding the books and records of the society**
- **Supervise the book – keeping or record – keeping**
- **Prepare and sign the financial statements**
- **Report on the financial condition of the society**

Credit Committee

- It refers to a committee elected annually by the members of a credit union for the purpose of granting loans to members
- Authority CSA :- Regulation 50 (3)(c)(i)

Credit Committee

ROLE

- Approval of Loans (CSA Regulation 34)

“in the case of a Society whose primary objective is the granting of loans to its members and in which name the words “Credit Union” appear, loans shall be approved by the Credit Committee.

CREDIT COMMITTEE

FUNCTIONS

- **Act in accordance with Credit Policy**
- **Shall ensure the security of loans**
- **Report to the Board at its monthly Board meeting**
- **Report to the Annual General Meeting**

Credit Committee- Functions

- To review loan applications and approve loans.
- Act in accordance with Credit Policy
- Shall ensure the security of loans

Credit Committee cont'd

- Report to the Board of Directors each month on the performance of the loan portfolio
- Prepare an annual report that will be submitted to the members at the Annual General Meeting

Credit Committee

- **Accept loan applications**
- **Verify information**
- **Conduct loan interviews**
- **Analyse loan applications and credit information**
- **Make loan decisions within approved limits**

Credit Committee

- Determine the value of collateral offered
- Prepare loan documents
- Inform members of loan decisions
- Obtain members signatures on documents
- Monitor ALL loans granted by self and collect problem loans
- Maintain and keep current the loan file

7 C's of Credit

- **Character**
- **Capital**
- **Conditions**
- **Capacity to repay**
- **Collateral**
- **Capability**
- **Compliance**

Credit Evaluation

Character

Character relates to the integrity, honesty and responsibility of the member/ payment trends.

Capital (Shares Savings)

The members accumulation of capital is important:

Savings pattern

Credit Evaluation

Capacity to Repay Cont'd

Using the Debt Service Ratio (DSR) to determine the Capacity to Repay

- The debt service ratio is a measurement of the debt load of an individual and an indicator of whether the individual is close to being unable to make monthly payments on its debts

Credit Evaluation

Conditions

The Credit Committee must take into consideration the Conditions which exist within the local and national economy e.g strikes, lay off and personal circumstances such as illness etc.

Capacity to Repay

Capacity is the member's ability to repay the loan on the basis of the terms set forth in the loan agreement.

Credit Evaluation

Collateral

Collateral is an item of tangible value that is pledged to be sold or liquidated to repay the unpaid balance of the loan in the event of default by the borrower.

Credit Evaluation

Capability

Most applicable to business ventures...

This looks at the ability of the borrower to execute the proposed project.

Credit Evaluation

Compliance

All Loans must be granted in accordance with:

- The Co-operative Societies Act and Regulations;
- The Society's Bye laws;
- The Loan Policy
- Other

Mortgage Loans

CSA 43 (2)

A society may not, save with the consent in writing of the Commissioner, lend its money on mortgage of real property.

Instrument of Charge

Regulation 40

“ Where a loan is made the borrower and his sureties, if any, shall execute an instrument in writing containing the terms of repayment of the loan and such other terms and conditions as the board or committee may consider necessary, but if he is required to provide security for the loan he shall execute an instrument of charge”

Loans to Officers

CSA 43(3)

“No Loan shall be made to an officer of a credit union of a sum in excess of the value of his shares and deposits and accumulated dividends and interests thereon unless such loan is approved by the vote of two-thirds majority at a meeting of the other board members, the credit committee and the supervisory committee all sitting together or is made with the consent in writing of all the members, other than the borrowing officer, constituting the board, the credit and the supervisory committee.”

Interpretation of CSA Section 43 (3)

There are two ways of approving a loan for an officer:

- 1. A joint meeting be held for the purpose.**

In the absence of a stated quorum for such a meeting, a quorum of the board ,a quorum of the credit committee and a quorum of the supervisory committee combined shall constitute the quorum of the joint meeting.

Two-thirds majority is required from persons present at such a joint meeting

Interpretation of CSA Section 43 (3)

- In the event there is no meeting , ALL other officers must give their consent in writing
- This is referred to as the “Round Robin” Method

SUPERVISORY COMMITTEE

- It refers to a committee elected annually by the members of a credit union for the purpose of supervision

SUPERVISORY COMMITTEE- Authority

The committee is elected by the members at Annual General Meeting (Co-operative Societies Regulation 50:3 (c) and (d))

A member of the Supervisory Committee shall not be eligible for membership to the Board. (Co-operative Societies Regulation 50:3(d))

MAIN RESPONSIBILITIES

- To ensure the integrity of the data and operations of the co-operative on behalf of the membership.
- Its job is to protect members against impropriety.

MAIN FUNCTIONS

- **Make an examination of the affairs of the Co-operative, including an audit of its books at least semi-annually.**
- **Prepare an Annual Report of its audit and submit same to the Annual General Meeting of the members.**

Supervisory Committee cont'd

- Survey the operations of the Co-operative.
- Attest to the Monthly Financial Statements prepared by the Treasurer/Manager.

Functions

- **Attest the Balance Sheet/Statement of Financial Position required to be submitted to the Commissioner**

Supervisory Committee

- **The Supervisory Committee is supported by the Internal Audit Function**
- **Integrity of Data is critical – must be accurate and reliable**
- **The Supervisory Committee's Budget should be linked to its Work Plan**

Supervisory Committee and Internal Audit

Perform Internal Audit

- Investigate reported occurrences of fraud, embezzlement, theft, waste, etc;
- Examination of financial Information;
- Verify the existence of assets and recommend proper safeguards for their protection;

Supervisory Committee

- Provide an independent, objective and constructive view of governance, risk and controls;
- All information should be presented in writing and retained with the board minutes;
- Follow-up on recommendations made in the management letter and ensure implementation.

Supervisory Committee

- To ensure compliance with:
 - Bye-Laws;
 - Financial Intelligence Unit Act (Source of Fund Disclosures);
 - Finance Act ;
 - National Insurance Board Act;
 - Industrial Relations Act;
 - Green Fund Levy 0.3 % of Revenues

Powers of the Supervisory Committee

- Power to convene Special General Meetings.(Bye-Law.....)
- Power to suspend any Board or Committee Member.(Bye-Law

AUDIT PLAN

The Supervisory Committee must compile a Comprehensive Audit Plan.

The Plan includes:

- Audit Work Programme.**
- Delegation of Duties.**
- Scheduling.**
- Working Papers.**
- Report.**

SUPERVISORY COMMITTEE CHECKLIST

- Organizational Structure.
- Accounting System.
- Policies and Procedures.
- Rules made by the Board.
- Review minutes of the Board & Committee Meetings.
- Investments.
- Ensure Management Letter is acted upon.

SUPERVISORY COMMITTEE CHECKLIST

- Survey Internal Controls.
- Evaluate Internal Controls.
- Loans portfolio.
- Cash Receipts and Payments.
- Bank Reconciliation.
- Members' Accounts.
- Society's Liability in relation to the approved Maximum Liability.

Supervisory Committee Checklist

- Quarterly Examination Reports to the Board.
- Annual Examination Report to the membership at the Annual General Meeting.

Competencies

- **Some accounting experience and training coupled with an appreciation of the audit role and function.**
- **A clear understanding of the objectives of the Co-operative.**
- **Knowledge of the roles and responsibilities of the Board, other committees and the Treasurer/Manager**

Competencies (Con't)

- **Tactfulness, as the basis for the creation of a relationship of mutual respect and co-operation.**
- **Analytical ability- to distinguish between the material and the immaterial.**
- **Intellectual integrity, coupled with the ability to objectively present facts and draw sound, reasonable, well-thought-out conclusions**