AUSTRALIAN INSTITUTE of COMPANY DIRECTORS

Guiding principles of good governance

Corporate governance refers to the framework of rules, systems and processes put in place to control and monitor – or "govern" – an organisation. Good governance underpins good conduct and the good judgement of those who are charged with running an organisation.

Effective governance structures allow organisations to manage their affairs with proper oversight and accountability, to create value for shareholders or members through sound investment and innovation, and provide accountability and control systems commensurate with the risks involved. As the pre-eminent governance association in Australia, the Australian Institute of Company Directors (Company Directors) plays an important role in providing leadership on governance issues for directors of all organisations, from large listed entities to small not-for-profits and to achieve a positive impact for companies, the economy and society. These Guiding Principles have been developed as part of a commitment to this goal.

These Guiding Principles are not intended to be prescriptive. It must be acknowledged there is no "one size fits all" good practice solution for effective governance. Factors which may influence how a director should govern include, but are not limited to, the nature of the organisation's activities (e.g. complexity, risks, geographical dispersion), its regulatory environment, the legislation and other regulation that governs the organisation and the organisation's constitution. Nor are these Guiding Principles to be considered a substitute for the relevant laws, regulations and standards with which companies must comply.

The Guiding Principles are intended to provide companies of all sizes and types with starting point or guide for the development or review of their own corporate governance arrangements, taking into account their particular circumstances.

Principle 1	The board plays a key role in approving the vision, purpose and strategies of the organisation. It is accountable to the organisation's members as a whole and must act in the best interests of the organisation.

Principle 2	The board sets the cultural and ethical tone for the organisation.
Principle 3	All directors should exercise independent judgment and provide independent oversight of management.
Principle 4	Taking into consideration the scale and nature of the organisation's activities, the board should comprise an appropriate number of directors who have a relevant and diverse range of skills, expertise, experience and background and who are able to effectively understand the issues arising in the organisation's business. Where practicable, the chairman of the board should be independent, with the role of the chairman being separate from the role of the CEO.
Principle 5	The board should have an appropriate system of risk oversight and internal controls put in place.
Principle 6	Directors should act diligently on an appropriately informed basis and have access to accurate, relevant and timely information.
Principle 7	The board would normally delegate certain functions to management. Where it does so, there should be a clear statement and understanding as to the functions that have been delegated.
Principle 8	The board is responsible for the appointment of the CEO and the continuing evaluation of his or her performance.
Principle 9	The board should ensure that the organisation communicates with members and other stakeholders in a regular and timely manner, to the extent that the board thinks is in the best interests of the organisation, so that they have sufficient information to make appropriately informed decisions regarding the organisation.

Principle 10	The board's performance (including the performance of its chair, the individual directors and, where appropriate, the board's subcommittees), needs to be regularly assessed and appropriate actions taken to address any issues identified.