CORPORATE GOVERNANCE

THE KEY TO BUSINESS SUCCESS

Date: Nov 2022

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Business success is often defined by the way an organisation is governed and hence, the term corporate governance. Basically, corporate governance is about ownership and control. It is formally defined as a system of rules, practices, and processes by which an organization is directed and controlled.

According to the Organisation for Economic Co-operation and Development (OECD), good corporate governance helps to build an environment of trust, transparency, and accountability necessary for fostering long-term investment, financial stability, and business integrity, thereby supporting stronger growth and more inclusive societies. For example, the board of directors should critically emphasize the need for integrity and ethical values.

Transparency involves the communication of information such as financial performance and conflict of interest to all stakeholders, accurately and in a timely manner. On accountability, the board should be able to inform stakeholders of the purpose of the organisation's activities and own their outcomes. On responsibility, the shareholders appoint the board of directors so that it can oversight the organisation's matters, management activities, and fairness.

In Rwanda, there are several mechanisms that help business organisations to establish a system of good governance. Firstly, the Rwanda Development Board (RDB). This is the body that is charged with the sole responsibility of business entities registering general as one of the core functions. The RDB, for example, requires that all corporates' changes and secretarial annual returns are filed by the seventh month. Secondly is the Rwanda Companies Act, which is the Law that governs companies in Rwanda, currently famously referred to as Law N° 007/2021 of 05/02/2021 Governing Companies. The Companies law has laid out details for example the chapters concerning the shareholders' rights, liabilities, powers and meetings, and management and administration.

THE PRINCIPLES OF GOOD GOVERNANCE INCLUDE TRANSPARENCY, ACCOUNTABILITY, AND RESPONSIBILITY.

Good governance in an organization is characterized by several things among;

- having clearly defined roles for the management and the board of directors.
- appointment of capable directors
- having persons of integrity and
- diverse skills greatly enhances board performance.

Along the same line checking that the management and members of the board do not abuse their powers for example through a conflict of interest. Good governance is also evidenced by the provision of accurate and relevant information to various stakeholders for timely decision-making.

Key challenges hindering good governance start from;

- how well the board is constituted. For example, a determination of whether a representation of relevant skills is made
- there is a lack of diversity, especially in the form of skills and gender to ensure, independence, vibrance, and wider views
- there is also a lack of board independence and performance reviews
- effective boards should have independent directors who are able to supervise company management and independent committees for the benefit of shareholders
- finally, a lack of auditor independence and transparency is a huge fault in good governance.

Accounting issues should be handled in a transparent manner, with complete, detailed information and reports always available to the board and remedial actions put in place to prevent the recurrence of any questionable findings.

FOR FURTHER INFORMATION, PLEASE CONTACT US:

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