

Charities and Non-Profit Governance and Best Practice



Board Leadership

Governance is "the systems and processes concerned with ensuring the overall direction, effectiveness, supervision and accountability of an organisation."

The Board in control

Why is good governance important?

High Performance Board

Good governance is vital for the wellbeing and achievement of a Charity. A Charity is working for the public benefit and the governing body is responsible for the outcomes of the Charity. It is, therefore, becoming increasingly important for a Charity to be able to show that it is for the public benefit and to demonstrate how well it is governed. Good governance is the responsibility of the Board of Trustees.

Board Review and Renewal

Code of Good Governance

Board Delegation

The "Code of Good Governance" for the Voluntary and Community Sector has highlighted seven key principles of good governance:

Board and Trustee Integrity

1. Board leadership
2. The Board in control
3. The high performance Board
4. Board review and renewal
5. Board delegation
6. Board and trustee integrity
7. Board Openness

Board Openness

Stakeholder involvement

The Open Board

If complying with the Code the Charity should consider the following:

- They may state that they comply with the Code in their annual report.
- If they do not comply with a specific part of the Code, they may state this fact with reasons for non-compliance.
- If the governing document disallows a recommendation of the Code, the governing document must take priority.
- They may review and amend their governing documentation so as to be able to apply the Code.

Board Leadership

The Charity should be controlled by an effective Board of Trustees, who are all equally responsible for the Charity and are independent. They should collectively make decisions in the best interest of the Charity. They have a responsibility for ensuring

Governance and Best Practice

delivery of the objects of the Charity and ensuring that it remains solvent and well-run. Trustees should also set the strategic direction of the organisation.

Role of The Board

The role of the Board of trustees includes:

- Ensuring a clear understanding of the Board's role
- Regular review of the Board's role
- Induction and training of trustees
- Compliance with the objectives, purposes and values of the Charity.
- Compliance with the governing document.
- Setting policies, plans and budgets to achieve the objectives.
- Ensuring solvency, financial strength and good performance of the Charity.
- Compliance with all relevant laws and regulations
- Appointment of the Chief executive.
- Maintaining a framework of delegation and internal control.
- Ensuring that the Charity's vision, mission, values and activities satisfy the objectives.

Strategic direction

The Board should:

- Develop a clear distinction between Board and staff roles.
- Use a Chief Executive to provide a link between the Board and staff.
- Keep within the limits of its own authority
- Develop a strategic outlook, considering the bigger picture and long-term future when making decisions.
- Avoid becoming involved in the day-to-day running of the Charity (although this may not be practical for smaller organisations).

The Board in control

The Board are responsible for ensuring and monitoring that the Charity is performing well, is solvent and complies with all obligations.

Compliance

Good governance ensures that the Board can fulfil their compliance obligations through regular monitoring, review and strong internal controls. The trustees need to consider the following:

- Meeting the conditions of the governing document
- Compliance with relevant laws; For example, where applicable:
 - Charity law
 - Company law
 - Industrial and Provident Society Law, and the requirements of the Financial Services Authority.
 - Employment law
 - Health and Safety regulations
 - Data protection regulations

Governance and Best Practice

- Legislation against discrimination on grounds of race, disability, gender etc.
- Compliance with requirements of regulatory bodies; For example:
 - Preparing reports, accounts and annual returns as required by the Charity Commission
 - Preparing reports, accounts and annual returns as required by the Registrar of Companies.

Internal controls

All organisations need strong systems, performance reporting, policies and procedures that ensure the smooth operation of the organisation. These are known as internal controls. The trustees should:

- Establish a system of controls for their organisation
- Liaise with staff, especially the chief executive and other managers, to identify and set key controls.
- Regularly review and monitor the system of internal controls.
- Organisations providing services to users can use quality systems to aid the monitor and review of their systems (PQASSO- Practical Quality Assurance System for Small Organisations; or Investors in People)
- An audit committee or internal audit service could prove useful for larger or complex organisations.

Prudence

The Board must act prudently to:

- Protect the assets and property of the organisation
- Ensure the assets are used to deliver the organisation's objectives.

Managing risk

The trustees are should:

- Undertake a full risk assessment to recognise potential risks and threats to the organisation
- Take action to mitigate the risks identified.
- Avoid undertaking activities which place undue risk on the organisation's stakeholders, property, assets or reputation.
- Comply with the governing document and legal requirements when investing or borrowing funds.
- Manage conflicts that arise within the organisation.
- Adopt whistle blowing policies and procedures to report confidential matters of concern.

Equality and diversity

The trustees should:

- Promote and apply the principles of equality and diversity
- Ensure that the organisation is fair and open to the community in all of its activities.

Equality and diversity is an important consideration for the Board for several reasons:

- It is a legal requirement that organisations have Equal Opportunities policies in place and apply them successfully.
- It is of strategic significance as the future of the organisation depends on dealing effectively with changes in society and adapting the organisation.
- Stakeholders are increasingly demanding that organisations address diversity.

Governance and Best Practice

High Performance Board

The Board should have clear responsibilities and functions so as to ensure the highest performance and effectiveness.

Trustees duties and responsibilities

- Training and induction are important to ensure that trustees have a clear understanding of the role of the trustee and the Board.
- All trustees should sign a statement setting out the Charity's expectations of trustees, including their duties and responsibilities.
- Individual trustee responsibilities are different from those that the trustee has as a voting member of the Board. They should ensure that they have the correct authority in place before they act on behalf of the Board.

The effective Board

The Board should look after its own performance, taking steps to make itself as effective as possible. They can make effective use of the trustees' skills, time and knowledge by:

- Holding productive and regular meetings
- Ensuring that the Board group is fit for its job- having the right number of trustees and the right skill mix
- Recruiting a well prepared chair with good leadership skills
- Providing trustees with role training or focus learning on specific skill areas.
- Establishing a governance committee to identify ways to improve governance practise.
- Ensuring that all trustees have the opportunity to contribute at meetings.

Information and advice

- The trustees need high-quality information to make effective and informed decisions. Therefore, the Board needs appropriate systems for ensuring that the trustees get the information that they need. For example:
 - regular information and papers circulated in advance of meetings.
 - clear guidance for trustees on what and how much they need to prepare in advance of the meetings
 - guidelines for trustee communications between meetings
 - regular updates by staff members at meetings.
- The Board should have the opportunity to seek internal or external advice as necessary, and the Board will require its own budget for this purpose.

Skills and experience

- The Board needs the right balance of skills, qualities and experience among their members, including:
 - hard skills (i.e. legal, financial and management skills)
 - soft skills (i.e. team working, communication, problem solving)
 - leadership ability
 - knowledge of the community
 - specific life experience
 - essential values like honesty and integrity.
- The Board trusteeship should be diverse, representing the Charity's community and membership.

Governance and Best Practice

- A skills audit can help the Board identify strengths and weaknesses.
- Recruitment should focus on bringing the needed skills and experience to the Board.
- Induction processes should help new trustees learn how to apply their skills to governance work.

Development and support

All trustees should have learning and development opportunities. This can be provided through:

- Induction: all trustees should receive an induction before taking on the role.
- Role training: all trustees should be trained in their individual role and the Board should review its joint role regularly. Ongoing training should also be provided.
- Special training: may require training in specific areas like diversity or strategic planning.
- Support, advice and information

The Chief Executive

The Board's responsibilities in respect of the Chief Executive are:

- Establishing an effective link and relationship between the chief executive and the Board.
- Defining the role and developing a job description
- Setting remuneration levels
- Recruitment
- Regular appraisals to assess performance
- Disciplining and dismissing if necessary

The Chief Executive should have opportunities for learning and development and a budget dedicated to their development.

Board Review and Renewal

The Board needs to review its own performance to ensure that it is still effective for the Charity. They should put in place systems to maintain effectiveness and should monitor the organisation's overall performance.

Performance appraisal

- The Board should perform appraisals and regularly review the effectiveness of the Board with consideration of the following:
 - The function and operation of the Board
 - The performance of individual trustees
 - The performance of the chair and other officers
 - The work of subcommittees
- Good governance suggests that this is performed at least every two year.
- The findings from these appraisal can be used to develop training programmes and strengthen recruitment.

Board renewal and recruitment

Good recruitment is the key to improving Board composition, ensuring the correct skills mix, increasing diversity and strengthening governance practise. The Board should:

Governance and Best Practice

- Consider setting a maximum term of office for trustees.
- Conduct recruitment and selection in accordance with the terms of the governing document. This may include requirements for the Board group, size, composition and the selection process for trustees.
- Review and amend the governing document to improve recruitment practise. The Board has the power to change the governing document.
- Consider a skills audit: this identifies the skills present and absent among the existing Board group. The recruitment strategy can then be devised from these findings.
- Consider using a recruitment committee: they should be provided with role descriptions, person specifications and recruitment packs.
- Open the recruitment process to all sections of the community, and conduct formal interviewing.

Review

- The Board is responsible for ensuring that regular strategic reviews take place of the organisation as a whole. This involves looking at aspects of the organisational activity in a long-term strategic way, with reference to the following:
 - organisational aims, objectives and values
 - Board and trustee performance
 - services and activities
 - fundraising
 - systems, policies and procedures
 - the governing document
- The Board may hire outside consultants or auditors.
- The Board is ultimately responsible for receiving the information and acting on it in the interests of the organisation.
- The Board should use the results to inform positive change and innovation.

Board Delegation

Individual trustees, such as the chair and other honorary officers, subcommittees and staff members may help the Board, provided there is a proper approval process, clear role and task definition, and adequate monitoring. However, the Board as a whole retains equal and overall responsibility for making decisions for the organisation.

Clarity of roles

- Use of Honorary officers (eg. Chair, treasurer) who have limited powers to act on the Board's behalf.
- Their roles and responsibilities should be clearly defined in writing and special training provided if necessary.

Effective delegation

- Good governance practise requires the Board to delegate systematically, legally and with proper oversight. Before delegating, they should consider the following:
 - Does the governing document allow delegation of the task?
 - Does delegation serve the Board?
 - Does delegation duplicate staff roles?
 - Provide the person, or committee, with written terms of reference.

Governance and Best Practice

- The entire Board should agree to the delegation and a written record should be made of:
 - What is being delegated
 - Whether decision-making authority is being delegated
 - Whether authority to spend money is being delegated
- Boards should regularly monitor the work of committees, and review their role to ensure they are still serving a purpose. Subcommittees should not be able to take decisions without proper authority.

Terms of reference

- Terms of reference are written guidelines that clarify the role, purpose, authority and responsibilities given to a committee or individual. These should include the following:
 - a description of the work
 - authority to make decisions
 - timelines and schedules
 - reporting requirements
 - details of committee membership
 - budget and spending authority, if any
 - intended oversight by the Board.

Monitoring

- The Board needs to monitor delegated tasks by keeping track of which tasks have been delegated, who is responsible for doing them and the progress of delegated work.
- The Board should receive regular reports from those carrying out delegated tasks.

Board and Trustee Integrity

Boards are entrusted with the well being of their organisation. For example, protecting its assets, overseeing its activities and ensuring achievement of its objectives. Board service is a responsible job and it is expected that trustees will act with integrity and to high ethical standards. This can be ensured by:

- Having suitable recruitment and induction systems so that trustees have a clear understanding of their ethical responsibilities.
- Providing ongoing trustee development giving the trustees the skills they need to act correctly.
- Considering use of a Trustee Code of Conduct, which sets out expectations for trustee behaviour (both inside and outside of the Boardroom)

No personal benefit

Trustees should not benefit from their position, except for what is allowable by law and is in the interests of the organisation.

- Being a trustee is a voluntary position in almost all circumstances.
- It is good practise to reimburse out-of-pocket expenses incurred through trustee duties. Therefore, there should be clear procedures and a written expenses policy in place.
- Governing document permitting, trustees can receive payment for special services to the organisation, as long as they are being paid as professionals and not as trustees. A written agreement defining the work and the terms of

Governance and Best Practice

payments must be in place. Trustees should not be involved in setting their own level of remuneration for these services.

- Payments made to Trustees may require disclosure in the annual report and accounts.

Conflicts of Interest

The Board must be prepared to deal with actual or perceived conflicts of interest for trustees. The Board should:

- Identify conflicts of interest during trustee recruitment and induction.
- Set clear procedures for dealing with issues where trustees appear to have a conflict of interest. For example, certain trustees may not be able to vote on specific issues. If there is a major or on-going conflict, the trustee should consider resignation.
- Maintain an up-to-date register of interests
- Consider use of a Trustee Code of Conduct which can provide useful guidance.

Probity

- Gifts or hospitality should never be accepted if there is a real or perceived risk that it will influence a Board decision.
- The Board should establish a policy and procedures in this area and an agreed trustee conduct protocol.

Board Openness

Governance can be enhanced by the trustees being open, accountable, responsive and communicative.

Communication and consultation

The Board should:

- Have policies in place for identifying the stakeholders of the organisation.
- Communicate with its stakeholders regularly and effectively.
- Let stakeholders know what they are doing and why. Therefore, the Board needs a Board communication strategy to ensure that communication is safe, targeted and appropriate.
- Use a variety of methods to inform stakeholders about the work they are doing (i.e. newsletters, press releases, website features, the annual report etc.)
- Aim to learn more about the views of their stakeholders or to find out how certain groups feel about a particular issue. This can be done through consultations, the use advisory groups, or by inviting stakeholders to become trustees

Openness and accountability

Accountability and openness are hallmarks of good governance. This involves:

- Being open about the organisation's achievements and work, to anyone who may have an interest in the organisation.
- Being willing to answer questions about the decisions your Board has taken. Good governance practises ensures that the Board has all the information they need to answer these questions.
- Being clear about what information is available and what must remain confidential.
- If they are confident in their knowledge, trustees and the Board Group can interact freely with stakeholders

Governance and Best Practice

at meetings, social events and through other channels of communication.

Stakeholder involvement

- The Board should communicate with stakeholders and take into consideration their views when making governance decisions.
- Good governance systems enable the Board to identify stakeholders and include them when making decisions.

Stakeholders can also become trustees or serve on the Board subcommittees. Although there may be restrictions in the governing document over who can become a trustee.

LONDON

10 Orange Street
Haymarket
London
WC2H 7DQ

T +44 (0)20 7312 0000
F +44(0)20 7312 0022
E advice@shipleys.com

GODALMING

3 Godalming Business Centre
Woolsack Way
Godalming
Surrey
GU7 1XW

T +44 (0)1483 423607
F +44 (0)1483 426079
E godalming@shipleys.com

SAFFRON WALDEN

Market House
10 Market Walk
Saffron Walden
Essex
CB10 1JZ

T +44 (0)1799 521301
F +44 (0)1799 523854
E saffron@shipleys.com

BIRMINGHAM

2nd Floor
3 Brindley Place
Birmingham
B1 2JB

T +44 (0)121 698 8566
F +44 (0)121 698 8600
E birmingham@shipleys.com



Shipleys is a member of AGN International, a worldwide association of separate and independent accounting and consulting firms.

Registered to carry on audit work and regulated for a range of investment business activities by the Institute of Chartered Accountants in England & Wales

© Shipleys LLP 2009 07