

# An introduction to the Charities Governance Code

February 2020





# Introduction

The **Charities Regulator in Ireland** launched their **Charities Governance Code** ('the Code') in November 2018. It takes effect on 1 January 2020, with all charities required to comply from that date. From 2021, charities registered with the Regulator will be required to report their compliance annually as part of their Annual Return.

There were 10,305 charities registered with the Regulator at 31 August 2019. In the year to 31 December 2018, 686 individual concerns were raised with the Regulator in respect of 423 organisations. Of these, around 83% were in respect of 'governance issues', 'legitimacy of a charity' and 'financial control and transparency'.

Governance ensures that basic processes and controls are in place which will ensure transparency and accountability within a charity, and will assist charity trustees in carrying out their statutory, regulatory and fiduciary duties. While rules, processes and policies are key in ensuring that the charity performs well and complies with legal requirements, good governance will only succeed if it is truly embedded in the culture and the fundamental structure of each organisation, with the trustees leading by example. This will go towards restoring public trust and confidence in the charities sector as a whole.

Given the diversity and range of entities within the sector, a one-size-fits-all model is not appropriate in the context of the scale and scope of Irish charities. However, it is clear that good governance ensures that charity trustees can carry out their statutory duties, which include, but are not limited to:

- ensuring that the charity is carrying out its charitable purposes for the public benefit;
- acting in the best interests of the charity;
- managing the assets of the charity;
- ensuring the charity keeps proper books of account; and
- acting with reasonable skill and care.

In addition to the publication of the Code, the Regulator has published the draft **Charities (Accounting and Reporting) Regulations 2016**; these regulations seek to enhance the accounting and reporting requirements for charities. At date of writing, these regulations have not yet been enacted. Further details can be found in our publication, '**An Introduction to the Charities SORP**', available from our website.

The introduction of these accounting, governance and reporting regulations will increase transparency, incentivise best governance practice and enable charities to evidence this to the Charities Regulator, donors, beneficiaries and ultimately assist with the restoration of public trust in the sector.

In Northern Ireland, there are currently over 6,100 charities registered with the **Charity Commission for Northern Ireland**. Such charities are not currently required to comply with any charity governance code; however, they may wish to consider applying some or all of the Regulator's Code as best practice.





# Contents of the Charities Governance Code

The Code outlines six principles of charity governance, which are considered here. All charities are expected to meet the core standards outlined in the Code, unless a particular standard doesn't apply to a particular charity.

Alongside each core standard are additional standards, which are applicable to more complex charities. Each charity should decide for itself whether it should meet the requirements in the additional standard. Consideration should be given to factors such as level of charitable income, number of employees or complexity of operations.

All charities registered with the Regulator will be required to apply these principles from 1 January 2020, and report on their compliance from 2021.

A full copy of the Code can be found on the Regulator's website.

## Advancing charitable purpose

The **Charities Act 2009** requires that every charity must have a charitable purpose, to be one or more of the following:

- a) the prevention or relief of poverty or economic hardship;
- b) the advancement of education;
- c) the advancement of religion; or
- d) any other purpose that is of benefit to the community. (**Charities Act 2009, s3**)

A charity must promote only its charitable purpose or purposes; any private benefit must be clearly incidental.

### Core standards for advancing charitable purpose

1.1	Be clear about the purpose of your charity and be able to explain it in simple terms to anyone who asks.	
1.2	Consider whether or not any private benefit arises. If a private benefit arises, consider if it is reasonable, necessary and ancillary to the public benefit that your charity provides.	
1.3	Agree an achievable plan for at least the next year that sets out what you will do to advance your purpose.	
1.4	Make sure your charity has the resources it needs to do the activities you plan. If it doesn't have the resources, you need to show a plan for getting those resources.	
1.5	From time to time, review what you are doing to make sure you are still:	<ul style="list-style-type: none"> <li>• acting in line with your charity's purpose; and</li> <li>• providing public benefit.</li> </ul>

### Additional standards

1.6	Develop your charity's strategic plan and associated operational plans.	
1.7	Make sure there is an appropriate system in place to:	<ul style="list-style-type: none"> <li>• monitor progress against your plans; and</li> <li>• evaluate the effectiveness of the work of your charity.</li> </ul>
1.8	From time to time, consider the advantages and disadvantages of working in partnership with other charities, including merging or dissolving (winding up).	

## Behaving with integrity

It is a requirement of the **Charities Act 2009** for trustees to act in the best interests of the charity. This means trustees must:

- Be independent; and
- Not act in their own personal interest or in the interests of other individuals or bodies.

There are no additional standards for this principle.

### Core standards for behaving with integrity

2.1	Agree the basic values that matter to your charity and publicise these, so that everyone involved understands the way things should be done and how everyone is expected to behave.	
2.2	Decide how you will deal with conflicts of interests and conflicts of loyalties. You should also decide how you will adhere to the Charities Regulator's guidelines on this topic.	
2.3	Have a code of conduct for your board that is signed by all charity trustees. It must make clear the standard of behaviour expected from charity trustees. This includes things like maintaining board confidentiality and what to do in relation to:	<ul style="list-style-type: none"> <li>• gifts and hospitality; and</li> <li>• out-of-pocket expenses.</li> </ul>

## Principle 3 Leading people

A charity's most valuable resources are its people, whether employees or volunteers, and each charity has a duty of care towards them.

As employers, charities should also ensure they are meeting their other legal requirements with respect to their employees.

### Core standards for advancing charitable purpose

3.1	Be clear about the roles of everyone working in and for your charity, both on a voluntary and paid basis.
3.2	Make sure there are arrangements in place for the effective involvement of any volunteers, including what to do if any problems arise.
3.3	Make sure there are arrangements in place that comply with employment legislation for all paid staff including: <ul style="list-style-type: none"><li>• recruitment;</li><li>• training and development;</li><li>• support, supervision and appraisal; and</li><li>• remuneration and dismissal.</li></ul>
3.4	Agree operational policies where necessary, to guide the actions of everyone involved in your charity.

### Additional standards

3.5	Make sure to document the roles, legal duties and delegated responsibility for decision-making of: <ul style="list-style-type: none"><li>• individual charity trustees and the board as a whole;</li><li>• any sub-committees or working groups; and</li><li>• the conditions under which they exit.</li></ul>
3.6	Make sure that there are written procedures in place which set out how volunteers are: <ul style="list-style-type: none"><li>• recruited, supported and supervised while within your charity; and</li><li>• the conditions under which they exit.</li></ul>
3.7	Decide how you will develop operational policy in your charity. You also need to decide how your charity trustees will make sure that the policy is put in place and kept up to date.

## Principle 4 Exercising control

All charities must abide by the relevant legal and regulatory requirements imposed on them. The charity's trustees are responsible for ensuring this compliance, and therefore it is vital that the trustees exercise suitable control over the operations of the charity.

### Core standards for exercising control

4.1	Decide if your charity's current legal form and governing document are fit for purpose. Make changes if necessary, telling the Charities Regulator in advance that you are doing so.
4.2	Find out the laws and regulatory requirements that are relevant to your charity and comply with them.
4.3	If your charity raises funds from the public, read the Charities Regulator's guidelines on this topic and make sure that your charity adheres to them as they apply to your charity.
4.4	Make sure you have appropriate financial controls in place to manage and account for your charity's money and other assets.
4.5	Identify any risks your charity might face and how to manage these.
4.6	Make sure your charity has appropriate and adequate insurance cover.

## Additional standards

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| 4.7 | Have written procedures to make sure that you comply with all relevant legal and regulatory requirements.             |
| 4.8 | Make sure there is a formal risk register that your board regularly reviews.  |
| 4.9 | Consider adopting additional good practice standards that are relevant to the particular work that your charity does. |

## Principle 5 Working effectively

It is essential for the effective running of any organisation that the members work together as a team. This is especially important for trustee boards, where trustees must work together effectively to support their beneficiaries.

## Core standards for exercising control

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| 5.1 | Identify charity trustees with the necessary skills to undertake:   | <ul style="list-style-type: none"><li>• any designated roles set out in your governing document; and</li><li>• other roles as appropriate within the board.</li></ul> |
| 5.2 | Hold regular board meetings. Give enough notice before meetings and provide prepared agendas.   |   |
| 5.3 | At a minimum, your board agendas should always include these items:   | <ul style="list-style-type: none"><li>• reporting on activities;</li><li>• review of finances; and</li><li>• conflicts of interests and loyalties.</li></ul>          |
| 5.4 | Make sure that your charity trustees have the facts to make informed decisions at board meetings and that these decisions are recorded accurately in the minutes. |   |
| 5.5 | Consider introducing term limits for your charity trustees, with a suggested maximum of nine years in total.  |   |
| 5.6 | Recruit suitable new charity trustees as necessary and make sure that they receive an induction.  |   |
| 5.7 | Make sure all of your trustees understand:  | <ul style="list-style-type: none"><li>• the charity's governing document;</li><li>• this code; and</li><li>• their role as charity trustees.</li></ul>                |
| 5.8 | Commit to resolving problems and emerging issues as quickly as possible and in the best interests of your charity.  |   |
| 5.9 | From time to time, review how your board operates and make any necessary improvements.  |   |

## Additional standards

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| 5.10 | Make sure you send out board packs with enough notice and include all relevant reports and explanatory papers to enable informed decision-making.                                 |  |
| 5.11 | Make sure that you have a charity trustee succession plan in place and consider how you can maximise diversity among your charity trustees.                                       |  |
| 5.12 | Put in place a comprehensive induction programme for new charity trustees.  |  |
| 5.13 | Make sure that your charity trustees have the facts to make informed decisions at board meetings and that these decisions are recorded accurately in the minutes:                 | <ul style="list-style-type: none"><li>• the effectiveness of your board as a whole, office holders and individual charity trustees;</li><li>• adherence to the board code of conduct; and</li><li>• the structure, size, membership and terms of reference of any sub-committee.</li></ul> |
| 5.14 | Do regular skills audits and provide appropriate training and development to charity trustees. If necessary, recruit to fulfill any competency gaps on the board of your charity. |  |

A charity has a wide range of stakeholders – those who are interested and invested in the operations of the organisation. These include, but are not limited to, employees, donors, partner organisations and regulators.

Charities must be open and transparent in their operations, to build public trust not just in their own organisation, but in the sector as a whole.

#### Core standards for being accountable and transparent

6.1	Make sure that the name and registered charity number of your charity is visible on all of your written materials, including your:	<ul style="list-style-type: none"> <li>• website;</li> <li>• social media platforms; and</li> <li>• email communications.</li> </ul>
6.2	Identify your stakeholders and decide how you will communicate with them.	
6.3	Decide if and how you will involve your stakeholders in your:	<ul style="list-style-type: none"> <li>• planning;</li> <li>• decision-making; and</li> <li>• review processes.</li> </ul>
6.4	Make sure you have a procedure for dealing with:	<ul style="list-style-type: none"> <li>• queries;</li> <li>• comments; and</li> <li>• complaints.</li> </ul>
6.5	Follow the reporting requirements of all of your funders and donors, both public and private.	

#### Additional standards

6.6	Produce unabridged (full) financial accounts and make sure that these and your charity's annual report are widely available and easy for everyone to access.
6.7	Make sure all the codes and standards of practice to which your charity subscribes are publicly stated.
6.8	Regularly review any complaints your charity receives and take action to improve organisational practice.



## Reporting requirements

Once registered with the Regulator, each charity must complete an **Annual Report**.

From 2021, part of this Annual Report will require charities to report on whether they have complied with the core standards, and, where relevant, the additional standards, within the Code. If the charity does not comply with any aspect of the Code, explanations must be given.

A **Compliance Record Form** is available from the Regulator's website; this must be completed each year by the trustees. The form requires trustees to explain, for each core standard and each applicable additional standard, the actions that the charity takes to meet the standard, and the evidence that is available for this action.

The form does not need to be filed with the Regulator; however, the Regulator may ask for sight of the form at any time.

In the future, the Regulator will be reporting on compliance with the Code, and each individual charity's compliance status will be publicly available. Therefore, trustees should give consideration to not only the risks that may arise internally from not having an adequate governance structure, but also the reputational and other risks that may arise from this publicly available information.

# How Grant Thornton help

## 1 Governance diagnostics

**When is it relevant** - Organisations seeking to understand whether existing governance reflects good practice.

**Value added** - Detailed and insightful comparison to a database of peers enables analysis of structures and identification solutions.

**Type of solutions enabled with management:**

- benchmark and reporting to market good practices;
- identification of areas for improvement (in annual report and/or issues with internal framework and approach) dependent on appetite and suggested solutions prioritised;
- development of implementation plans and change programmes; and
- peer and sector comparison.

## 2 Governance renewal

**When is it relevant** - A significant change event has occurred which means that the current governance framework is no longer fit for purpose.

**Value added** - Design and implementation of corporate frameworks which support value creation.

**Type of solutions enabled with management:**

- strategic reviews, integration and organisational design;
- development of frameworks, policies and procedures;
- risk appetite identification and embedment;
- internal control reviews and redesign;
- internal audit effectiveness reviews; and
- performance measures, restructuring and implementation.

## 3 Strategic sustainable reporting

**When is it relevant** - Performance is focused on short-term or unbalanced targets.

**Value added** - Ensured that performance and reporting is aligned to sustainable, long-term objectives and goals.

**Type of solutions enabled with management:**

- statutory reporting advice and review;
- integration of internal performance reporting with strategy;
- creation of sustainability and compliance reporting methodology; and
- non-statutory reporting assurance.

## 4 Leadership and culture

**When is it relevant** - Culture needs to be aligned to strategy in order to realise corporate purpose.

**Value added** - Cultural change can be achieved more efficiently when values and behaviours are considered alongside strategy, systems and processes.

**Type of solutions enabled with management:**

- cultural audit; and
- high potential assessment and development programmes.

## 5 Board evaluation

**When is it relevant** - Assessment of board practices or restructuring of board governance.

**Value added** - External assurance over board and/or structure, capability and function.

**Type of solutions enabled with management:**

- board effectiveness reviews;
- committee effectiveness reviews; and
- committee structure and terms of reference design.



# Why Grant Thornton

Grant Thornton's specialist charity engagement team can work with you through every step of your transition review.

We will work closely with you to help you develop your charity's governance policies and procedures, to ensure that the Code is adhered to within the context of your organisation, and that the implication of these policies are understood by your people.

We will provide you and your finance teams with ongoing support throughout this process and after completion, so you always have someone to support the practical implementation of new policies and procedures after the initial conversion period. We are ideally situated to provide all of the support you require.



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