Grant Thornton

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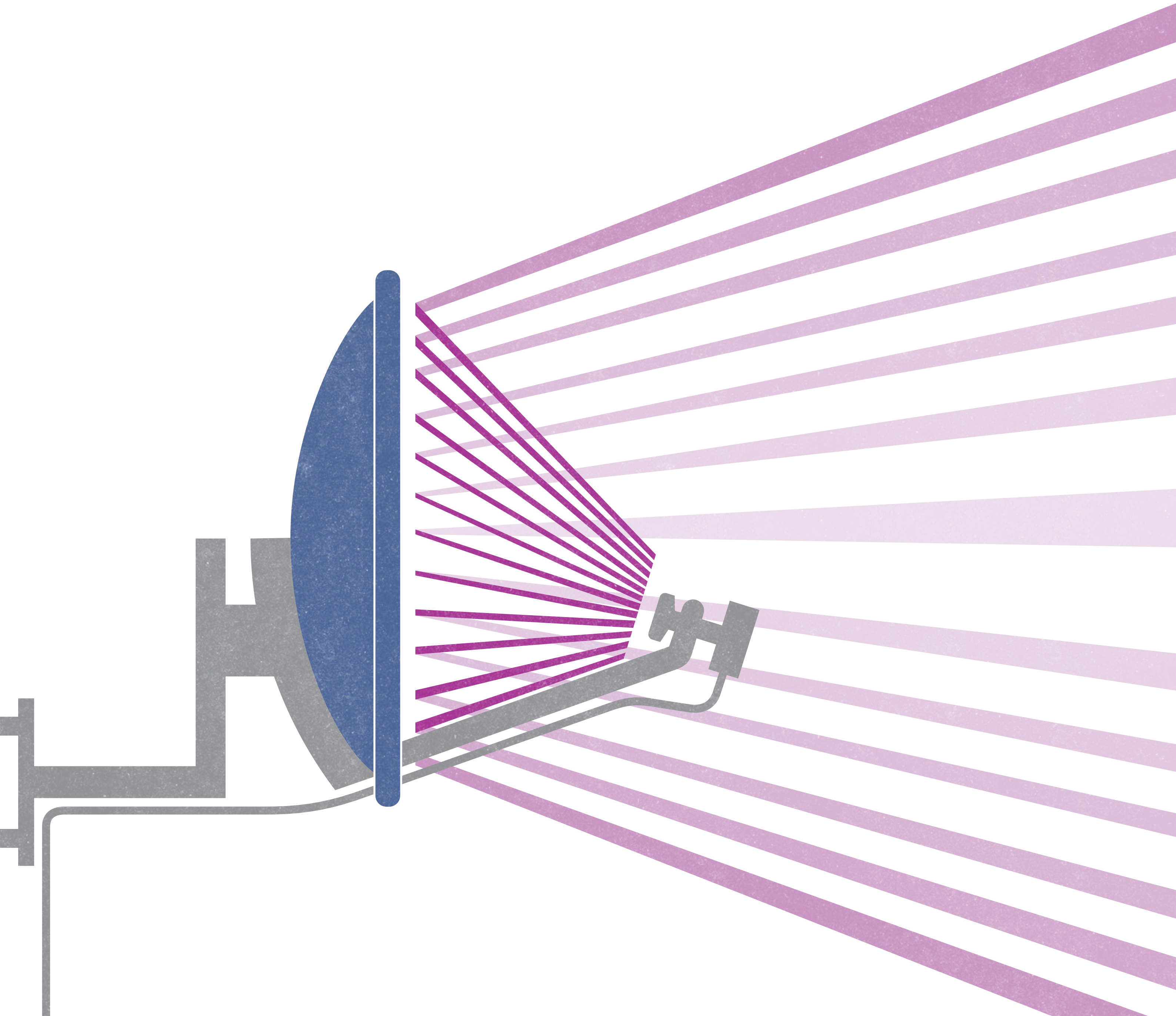
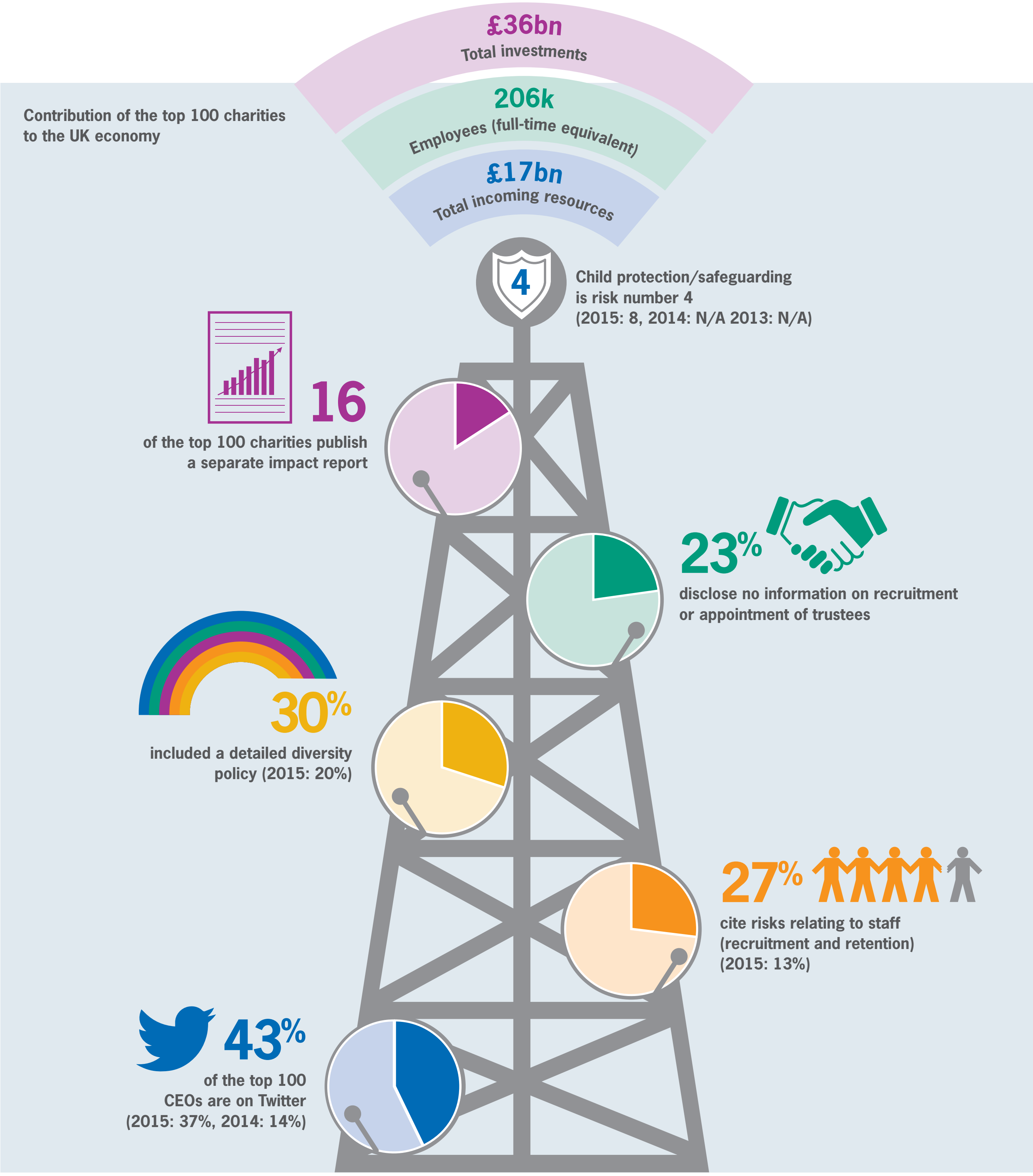
CHARITY GOVERNANCE REVIEW 2016

Transmitting trust through good governance



Key highlights



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Methodology

This report is based on a review of the latest financial statements of the top 100 charities (by income) in England and Wales, as filed with the Charity Commission in summer 2015. The range of financial year-ends means the statements reviewed cover the period from 31 December 2013 to 31 March 2015. Our sample excludes universities that file their accounts with the Charity Commission, but includes a number of charitable registered providers reporting under the Housing Statement of Recommended Practice (Housing SORP).

Within this document we refer to last year's report, Charity Governance Review 2015: Navigating a Changing World, as the '2015' report; and this publication as '2016'. Last year's report is available to download from our website at http://www.grant-thornton.co.uk/Global/Publication_pdf/Navigating-a-changing-world-Charity-governance-review-2015.pdf.

We have based our review on the Charities' SORP (Accounting and Reporting by Charities: Statement of Recommended Practice 2005); the Charities Act 2011; the Companies Act 2006; and best practice guidance from other sectors, such as the UK Corporate Governance Code. Where appropriate, we have also considered the requirements of the new Charities' SORP, which applies to accounting periods beginning on or after 1 January 2015.

As in previous years, we draw on the guidance in the UK Corporate Governance Code. This guidance is designed for listed companies, but is relevant to large charities operating at a similar level of complexity. We also refer to our companion reviews of corporate governance in the FTSE 350 and the top 60 housing associations.

Carol Rudge, Head of Not for Profit – UK and Global at Grant Thornton, would like to thank Caron Bradshaw, Francesca Clarke, Gabby Cust, Nigel Davies, Tom Davies, Cormac Golden, Louise Hughes, Aliya Iqbal, Phil Keown, Connor Knight, Laura Leccacorvi, Kieran Owen, Alex Palmer, Paul Rao and Leon Ward.

Foreword

Carol Rudge
Head of Not for Profit
UK and Global, Grant Thornton UK LLP

Welcome to Grant Thornton's fourth annual review of governance in the charity sector, based on our analysis of the disclosures made in the trustees' reports of the 100 largest charities in England and Wales, our experience in the sector and informed by our work on building trust and integrity in a vibrant economy.

Once again the sector finds itself in the media spotlight and under further scrutiny from its Regulator, and needing to address the reputational issues associated with the public and media perception about the way the high profile charities operate in conjunction with managing the risks to future funding.

A breakdown in trust?

Reputational issues associated with charity operations continue to challenge the sector following a number of high profile, well publicised, cases around fundraising methods, mismanagement of reserves, alleged governance failures and assertions that some charities have become over-politicised. While many of the reports we studied relate to periods before this began in the early summer of 2015, the success of the response of the charity sector going forward will be in how organisations learn from best practice in governance and accountability.

Changing risks

Half of all the charities in our sample now list loss or the availability of key contracts as a risk; a figure that has increased by more than a fifth in the last two years and is five times the figure it was in our first report in 2013. This is associated with a commensurate rise in the number of organisations that list a potential failure in delivery as among their major organisational challenges.

However, the number of charities reporting risks associated with the state of the wider economy has declined every year as the economy has returned to growth. This figure may also be connected to the sudden rise in the number of charities who identify retaining quality employees as a risk; perhaps because the improving labour market means staff have more choice, while it becomes more difficult to recruit talent from outside the sector.

Achieving transparency

The Annual Report offers a key opportunity to do more than simply meet the minimum reporting requirements of the SORP; it can be a chance to have an imaginative and informative dialogue with supporters, funders and beneficiaries.

This report highlights some of the best practice across the sector and draws upon similar research undertaken on governance in the NHS, the social housing sector and companies in the FTSE 350 to provide a unique oversight of UK governance.

Key to improving the conversation with the public and other stakeholders, and moving that conversation on from narrow debates about overheads, for example, is how organisations demonstrate what they have achieved, usually under the broad heading of 'impact' and what they plan to do in the future. For the first time, we have included a specific section at the beginning of this report on impact, informed by our seminar on impact and outcome measurement held in February.

It may not surprise you to learn that impact reports are highly variable in format and content. We do not claim to have a magic wand that will help you to completely and coherently report your impact, but we do identify in this report the benefits of doing so. Although often seen as a management and potential fundraising tool, impact measurement is increasingly key for boards as they try to establish what their respective organisations are achieving.

As the main public output of the senior leadership team, the Annual Report can also demonstrate the positive benefits of making a difference as a charity trustee. As Nigel Davies, Joint Chair of the Charities SORP Committee, says in this report "governance is about people working together to create a vision, and exercise leadership and team work." It would definitely be the worst outcome of the last 12 months if people were put off becoming trustees by the negative press attention, when there is so much to gain and to give. Demonstrating best practice in governance, including in recruitment and induction, is one way that future trustees will have assurance that being a charity trustee remains one of society's most worthwhile tasks.

The Annual Report offers a key opportunity to do more than simply meet the minimum reporting requirements of the SORP; it can be a chance to have an imaginative and informative dialogue with supporters, funders and beneficiaries.

The regulator's perspective

Nigel Davies, Joint Chair of the Charities SORP Committee and Head of Accountancy Services, Charity Commission for England and Wales

Making a difference for the public benefit is at the heart of what a charity is about. Although charities make a difference by combining the resources of trustees, volunteers, staff, money and assets, the heart of making it happen is all about people. Healthy governance is about people working together to create a vision, and exercise leadership and team work.

The trustees' annual reports reviewed in this report present an opportunity for trustees to tell their story, about what the charity is set up to do, what it did, what difference it made and, in telling your governance story, how you went about it.

Telling your governance story under the new SORP means you are able to give:

- an insight into how trustees are recruited
- the dynamics of decision-making through the Committee structure and trustee oversight
- the operational context in which decisions are taken
- how pay decisions for senior staff are made
- the quality of advice and support to trustees reflected in reporting by senior staff
- the induction and training arrangements for trustees.

Too often we find the narrative of an annual report is either a series of facts or it is treated as a compliance exercise conveying little insight into the work of the trustees, the effectiveness of their oversight and the challenges that they have overcome in keeping the work of their charity relevant and effective to the times. Yet is the SORP's reporting requirements for governance asking the right things? What else around governance is of use to the reader of the annual report?

The SORP-making body and SORP Committee will be looking ahead to the next SORP and in a consultation exercise seeking your views. Please make your views heard about how best charities can tell us their governance story.

"Too often we find the narrative of an annual report is either a series of facts or it is treated as a compliance exercise"

Impact reporting

As a charity, what difference do you make? It's a question that's seemingly simple to pose whilst being very challenging to answer.

Amid increasing pressure on charities to demonstrate the benefit they provide in return for the donations and other sources of income received – and the reputational loss attached to not being able to provide that assurance – being able to measure and then report on impact is a challenge that has become increasingly important for the sector.

Since its launch in July 2012, the sector-run Inspiring Impact initiative has been actively encouraging charities to look beyond measures such as 'outputs' and 'outcomes' – and start calculating 'impact' as well.

This means charities are being urged to seek out the broader or long-term effects of their work (see below) as they seek to measure and justify public benefit – and not simply rely on listing the activities they've undertaken, or even their short-term results.

The statutory environment also reflects this shift in emphasis. The latest Charities' SORP, effective from January 2015, sharpens its focus on the need to report on charitable impact. It says:

"Charities are encouraged to develop and use impact reporting (impact, arguably, being the ultimate expression of the performance of a charity), although it is acknowledged that there may be major measurement problems associated with this in many situations[1]."

This wording is revealing. Even as the Charities' SORP underlines how fundamental impact reporting is, it admits that charities face significant challenges when developing metrics for 'impact'.

From output to impact: a glossary

Output
Products, services or facilities that result from an organisation's or project's activities

Outcome
The changes, benefits, learning or other effects that result from what the project or organisation makes, offers or provides

Impact
The longer-term effects of a project or organisation's work. What has been improved/effected as a result of the charity's intervention?

[1] Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102), Section 1.43. http://www.charitiessorp.org/media/619101/frs102_complete.pdf

How charities report on impact

In our review of the top 100 charities, we found that almost one-fifth of organisations published a separate impact report in the last 12 months.

We found that the quantity and quality of impact reporting varied hugely, and there was a significant range in the importance attached to impact reporting. For example, we note that some charities, including Marie Stopes International, Great Ormond Street Hospital Children's Charity and Victim Support all published separate impact reports. Whilst many other charities include this information within their annual report. This latter approach is more common within the sector, but may be equally insightful.

Many charities also use impact and output reporting to highlight value internally; this demonstrates to employees that their contribution has led to positive outcomes.

In general, charities reported on outputs, rather than impact. This is hardly surprising: outputs are more easily quantifiable than the true impact, and fit more neatly into annual reporting cycles. Impact, on the other hand, may require more complex monitoring frameworks or an academic evidence base, and can require many years to genuinely understand the impact made. These in turn put a strain on often already limited resources.

While impact and output reporting are seen positively, there is an increasing trend for trustees to challenge the information presented, particularly due to increasing media coverage and scrutiny by the public. Many audit committees (or their equivalent), in their oversight role, are challenging management on the accuracy and integrity of the data and the outputs/impact statement. For example, asking whether a particular figure is accurate, or whether the charity can be confident enough in the integrity of the underlying data to say publicly that it has benefited a certain number of individuals, or saved a certain number of lives. This is particularly relevant because non-financial data would not be scrutinised by the charity's external auditors – an issue we discuss below.

And there are further challenges. At a recent Grant Thornton seminar on 'Measuring outputs and impact', delegates raised a number of practical and technical challenges they have faced when considering impact measurement. These are reported at the top of the next page.

> *Despite the challenges that charities face, the sector can achieve significant benefits by aiming to measure and report on impacts, as opposed to outputs or outcomes.*

Towards independent scrutiny in impact reporting

If, as the Charities' SORP suggests, impact is (arguably) the "ultimate expression" of a charity's performance, there is a strong case for independent scrutiny of the impact claims a charity makes.

Yet currently there is relatively little independent oversight over claims that charities make about impact. This could create a risk of error or, at worst, reputational damage if claims made are later found to be false.

Some trustees may think they already have such independent assurance from their external auditor, but in fact the external auditor has a very limited role in respect of the accuracy of non-financial information in the report[2].

Because of the risk of reputational loss in the event of misstatements, charities should consider whether they can benefit from additional scrutiny over non-financial claims they make in impact reports – whether by their own internal or external auditors or another third party.

They should also consider whether trustees or senior managers are aware of any estimates or judgements applied in impact reporting, and whether these are robust and would stand up to external challenge.

Where charities can point to a strong theoretical basis for their impact reporting, and independently verify claims they make on that basis, they may find themselves in a stronger position if ever challenged.

[2] www.frc.org.uk/auditscopeukprivate.

Impact reporting: the challenges

In February 2016, Grant Thornton held a seminar[3] attended by delegates from top 100 UK charities as well as smaller not-for-profits. Delegates raised the following issues:

- **Long-term impacts and outcomes**. Impacts can unfold over periods of 10 years or more. How can charities reconcile this with an annual reporting cycle?
- **The need for a theoretical basis**. Where researchers have demonstrated a theoretical link between a certain set of actions and a certain outcome or impact, to what extent can charities rely on that in their impact reporting?
- **The attribution problem**. Charities may know that a certain change has taken place, but how far can they be sure that these changes are attributable to their own efforts?
- **Individual versus collective impacts**. Even if a collective impact could be predicted from a certain set of actions, is this reliable at an individual level – for example, if there have been setbacks or issues during the year?
- **Who is the audience?** Do charities know who their impact reporting is for? Trustees and the public, for example, might have different expectations from impact reporting.
- **What about negative impacts?** If charities feel pressure to make interventions that only have reliably positive impacts, will this discourage them from pursuing interventions with potentially higher reward but higher risk of failure – as part of a balanced strategy?
- **The need for focus**. Given the complexity of impact measurement, should charities focus on a small number of impacts, rather than spreading resources too thinly?

Impact reporting: the benefits

Despite the challenges that charities face, the sector can achieve significant benefits by aiming to measure and report on impacts, as opposed to outputs or outcomes. We have identified the following potential benefits:

- **Clarity of purpose**. Reporting on impact may help charities to assess their strategic objectives and wider purpose. Many charities working with Inspiring Impact, for example, use a tool known as a 'theory of change' to work back from the organisation's ultimate goal to clarify the organisation's purpose and see what activities fit[4].
- **Reputational benefits**. In the longer term, it may be possible to reframe the focus of debate about charities – moving the conversation away from pure financial metrics in annual reports (often of limited usefulness in assessing how a charity operates) and towards a judgment of what the charity is achieving and the difference it makes.
- **Project management**. Having an idea of the ultimate outcomes a charity is working towards allows measurable outputs and KPIs to be developed in advance, allowing project managers to know whether they are on track.

Impact reporting: what charities can do

To help achieve the benefits of impact reporting, and to mitigate risks to reputation, charities should:

- recognise the importance of measuring impact as well as outputs and outcomes
- recognise the increasing requirement to publicise this information, and the resulting scrutiny that this will create
- develop a suitable control framework, with policies and procedures to manage the risks associated with collecting and publishing non-financial data related to impacts and outputs
- involve trustees in these policies and procedures.

Charities can also find a wealth of resources at the Inspiring Impact initiative. The Code of Good Impact Practice[5], for example, helps charities get started with impact measurement.

[3] Measuring outputs and impact Grant Thornton seminar: February 2016

[4] Putting the Code into Practice: Thoughts from the Code of Good Impact Practice Learning Forum. Inspiring Impact, July 2014, page http://inspiringimpact.org/wp-content/uploads/2013/04/Putting-The-Code-into-Practice-2014.pdf

[5] The Code of Good Impact Practice. Inspiring Impact, July 2014. http://inspiringimpact.org/wp-content/uploads/2013/04/Code-of-Good-Impact-Practice.pdf

The board of trustees

Length of trustee involvement

The question of how long trustees should be involved with charities received significant press coverage during 2015 – particularly in relation to the demise of Kids Company, where attention focused on how long the Chair had been a member of the board. This area may receive greater press attention in future.

The Financial Reporting Council (FRC) guidance says:

"Non-executive directors should be appointed for specified terms subject to re-election and to statutory provisions relating to the removal of a director. Any term beyond six years for a non-executive director should be subject to particularly rigorous review, and should take into account the need for progressive refreshing of the board."

We encourage charities to report the length of key individuals' involvement, as an indicator of good governance. Only just over a quarter (26) of the top 100 charities report the length of their chair's involvement. This is broadly consistent with our previous report (2015: 28). The average length of involvement is about 3.5 years (2015: 2.5 years), though the range varies significantly, from six months to 17 years. This means that, of those which reported the length of involvement, most are in line with the FRC guidance; but we did note that three of 26 chairs have been in post for 10 years or more.

On any board, it is useful to have a mixture of longer-serving and newer trustees. Long-standing trustees can bring with them significant organisational experience, while newer trustees can bring a fresh perspective. Therefore, it can be effective to stagger appointments to a trustee board – both to ensure a regular flow of fresh ideas, and to ensure the board avoids having too many trustees being replaced at the same time.

LENGTH OF CHAIR'S INVOLVEMENT (IN CHARITIES WHO DISCLOSE THE INFORMATION)

*Total who disclosed data: **2016** – 26; **2015** – 28.

Trustees' skills

The skillset of the board has been another area of focus in recent press stories about the sector – making it even more important that charity stakeholders are able to gain an understanding of the calibre and experience of trustees.

One way of providing this assurance is to include a biography of each trustee in the annual report. This allows readers to understand what each trustee brings to the board, and why they have chosen.

While many charity websites do give details, including photographs, of trustees, only 17% (2015: 15%) included information in their accounts beyond what is required by law (that is, the trustee's name, and date of appointment/resignation as appropriate).

Identifying trustee skills: what the Charity Commission recommends

"As well as skills, consider if your trustees' background and experiences can help:

- bring different points of view to a discussion
- give insight into your beneficiaries' needs and experience
- make contacts in the community
- think of new ways of doing things.

For example, a charity that works with young people might have young people as trustees or advisers as well as older people who bring experience. You'll get a wider range of experience if you recruit a mix of male and female trustees with different social or ethnic backgrounds and abilities."

Source: Trustee Board: People and Skills, Charity Commission publication.
https://www.gov.uk/guidance/trustee-board-people-and-skills

Trustee board key questions for trustees to consider

- Are there limits to trustee terms of office? If not, should there be?
- If there are limits to trustee terms of office, when do members of the board and committees retire?
- Is the size of the board determined by the charity's rules and regulations? If not, what is the optimum size for the board and how does that compare with the current position?
- What are the skills required of the trustee board? What is the current skillset? If there is a gap, how will this be addressed?
- Is there a succession plan in place?
- When was an external board evaluation last carried out? What were the findings, and have they now been addressed? If not, is there a plan in place to ensure they will be addressed?
- Does the trustee board have the right mix of trustees? If not, what needs to be done to address this?

Recruitment and induction of trustees

Many charities recruit trustees via personal networks, making it more likely that trustees may recruit 'in their own image'. By clearly disclosing how they recruit trustees, charities can help show they have open and transparent processes in place.

Most charities (77%) provide some information about trustee recruitment. In a minority of cases (25%), this is a general statement to the effect that trustees are recruited and appointed as required. Better disclosures mention the committee or panel charged with recruitment and appointment, with details of what they do.

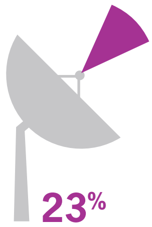
Over half of charities (53%) disclose the existence of a nominations committee. However, there is often relatively little specific disclosure about what this committee does. Disclosing these details can help a charity show that it has robust, effective recruitment processes in place.

It is also important to ensure that trustees go through an appropriate induction process, so they can fulfil their role effectively. The vast majority (89%) of the top 100 charities include some detail about trustee induction processes. The best disclosures describe the induction programme, with details of what it covers.

> *Many charities recruit trustees via personal networks, making it more likely that trustees may recruit 'in their own image'.*

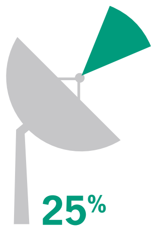
RECRUITMENT OF TRUSTEES: WHAT THE TOP 100 CHARITIES DISCLOSE

No information on recruitment or appointment of trustees



23%

A general statement that trustees are recruited and appointed as required, or similar

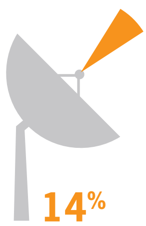


25%

There is mention of a committee or recruitment panel charged with recruitment and appointment, or a general statement of how trustees are recruited. However, there are no details of its activities or responsibilities

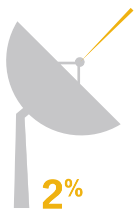
36%

A committee or recruitment panel is mentioned as above, along with details of its activities in general terms only



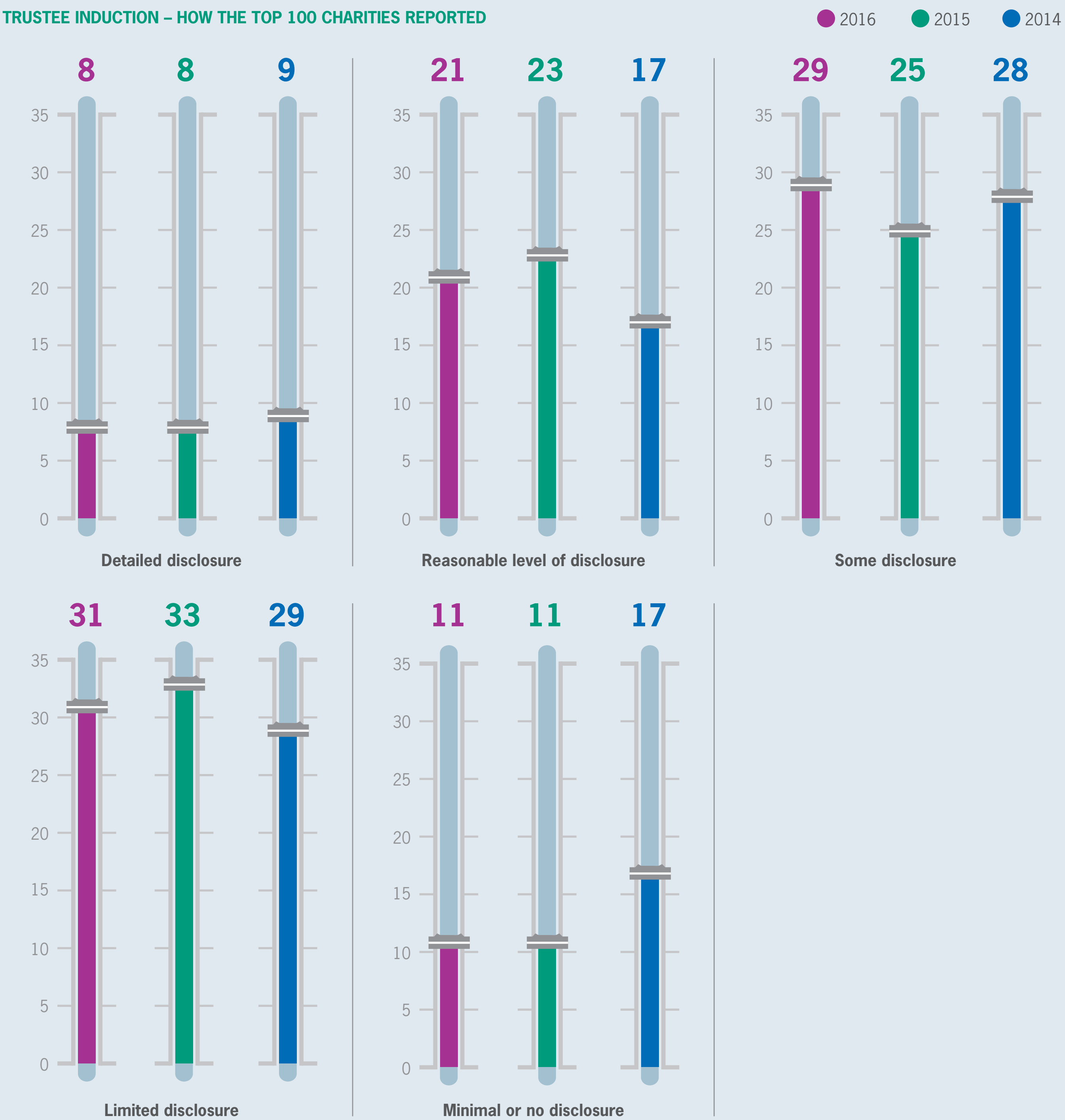
14%

As above, but in addition, there are details of its activities discussing specific instances in the year



2%

TRUSTEE INDUCTION – HOW THE TOP 100 CHARITIES REPORTED



Diversity

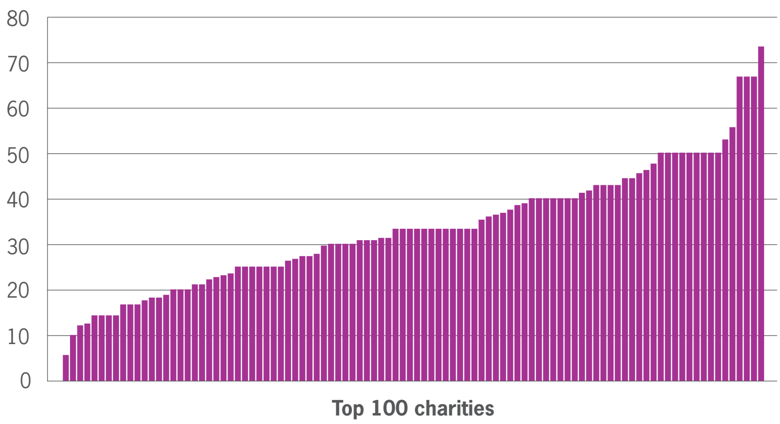
The question of diversity is closely related to the issues of board composition and skills – and has remained a high-profile issue throughout 2015.

A diverse board can help ensure a charity has an appropriate range of skills and experience at its disposal, and can provide a link to the people a charity serves.

Within the top 100 charities, where it is possible to determine from the disclosure of names, 33% of trustees are women (2015: 28%). This is consistent with the top 60 registered providers of social housing (34%[6]). Only two boards have no female members which is the same as last year, and women represent at least half the board on 15 boards (an increase from nine in 2015).

Most charities (63%) disclose the existence of a diversity policy within their annual report. The disclosures are of varying quality, and in many cases are very brief. However, we found that 30% of the charities included a good or detailed diversity policy, an increase on the previous year (2015: 20%). The best disclosures set out a full diversity policy, referring to a number of different types of diversity.

PERCENTAGE OF FEMALE TRUSTEES IN TOP 100 CHARITIES



Example disclosure

"Leonard Cheshire Disability believes that diversity across its workforce and volunteers adds value to the Charity. The differences in culture and range of life experiences bring creativity, vitality and innovation.

We take a positive attitude to encourage a workforce that reflects the diversity of those both in our services and wider society. We particularly encourage applications for both work and volunteering from disabled people. It is our policy that all disabled people who use our services, as well as all staff, volunteers and job applicants, shall receive equally favourable treatment, regardless of their disability, age, gender, marriage or civil partnership, pregnancy or maternity, race, religion or belief, gender reassignment, sexual orientation, social class, employment status, political beliefs or trade union membership.

Through our HR policies we aim to create a culture and working environment where all employees and volunteers receive equality of opportunity and discrimination is not tolerated."

Leonard Cheshire Disability Annual Report and Accounts for the year ended 31 March 2015

[6] Grant Thornton Housing Governance Review 2016 – Turning it up to eleven

Young people are part of the diversity story

Boards of trustees often need reminding that while their charity, and the charitable sector at large, may consider them 'elite' volunteers, they are first and foremost volunteers; and as with other voluntary opportunities, the role of a trustee should be open to anyone who has the required skills or can add value.

Diverse decision-making is always better decision making. Diversity does not have to come at the expense of having a skilled and talented board.

Young trustees are part of that. By supporting young people who enter the boardroom as fully fledged, legally bound and Charity Commission registered trustees, we are safeguarding the sector for the future, and developing talented leaders to run the sector in the coming years. We are also holding a sector that so often talks about diversity to account; leading by example, if you like.

Of course, the boardroom is not a training ground, so we are clearly talking about a particular type of young person: one who does and will achieve, who is engaged with the world around them and doing remarkable things. We are talking about the exact sort of person you will find in your boardroom today; they are just a bit younger.

Leon Ward
Trustee, Brook

Author of the 'Young Trustees Guide: developing the next generation of charity leaders'

Size of the board

The size of the average charity board has increased slightly in recent years (13.4 members in 2016, compared with 13.0 in 2015 and 12.8 in 2014). This continues to be at the high end of the range suggested in studies, and remains significantly above FTSE 350 companies, which have an average of 9.4 board members[7], and the top 60 registered housing providers (average of 10.2[8]).

Overall, charity boards continue to vary significantly in size. The smallest has five members, the largest has 33, and 7% of the top 100 have 20 or more. In some cases, board size is determined by the constitution of the charity; for example, this may reflect a need to represent specific geographies or stakeholder groups. The need to both comply with such requirements and ensure an appropriate mix of skills and experience may also explain the larger than average board size.

[7] Grant Thornton Corporate Governance Review 2015 – Trust and integrity – loud and clear?

[8] Grant Thornton Housing Governance Review 2016 – Turning it up to eleven

Risk and the Audit Committee

Disclosure of main risks

"In particular the report must explain ... a description of the principal risks and uncertainties facing the charity and its subsidiary undertakings, as identified by the charity trustees, together with a summary of their plans and strategies for managing those risks."

Charities' SORP (FRS 102)

The Companies Act 2006 requires directors of all medium and large companies to disclose within the annual report the principal risks and uncertainties facing their organisation. The new Charities' SORP has further requirements, including the need to disclose principal risks and uncertainties, and the plans for managing those risks. For unincorporated charities, this will be an increased requirement compared with the 2005 Charities' SORP, which simply requires a statement that the major risks to which the charity is exposed have been reviewed and systems are in place to manage them.

Setting out the key risks a charity faces is an important way of explaining a charity's external environment to its stakeholders. At its most effective, it also enables a charity to set out the ways in which it plans to mitigate its key risks, and can be an important link to a charity's strategy and future plans.

We found that there has been a slight increase in the average number of risks cited by the top 100 charities, to 4.1 (2015: 3.7; 2014: 3.6). As in previous years, there are a wide number of risks disclosed by the top 100 charities. 9% of the top 100 charities disclose no principal risks, whereas 6% disclose nine or more. Considering the variety of organisations within the top 100 charities, this is not surprising.

As in 2015, the most commonly cited risk was related to loss or availability of key contracts/funding streams. This was disclosed by 50% of the top 100 charities (2015: 47%). This year, risks relating to the retention of staff or quality of staff recruited were much more commonly cited; 27% of the charities did so in 2016 (2015: 13%).

This year, we also noted a continued fall in the top 100 charities citing recession or going concern as a significant risk. In 2014 this was the most commonly cited risk, identified by 43% of the top 100 charities. In 2015 this fell to 34%, and in 2016 this fell to 14%.

This year, we also noted a continued fall in the top 100 charities citing recession or going concern as a significant risk.

Managing risks

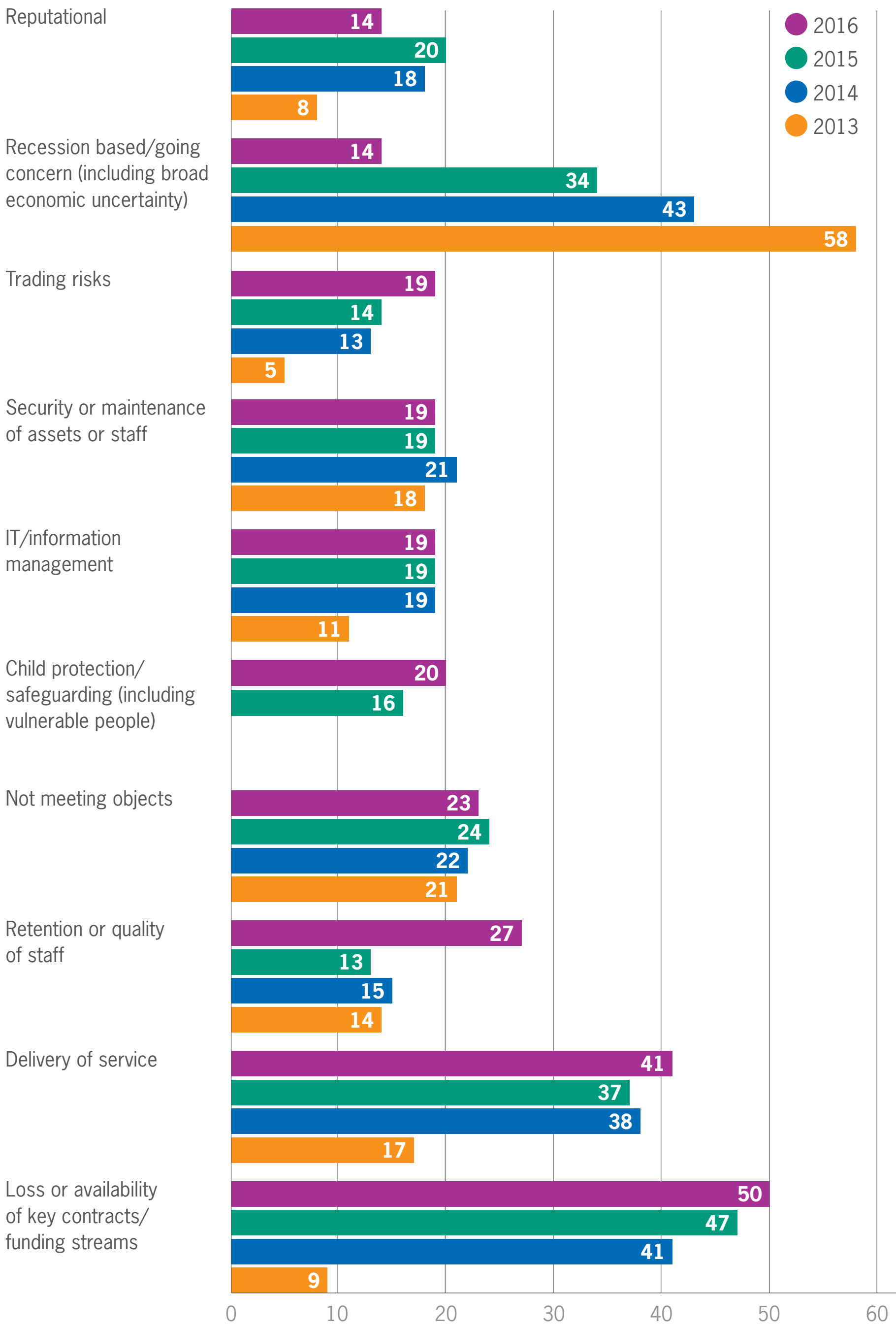
Most charities (74%) report that they use a risk register in managing risks – which compares favourably with the top 60 registered providers of social housing (66%[9]).

However, about half of the disclosures are relatively brief, with 17% charities simply stating that the risk register is reviewed when required, and 32% stating that the risk register is reviewed regularly. The best disclosures state the specific timeframe over which the charity reviews its risk register. Best practice disclosures also clearly set out who has responsibility for reviewing the risk register, and how a charity ensures it captures the key risks it faces.

Most charities (74%) also set out how they mitigate risks in their annual report. The best disclosures report, for each principal risk identified, specific actions taken to mitigate the risk – which helps to assure stakeholders that appropriate actions are indeed being taken. This was achieved by 45 of the 91 charities that had disclosed one or more principal risks.

[9] Grant Thornton 2015 Housing Governance Review – Eyes on the horizon

TOP 10 RISKS IDENTIFIED BY THE TOP 100 CHARITIES



The best disclosures state the specific timeframe over which the charity reviews its risk register.

Example disclosure

"Working to help people in crisis entails taking risks. The trustees are ultimately responsible for risk management and they are satisfied that appropriate internal control systems and risk management processes are in place.

They consider that the following framework provides the British Red Cross with adequate measures to reduce the impact of identified risks:

- The finance, risk and audit committee reviews risk and internal controls, approves the annual risk-based internal audit plan and receives regular internal audit reports, regular progress reports and corporate risk updates.
- Senior management review key strategic and operational risks on a regular basis. They consider progress on mitigating actions, new and emerging risks and opportunities.
- Board sub-committees and management groups help identify, evaluate and manage risks relating to fundraising, investments, business continuity, health and safety, remuneration, major infrastructure and IT projects and operational needs, including independent living and support in emergencies.

Our most significant risks and mitigating actions are set out in the below table:

Risk (an extract)	**Mitigating actions**
Security and safety of our people Significant breaches in security and safety practices may lead to an incident that compromises the personal safety, health or wellbeing of our people, in particular those working overseas in an environment of heightened risk for humanitarian workers.	Policies, procedures and an international security framework are in place to direct and guide security and safety practices while overseas. A health, safety and security committee has been established with board representation to ensure oversight and scrutiny of risk mitigations. Groups and committees are in place to monitor security and safety practices and associated risks are reviewed periodically. Routine inspections, monitoring and incident reporting processes are in place across all regulated services."

Source: British Red Cross Society Report and Accounts for the year ended 31 December 2014

Fundraising and risk

As discussed above, the area of fundraising and future income generation remains the top 100 charities' most commonly cited risk.

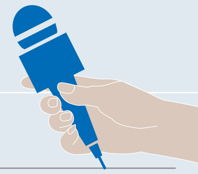
In particular, the issue of charities' fundraising tactics began to develop into an emerging risk to the wider sector in 2015. Following a number of high-profile press stories, Sir Stuart Etherington carried out an independent review into fundraising and its regulation; there has also been a parliamentary inquiry on the same topic. The key point emerging from these reviews is that responsibility for charity governance, including fundraising, ultimately lies with trustees.

The Charity Commission has published six key principles to help trustees comply with their duties when overseeing their charity's fundraising. These are:

- Plan effectively
- Supervise your fundraisers
- Protect your charity's reputation
- Protect your charity's money and other assets
- Follow the law and recognised standards
- Be open and accountable

Current regulations do not require charities to discuss their fundraising tactics, or the safeguards in place with regard to fundraising, within the annual report. However, the Charities (Protection and Social Investment) Act 2016, which received Royal Assent in March, will change this once it comes into force. Guidance is expected to be published soon and the disclosures for large charities (those with income over £1million) may include:

- the fundraising approach taken by the charity – including whether they have used commercial fundraisers
- whether the charity, or anyone acting on its behalf, has subscribed to any voluntary standards or regulations – and if there have been any failures in compliance with these standards
- how the trustees have monitored the charity's fundraising activities
- the number of complaints received with regard to fundraising activities
- the steps taken to protect vulnerable people from bad fundraising practices.



Managing risks in the current fundraising climate

2015 saw huge changes in the overall climate for charity fundraising in the UK, with a series of disruptive events that may fundamentally change how charities relate to donors and raise funds.

Some sector commentary has indicated that the annual attrition rate for regular donors may rise to a staggering 70% if 'opt-in' fundraising becomes mandatory; but whatever the actual figure, the cost-effectiveness of some fundraising approaches will be severely challenged, and may not make commercial sense in the future. There is also no doubt that there has been an overall negative impact on voluntary giving across the sector.

Public sympathy was severely dented by the distressing Olive Cooke case, and later undercover television and print journalism added to the pressures. The largely voluntary codes of practice in the sector were widely questioned, as indeed was the role of the various regulators. The Etherington review reported, and a new regulator has been established, initially under Lord Grade. Investigations by the Information Commissioner's Office are yet to be concluded; the extent to which new EU data protection laws will insist on formal 'opt-in' or a more flexible approach are still being debated; and some commentators believe the UK's EU membership referendum calls the whole applicability of these changes into question.

In short, the future is a 'known unknown'. So what does this mean for charities who are fundraising for good causes in an already crowded and competitive marketplace, and for trustees who signed up driven by altruism, and now find themselves subject to intensive public and regulatory scrutiny and expectations?

In managing these risks, it is important to distinguish between those you can control yourself, and those you can't, and to focus strongly on your range of stakeholder relationships. Very few charities can actively influence new regulation. Some can be active participants in the debate, and we can already see how that is having a balancing effect on rules that are emerging. But for others, who have fewer high-level contacts and smaller bank balances, the sensible way to manage risk is to try to anticipate 'what if', and plan your response 'just in case'.

These charities need to look hard at their fundraising tactics. They should run some scenarios that cover the impact of 'opt-in', for example, and start considering what new fundraising approaches might be appropriate. They also need to decide on any public statements they want to make now about their approach to fundraising: several large charities have published a "Supporter Promise" (to use Save the Children's phrase), or similar, as a way to bolster public trust, and a public statement on fundraising approaches is expected to become mandatory in the future. What sort of approach would fit with the charity's ethos and public positioning? What channels or strategies would be unacceptable?

As for the risks the charity can more directly control themselves, the key is to understand each step in the fundraising value chain: how initial contact is made with a potential donor; how the 'offer' is made; how the relationship with the donor is managed after that (and what they receive in return for their donation); and how often you go back to that donor either to reconfirm the relationship or to find out if they would like to deepen it.

In and around these key steps, how third parties are managed is also fundamental: for direct mail or telephone fundraising, the charity needs to make sure that how third parties behave accords with their own ethics, and to seek regular assurance over this. In particular, the use of personal data to drive contacts and ongoing relationships needs real focus.

Finally, the charity needs to give trustees a lot more information about these issues, so they are both able and willing to engage with the task. A charity's ethics, along with its branding and positioning, is part of a trustee's fundamental role; trustees need to be given the tools for this onerous job.

A few years ago, in the light of several high-profile cases, we went through a public debate on 'trust in television'. The debate called broadcasters and programme makers to account, and drove new practices in the sector – it changed, for example, in the way TV phone-ins were conducted.

Similarly, for charities today, the fundamental issue is rebuilding public trust – and whatever the new rules and regulations, that is what really matters.

Phil Keown
Charities Lead, Business Risk Services
Grant Thornton UK LLP

> *"The key is to understand each step in the fundraising value chain: how initial contact is made with a potential donor; how the 'offer' is made; how the relationship with the donor is managed after that ... and how often you go back to that donor either to reconfirm the relationship or to find out if they would like to deepen it.*

The role of the audit committee

The vast majority of the top 100 charities (88%) disclose the existence of an audit committee. The UK Corporate Governance Code outlines the main purpose of an audit committee, saying that "the board should establish formal and transparent arrangements for considering how they should apply the corporate reporting and risk management and internal control principles, and for maintaining an appropriate relationship with the company's auditors"[10].

The role of the audit committee is naturally a broad one, and will be interpreted differently to suit the needs of particular organisations. For the audit committee to function effectively, it is vital that its role is clearly understood by the committee itself, the board and the wider organisation. Our 2015 audit committee effectiveness review[11] identified that there was significant agreement (97%) that the role of the audit committee within an organisation was clear. However, there are differing degrees of clarity and understanding further down the organisation and away from the main board.

In addition to having internal clarity of the role of the audit committee, it is important to help to provide users of the accounts with a demonstrable sense of a charity's governance in action.

The best annual reports we reviewed go further than to simply set out a list of the committees in place, and report on the specific work that the audit committee has undertaken in the year. However, 38% of charities still did not provide details of what the audit committee has done during the year.

Three key questions that audit committee members should ask

1 What is expected of the audit committee and does it reflect the specific nature of the industry in which the organisation sits?

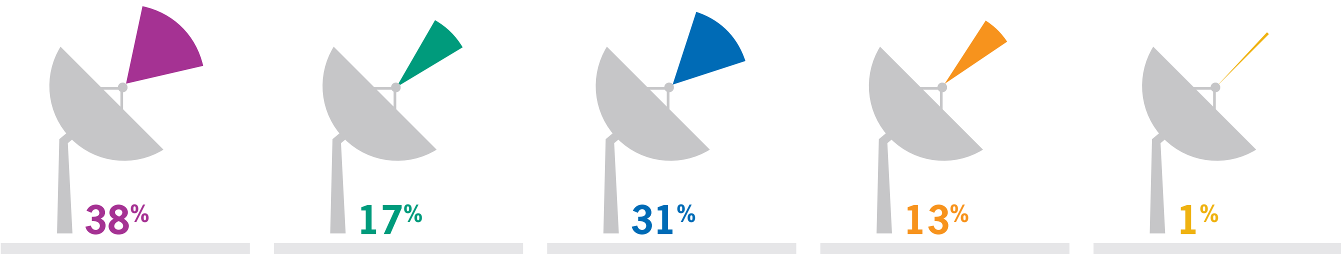
2 Does the audit committee have clear terms of reference?

3 Has the audit committee set for itself targets for what it wants to achieve and defined how these will be measured to ensure it is operating effectively?

[10] The UK Corporate Governance Code. Financial Reporting Council, September 2014. https://www.frc.org.uk/Our-Work/Publications/Corporate-Governance/UK-Corporate-Governance-Code-2014.pdf

[11] Audit Committee Effectiveness Review 2015 – Knowing the ropes

THE AUDIT COMMITTEE: LEVELS OF DISCLOSURE



38%	17%	31%	13%	1%
No details of what the audit committee has done during the year	Details of who has served on the audit committee only	Details of the remit of the audit committee	Some detail of the activities of the audit committee during the year	Details of past and future projects of the audit committee provided

Example disclosure

"The Audit and Risk Committee is chaired by David Hunter. The Committee reviews audited financial statements of the Charity and recommends them to the Board. It also reviews the Charity's annual statement on internal control and risk management and recommends it to the Board. It reviews reports from the internal and external auditors and monitors management actions to implement recommendations made in audit reports. It determines the frequency and process of tendering for both external and internal audit services and considers their appointment, fees and independence and objectivity.

In 2014/15 the Audit and Risk Committee met five times (exceeding the minimum number of meetings stated in its terms of reference). Members of the Audit and Risk Committee are identified on page 104."

Source: Age UK Report of Trustees and Annual Accounts for the year ended 31 March 2015

The role of the audit committee is naturally a broad one, and will be interpreted differently to suit the needs of particular organisations.

Communications

Social media

Social media continues to be an important way in which many charities communicate with stakeholders and the wider world.

Unsurprisingly, most of the top 100 charities use social media to some extent. 72% of the top 100 charities, down four from last year, are on all three of the main social media platforms (Facebook, Twitter and LinkedIn). Surprisingly, a minority (6%) do not use any of the main platforms, though this has reduced (from 8% in 2015 and 9% in 2014) compared with our previous research.

Where social media is used, the level of engagement has risen significantly. The Twitter accounts of the top 100 charities average 196,000 followers, which has nearly doubled since our 2015 report (2015: 94,000). This suggests that use of social media is more embedded, and that it is having a greater impact on stakeholders.

This trend continues with charity chief executives. 43% of the top 100 charities' chief executives have a Twitter account, an increase of six compared with 2015 and an increase of 14 compared with 2014. There has also been an increase in the number of average followers of each chief executive's account. With chief executives having an average of 2,400 followers on Twitter, compared with 2,000 in 2015 and 1,000 in 2014.

In our 2015 report, we cited six questions every board should ask on social media. These questions become even more prevalent now, 12 months on, as we still see little movement and a somewhat sceptical view of the topic; that charities are running the risk of simply missing out because their boards have a lack of understanding about what social media is, the benefits and potential risks it brings, along with how they are going to mitigate those risks, and how it can really help support their charity achieve its objectives.

How our charity uses social media

Social media enables you to pick news up quicker – a tweet often happens contemporaneously with an activity – so it's a great way of keeping your finger on the pulse. But it's also great for you and your charity to share snippets of information, engage in short exchanges of views, and to gauge whether a particular issue is important to audiences.

We've used social media to drive participation in our surveys, raise awareness of issues and express dissatisfaction with, or appreciation for, particular announcements from regulators and government. But above all it enables us – and me as a CEO – to connect on a human level: it gives us a way of expressing who we are, and what we stand for and believe in.

Caron Bradshaw
Chief Executive
Charity Finance Group

Are you equipped for the digital landscape?

Social media, or more widely, the digital landscape needs to be embraced by charities. The need to get to grips with the fast pace of change that digital brings, to enable them to stay ahead of the curve will be a huge step change for their organisation. The need for agility will enable their organisations to maximise the opportunities it brings – along with processes in place to mitigate any risks will mean an organisation is seen to be innovative and cutting edge. In the words of Zoe Amar's 2015 socialCEOs report

"Employees with socialCEOs say their social media presence makes them feel inspired (52%), technologically advance (46%) and proud (41%)."

Digital is an integral part of everyday life, whether we like it or not, and charities, like all organisations should be on the front foot in thinking 'digital first' in all that they do, incorporating it into all parts of strategy and wider. If charities do this, the outcomes will be huge. We do recognise that there is a still a long way to go, and trustees need support in helping them get to grips with the key opportunities and risks in digital but we highly recommend that if there is a need for a bit of education, then it needs to happen now.

Digital
key questions for trustees to consider

- Who is responsible for digital?
- Do we need a digital specialist to join the board to make the most of their skillset?
- How well are management up to speed with the digital environment and are there training requirements?
- Have we considered all channels to communicate with our audience?
- Are we equipped to manage the best and worst case scenarios that digital presents? If not, we need to be!

Length and format of the annual report

The average annual report has again become longer, to 62 pages (2015: 59; 2014: 58). In the FTSE 350, the financial statements have reduced in average length to 61 pages (2014: 68 pages). The increase in length for charities may be attributed to the requirements for large incorporated charities to include a strategic report, effective for years ending on or after 30 September 2013. While the requirements of the strategic report were largely already covered by the 2005 charities SORP, this has led a number of large charities to review the front half of their annual report to ensure the requirements are met.

This trend is likely to continue as charities adopt the new SORP and include the additional disclosure requirements. However, this represents an excellent opportunity to review the content of the annual report, and ensure that it remains relevant. When producing annual reports, there is a risk that the content builds up year on year, and that outdated or irrelevant information continues to be included, making it harder for a charity to communicate key messages.

The Accounting Standards Board (ASB) report, Cutting Clutter: Combating Clutter in Annual Reports, published in 2011, encourages preparers to focus on materiality, tackle longstanding explanatory material and engage with other stakeholders; but it appears from the data that this advice has not been taken in most cases.

Within the ASB's report there are two short aids to help preparers cut clutter: one for the planning stage and one for the review stage. At the planning stage it encourages preparers to think about what the objectives of the report are and how this can be communicated most effectively without including too much detail.

Questions for preparing the annual report:

- Is the annual report still meeting the overall objectives?
- Do new disclosures, added since the planning phase, enhance clarity/understandability?
- Do new disclosures partially duplicate/replace other disclosures that can now be eliminated/refined?
- Does the emphasis placed on various elements of the annual report accurately reflect the significance/risk to the business as a whole?
- What are the learning points for next year – and areas to focus on when cutting clutter?

Most of the top 100 charities include a chair's report (59%) and a substantial minority include a chief executive's report (41%). The latter is a significant increase compared with 2015 (2015: 32%). Using forewords or reports from individuals is one way in which charities can highlight key messages to stakeholders.

Most of the top 100 charities (84%) include financial statements on the charity's website, up from the previous year (75%). Of these, most use a plain PDF format. The remainder publish an interactive report, which allows easier navigation via hyperlinks, and makes it possible to include content such as videos. This can help bring the document to life, and is one way that a charity might use its annual report to help demonstrate impact. The Salvation Army, for example, has published an interactive report since 2009, which includes effective use of video, photography and graphics.

Financial position and reserves

Reporting the financial position

Much of the press coverage surrounding Kids Company focused on the charity's financial position. This may lead to a greater focus on disclosures about charity finances in future, with stakeholders seeking to become better informed about the underlying financial picture.

The level of disclosure about financial position varies across the top 100 charities. Around half (55%) include a detailed commentary explaining the figures. However, a small number (5%) included minimal or no disclosure about their financial position, and a further 15% only included brief disclosures regarding the income and surplus in the year.

Detailed disclosure of a charity's financial position is key to helping users of the accounts interpret the financial information provided, and can also provide a helpful link between the narrative and the numbers. It also enables a charity to tell its story, and put financial results into context.

Reserves

"Reserves are held to help the charity operate effectively. Trustees should keep their reserves policy and the level of reserves held under review. Trustees should also monitor the level of reserves held throughout the year. In this way trustees will be aware of the buildup of excess reserves or of reserves being unexpectedly or rapidly depleted."

Source: Charity reserves: building resilience (CC19) – published by the Charity Commission, January 2016

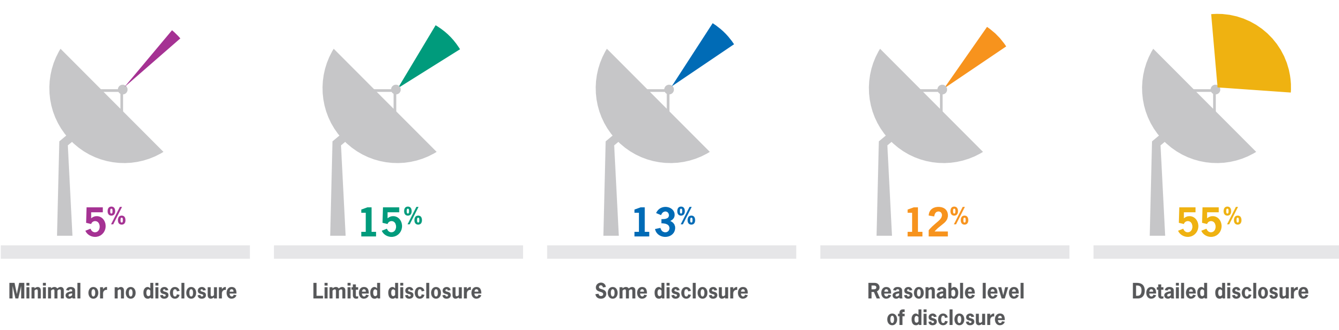
There has been an increasing focus on reserves and the resilience of charities. The level of reserves held, and the explanations given to support that, featured heavily in the press stories surrounding the demise of Kids Company.

The Charity Commission's guidance document, Charity Reserves: Building Resilience (CC19), emphasises the importance of a reserves policy and details how a charity's reserves policy must be reported.

Key areas that the report covers are:

- what the trustees' duties are towards the interests of their charity
- what is meant by the term 'reserves'
- the importance of a reserves policy
- how to develop a policy on reserves for smaller and larger charities
- how trustees must report their reserves policy in their annual report in a way that meets the requirements of the Charities' SORP and regulations.

LEVELS OF DISCLOSURE ON FINANCIAL POSITION: TOP 100 CHARITIES



The guidance specifically requires that, whatever the trustees' policy is, the Charity Commission and the charity's stakeholders should be able to see how it has been justified. It notes that the level of reserves needs to be appropriate for that particular charity and there is no 'one size fits all'. That said, the main message in the updated guidance is that trustees are ultimately responsible for their charities' finances, and that they must keep monitoring the level of reserves during the year and act if they feel the level of reserves is not appropriate.

95% of the top 100 charities include some detail over their reserves policies within the annual report (2015: 96%). However, 15% of those 95 charities simply state in broad terms that reserves are held for the use of the charity. The best policies set out:

- why the charity holds reserves
- an appropriate target for reserves
- the factors considered in reaching that target
- the actual level of free reserves held – and where there is a difference between the actual level and the target level, the reasons for that difference and how the difference will be addressed
- the timeframe in which reserves will be used.

Reserves
key questions for trustees to consider

- Is there a reserves policy in place? If not, how can this be addressed?
- When was the policy last reviewed?
- How is the policy linked to the charity's strategy and objectives? In light of this, does the policy remain relevant?
- Is there a gap between target reserves and actual reserves? If so, how will this be addressed?

The main message in the updated guidance is that trustees are ultimately responsible for their charities' finances, and that they must keep monitoring the level of reserves during the year and act if they feel the level of reserves is not appropriate.

Remuneration

"The report must explain … the arrangements for setting the pay and remuneration of the charity's key management personnel and any benchmarks, parameters or criteria used in setting their pay."
Charities' SORP (FRS 102)

In our 2015 report we discussed the emerging issue of senior management remuneration, after the publication of the National Council for Voluntary Organisations (NCVO) inquiry into executive pay[13]. Throughout 2015, this has continued to be the subject of a number of high-profile press stories.

Less than half (40%) of the top 100 charities disclose the existence of a policy for setting senior management remuneration. The level of detail in the disclosures varies considerably, with the best disclosures clearly explaining the guiding principles for senior management remuneration, and the processes by which it is reviewed. We would expect to see an increase in such disclosures in future, given that the new SORP requires charities to disclose arrangements for setting remuneration of key management personnel.

In its report, the NCVO recommended that charities disclose the exact salaries of named, senior staff members. This goes considerably further than the requirements of either the 2005 SORP or the new SORP, which both require charities to disclose the number of staff with emoluments over £60,000, in bands of £10,000. A smaller number of the top 100 charities disclose more detail than is required, with 25% of the top 100 charities setting out the specific remuneration of one or more named individuals.

Example disclosure

"The Association is committed to greater transparency over pay in the voluntary sector and supports the recommendations in the National Council of Voluntary Organisations' (NCVO) Report of the Inquiry into Charity Senior Executive Pay, and for that reason is publishing information on pay policy and remuneration levels for its chief officers in this annual report and the Association's website.

The current pay and terms and conditions for Executives were introduced in 2011 and are determined by the Association's Remuneration Committee operating as a sub-committee of the Board. This pay policy forms part of the contracts of employment of the Chief Executive and Executive Board.

The policy aims to:

- Develop and sustain a high performance culture from the top of the Association.
- Recruit and retain the talented people needed to maintain or improve the Association's already high performance and lead the organisation through the challenging changes we are facing.
- Recognise Executives for their personal contributions.

There are a number of principles that underpin the Board's approach to Executive pay:

- The amount paid should reflect the market for comparable jobs in comparable organisations, the performance of the organisation and the skills and contribution of the individual performing the role.
- Increases to pay are 'at risk' because they depend on delivering results; this means it is a performance-related pay scheme.
- Performance is defined in a rounded way, including not only achievement of annual targets but also leadership and other behaviours as well as success in developing the capability and services of the Association over the longer term."

Source: The Guide Dogs for the Blind Association Report and Financial Statements for the year ended 31 December 2014

[13] www.ncvo.org.uk/images/documents/about_us/our-finances-and-pay/Executive_Pay_Report.pdf

Volunteers

Amid the focus on paid staff, it is important not to forget the invaluable contribution that volunteers make to the sector.

Many charities could not function without the support of dedicated volunteers. The latest Civil Society Almanac, published by the NCVO[14], estimated that 42% of adults in the UK formally volunteered at least once in 2014/15; and the Office for National Statistics (ONS)[15] estimated that regular formal volunteering (that is, at least once a month) is worth £23.9 billion per year in the UK. Taking into account infrequent and informal volunteers, the figure could be much greater.

Of the top 100 charities, 55% (2015: 59%) refer to the use of volunteers within their annual report. The quality of disclosures in this area varies. Some briefly acknowledge volunteers, while others offer specific details of the work volunteers do, and attempt to quantify their contribution. By trying to quantify volunteers' contribution in this way, charities can help stakeholders better understand how they use volunteers to help meet charitable objectives and the value they provide that isn't included in the financial statements.

Example disclosure

"Volunteers are central to our organisation and our work. We engage with them though initiatives such as our Volunteer Engagement Networks and our Delivering on Dementia tours, which give them, and regionally-based staff, the opportunity to question senior management and Trustees. Volunteers are also fundamental to many of our new services, including Side by Side and Home Focus.

Thanks to the efforts of our 10,000 staff and volunteers our fundraising has increased yet again. This has allowed us to advance each of our strategic ambitions."

Source: Alzheimer's Society Trustees' report and annual accounts for the year ended 31 March 2015

Many charities could not function without the support of dedicated volunteers.

[14] https://data.ncvo.org.uk/a/almanac16/volunteering/

[15] http://www.ons.gov.uk/ons/rel/wellbeing/household-satellite-accounts/valuing-voluntary-activity-in-the-uk/art-valuing-voluntary-activity-in-the-uk.html

Future plans

"The report must provide a summary of the charity's plans for the future, including its aims and objectives and details of any activities planned to achieve them.

The report should explain the trustees' perspective of the future direction of the charity. It should explain, where relevant, how experience gained or lessons learned from past or current activities have influenced future plans and decisions about allocating resources to their best effect."

Charities' SORP (FRS 102)

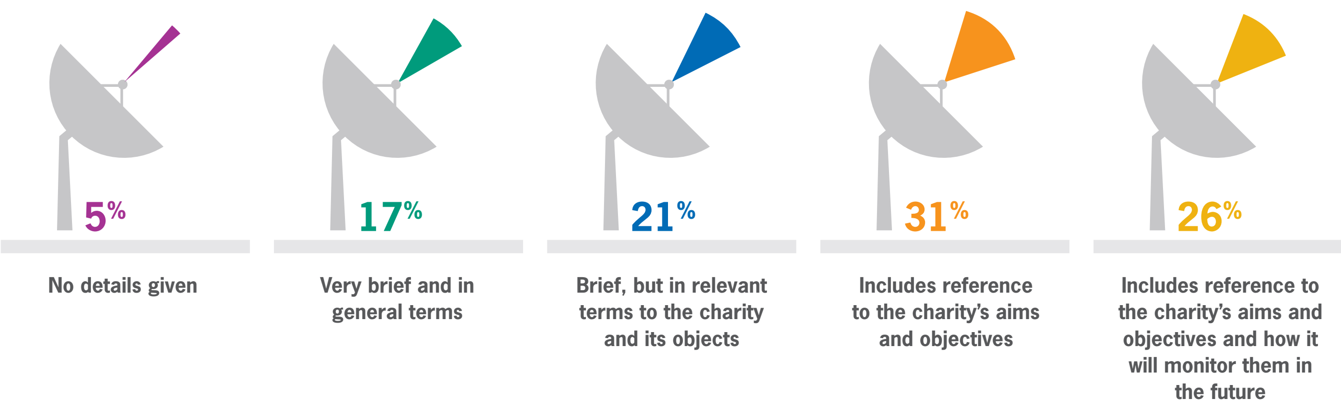
Although stating plans for the future is important, we believe that it is even more important to explain how a charity intends to achieve those plans for the future.

The annual report provides an opportunity for charities to look to the future, setting out the vision of how they plan to meet their objectives. Discussion of future plans enables a charity to set out its plans and visions, explaining to stakeholders why continued support of the charity is important.

The vast majority (95%) of the top 100 charities describe their plans for the future. The quality of the disclosure varies from brief descriptions in general terms (17 charities) through to detailed disclosures which refer to a charity's aims and objectives, explaining how future successes will be monitored.

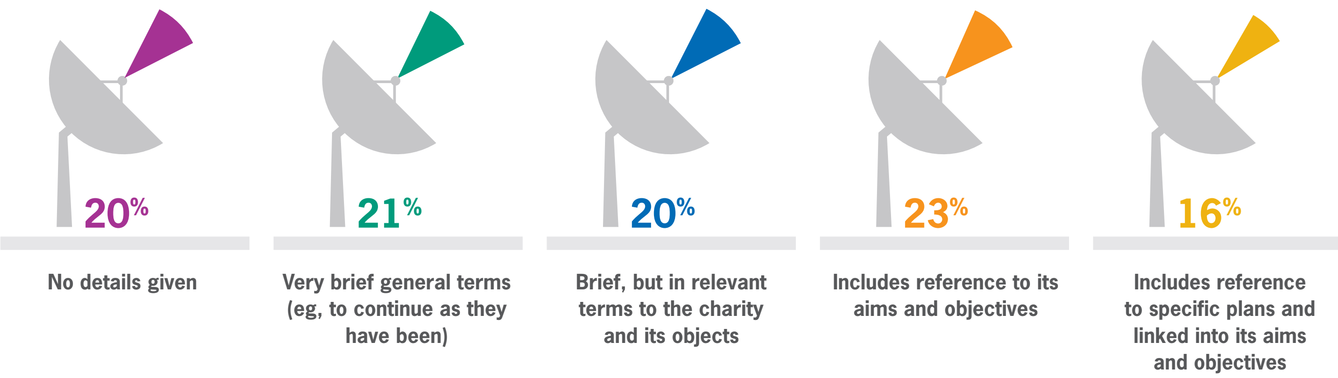
Although stating plans for the future is important, we believe that it is even more important to explain how a charity intends to achieve those plans for the future. The vast majority (80%) provide some details of how their future plans will be realised. As with setting out plans for the future, the quality of the disclosure varies considerably.

LEVELS OF DISCLOSURE ABOUT FUTURE PLANS: TOP 100 CHARITIES



Over a third (39%) provide good or excellent detail as to how plans for the future will be achieved, with reference to the charity's aims and objectives.

LEVELS OF DISCLOSURE ABOUT HOW THE CHARITY INTENDS TO ACHIEVE ITS FUTURE PLANS: TOP 100 CHARITIES



Example disclosure

"The RNLI plans for the long term, against which a 5-year business plan is prepared that shows what we need to focus on to achieve these aims.

We review and reconfirm our future direction at regular intervals to ensure we remain on track to make a measurable impact on the problem we are here to tackle – drowning. During 2014 we undertook a strategic review and issued our Business Plan for 2015–19, which outlines the new approach we will take to save more lives. It also reaffirmed our commitment to the previous business plan's key priorities, namely to:

- deliver a 25-knot all-weather lifeboat fleet
- provide lifeguard coverage at identified locations
- maintain our position as a leading organisation in coastal safety.

To complement these priorities we renew our commitment to:

- identify, foster and grow vital partnerships and coalitions locally, nationally and internationally
- work with others to build understanding and awareness of the international drowning problem, and scale up programmes at a pace that meets a country's needs and capacity
- support the delivery of our lifesaving service through and for the community.

These priorities and commitments will all contribute to the impact we want to make:

- Progress towards a 50% reduction in drowning in the UK and Republic of Ireland.
- Declining trend in serious incidents.
- Firmly established drowning prevention coalition that advocates effectively for the global cause.

- A 50% reduction in drowning in the UK and Republic of Ireland.
- Reduction in serious incidents.
- Effective downing prevention strategies in place in the highest risk areas internationally.

In order to make this impact and save more lives, we need to transform how we think, feel and talk about the RNLI.

We currently identify ourselves as:

A sea rescue service in the UK and Republic of Ireland, presenting ourselves largely independent of others.

We need to be:

A sea rescue service in the UK and Republic of Ireland, with a growing commitment to preventative action, using our expertise to work in partnership locally, nationally and internationally to prevent drowning."

Source: RNLI Annual Report and Accounts for the year ended 31 December 2014

About Grant Thornton

We are Grant Thornton UK LLP

Dynamic organisations know they need to apply both reason and instinct to decision making. At Grant Thornton, this is how we advise our clients every day. We combine award-winning technical expertise with the intuition, insight and confidence gained from our extensive sector experience and a deep understanding of our clients.

Through empowered client service teams, approachable partners and directors, and shorter decision-making chains, we provide a wider point of view and operate in a way that's as fast and agile as our clients. The real benefit for dynamic organisations is more meaningful and forward-looking advice that can help unlock their potential for growth.

In the UK, Grant Thornton provides services to over 40,000 privately held businesses, public interest entities and individuals. It is led by more than 185 partners and employs more than 4,500 of the profession's brightest minds.

Grant Thornton in the charity sector

We have a national team of knowledgeable specialists who form effective partnerships with our charity clients working from eight regional locations around the UK.

Our involvement in the sector is extensive. We:

- are the creators of NFP Interchange, our forum for non-executive directors (NEDs) of not for profit organisations. The outputs of which are on the Guardian's Better Boards Hub. Topics debated include governance, strategy, leadership and disruption
- are members of a number of key sector bodies including the Charity Finance Group
- provide a varied and topical annual seminar programme for the sector
- contribute to cutting-edge thinking by being involved in sector studies
- have members on regulatory technical boards including the SORP Committee and ICAEW Charities' Technical Sub-Committee
- produce regular technical literature, including newsletters, factsheets and responses to regulatory consultations
- develop thought leadership demonstrating our in-depth knowledge of the sectors in which we specialise.

Global reach

Bringing international experience to bear

Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd. With other Grant Thornton member firms, we are committed to providing an international perspective on the challenges our clients face in delivering high-quality services, while managing their limited financial resources. We support charity clients by monitoring market developments in other jurisdictions, advising on best practice and drawing on bespoke skills and experience from other member firms.

The Grant Thornton Governance Institute

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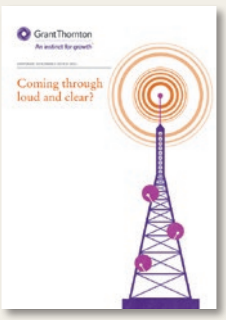
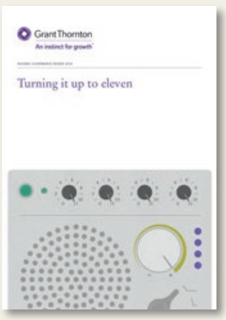
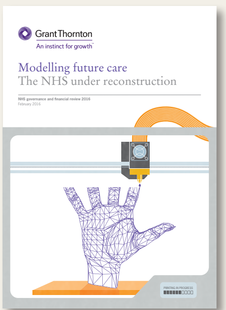
Governance matters



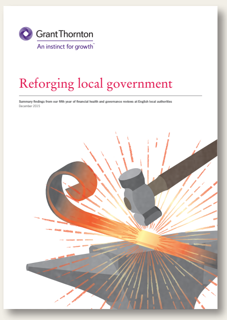
Corporate Governance Review 2015



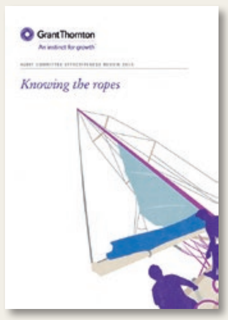
Housing Governance Review 2016



NHS Governance & Financial Review 2016



Local Government Financial Resilience Review 2015



Audit Committee Effectiveness Review 2015

For further information, visit: **www.grant-thornton.co.uk/governancematters**

Advising on governance

1

Corporate reputation

When is it relevant – Perceived value gap between corporate and investor stakeholders'

Value add to client – Independent investor and stakeholder relations advisory services to boards and executive teams

Types of solutions enabled with management

- Tailored Investor and stakeholder relations training for all levels
- Undertake full capital markets perception audit skewed towards investors but also to include analysts and press if needed
- Refine investment case and update investor toolkit materials as and where necessary
- Best practice Investor and stakeholder disclosure and reporting (websites/presentations/investor documents)
- Shareholder and debt holder register analysis with targeting, access and roadshow management – UK, Europe and globally

2

Governance diagnostics

When is it relevant – Organisations seek to understand whether existing governance reflects good practice

Value add to client – Detailed and insightful comparison to a database of peers enables gap analysis of As-Is structures and identification of solutions

Types of solutions enabled with management

- Benchmark 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
- Peer and sector comparison

3

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 add to client – We facilitate the design and implementation of corporate frameworks which support value creation

Types of solutions enabled with management

- Strategic reviews, integration and organisational design
- Development of frameworks, policies and procedures
- Group Risk appetite identification and embedment
- Internal control reviews and redesign
- Internal audit effectiveness reviews
- Performance and incentivisation measures, restructuring and implementation

4

Strategic sustainable reporting

When is it relevant – Performance is focused on short term or unbalanced targets

Value add to client – Ensures that performance and reporting is aligned to sustainable, long term value creation

Types of solutions enabled with management

- Review of and advice on corporate reporting
- Integration of internal performance reporting with strategy
- Creation of sustainability and compliance reporting methodology
- Non-statutory reporting assurance

5

Leadership and culture

When is it relevant – Culture needs to be aligned to strategy in order to realise corporate purpose

Value add to client – Cultural change can be achieved more efficiently when values and behaviours are considered alongside strategy, systems and processes

Types of solutions enabled with management

- Cultural audit
- High potential assessment and development programmes
- Executive and board level coaching

6

Board evaluation

When is it relevant – assessment of board practices or restructuring of board governance

Value add to client – External assurance over board and/or structure, capability and function

Types of solutions enabled with management

- Board effectiveness reviews
- Committee effectiveness reviews
- Committee structure and terms of reference design
- MI quality and effectiveness assessments

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