The Charity Governance Code
Explained

The Good Governance Institute exists to help create a fairer, better world. Our part in this is to support those who run the organisations that will affect how humanity uses resources, cares for the sick, educates future generations, develops our professionals, creates wealth, nurtures sporting excellence, inspires through the arts, communicates the news, ensures all have decent homes, transports people and goods, administers justice and the law, designs and introduces new technologies, produces and sells the food we eat - in short, all aspects of being human.

We work to make sure that organisations are run by the most talented, skilled and ethical leaders possible and work to build fair systems that consider all, use evidence, are guided by ethics and thereby take the best decisions. Good governance of all organisations, from the smallest charity to the greatest public institution, benefits society as a whole. It enables organisations to play their part in building a sustainable, better future for all.

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The Charity Governance Code Explained

Good governance is a key feature of well-functioning charities. The successful delivery of their purpose/charitable function and serving their beneficiaries must be supported by an effective board (sometimes known as a governing body), showing leadership, good decision making, a grasp of risk and integrity in a climate of openness and accountability.

In recent years, charities and their trustees have come under closer scrutiny, partly in response to a number of unfortunate and highly public failings but also because being well-run is increasingly an important feature in all aspects of corporate life.

In common with other regulatory bodies, the Charity Commission devised and published a *Charity Governance Code* in 2017, refreshing it three years later. This outlines seven key principles that set out the behaviours needed to deliver them and suggest how charities can demonstrate to themselves, their supporters and beneficiaries and other external bodies the extent to which they are meeting these.

At Good Governance Institute (GGI), we have identified the potential for these also to be used as a diagnostic tool to help charities to change and improve. Our *Charity Governance Code Explained* is designed to support trustees and their governing bodies to understand and interpret the *Charity Governance Code* and to explore for themselves what steps they may need to take as part of rising to the challenge of improving so as to better deliver their objectives and services, especially to their beneficiaries.

This guide can be used to help governing bodies to set their agendas and development needs for both scrutinising day to day operations and continuing to refine their strategies, risk identification, risk appetite and tolerance, and mitigations.

Using the guide, will help governing bodies to direct their organisation by ensuring their focus is strategic while having in place properly robust arrangements for them to be assured they are delivering their day to day business and objectives.

Principle 1 – Organisational Purpose

The board is clear about the charity's aims and ensures that these are being delivered effectively and sustainably.

Rationale - charities exist to fulfil their charitable purpose so understanding the environment the charity operates in and leading effectively within available resource is the responsibility of the trustees. The board's core role is to focus on strategy, risk, performance and assurance.

External environment

How has the board reviewed the performance of other charities in a similar sphere – looking for competitive edge, collaboration, comparison etc?

How does the board review the charity's wider role in the communities it serves?

What's the evidence for the conclusions and what improvements would be good?

How can it achieve this?

- When did you last review your charitable purpose – did the review cover relevance and validity? What were the outcomes?

- How was the board's strategy developed – to what extent was this led by the trustees?

- How is the board measuring progress to delivering its strategy?

- How does the board review and develop the strategy?

- How does the board assess its risks – has it tested its risk appetite and has it identified those strategic risks that could prevent its achieving the strategic objectives?

- What controls and mitigations are there for the strategic risks?

- How are these risks managed – directly by the board, by its committees or by the executive?

- Can the trustees summarise the key points of the strategy and attendant risks?

- *What's the evidence for the conclusions and what improvements would be good?*

Principle 2 – Leadership

Every charity is headed by an effective board that provides strategic leadership in line with the charity's aims and values.

Rationale – strong leadership helps to set strategy in support of delivering its aims together with the tone for vision, values and reputation. The strategy is owned collectively by the board and it constantly monitors the aims devised to deliver it. It agrees the vision and values, lives them and expects all those representing the charity to reflect them too so the values underpin the ethos and culture of the organisation in the delivery of its aims.

Leading by example

Does your board welcome, promote and insist on equality, diversity and inclusion lying at the heart of its work?

Does the board offer challenge and support to the executive and promote openness, learning and development?

Do trustees give enough time to the charity and if they are otherwise involved – for example as volunteers – are they clear about the distinction between the different activities?

How can it achieve this?

- How well does the chair lead the board – is there collective responsibility for the decisions taken and have priorities been agreed?

- How strong and prevalent is the culture of the organisation – is it also exhibited and felt at the board?

- Is the senior team effective and are there robust recruitment and employment policies in place?

- Are the roles of the executive and the trustees distinct with proper role specifications for the chair and trustees so a range of skills and experiences are available to the board?

- If the charity has subsidiaries are they appropriately constituted, managed and reviewed ; are trustees aware and comfortable with the risks they may pose?

Principle 3 – Integrity

The board adopts values and applies ethical principles to the decisions it takes, developing a supportive culture that helps to achieve the charity's objects. It understands the importance of maintaining public confidence in the sector and reflects the charity's ethics and values in everything it does.

Rationale – charities exist for public benefit; its decisions may not always be popular but everyone who comes into contact with the charity should be treated with respect and dignity. Trustees are responsible for creating a culture that supports the charity's values by adopting policies and behaviours in line with those values, setting aside any personal interests.

Conflicts

Is there a proper, enforce policy to deal with conflicts of interest, standards of business conduct etc with regular reviews and opportunities to declare conflicts of interest?

How can it achieve this?

- Does your board make objective decisions based on data, information and evidence avoiding overdue influence from special or personal interests?

- Do you have a code of conduct reflecting your values and which sets out standards of ethics, probity and behaviour?

- How does the board find out how it is perceived by others including the wider public?

- Do you follow other, non statutory codes such as the Charity Ethical Principles?

- Is safeguarding a regular feature of your considerations – are policies and procedures up to date and does everybody associates with the charity know how to speak up.

- Are people comfortable with raising concerns?

Principle 4 – Decision making, risk and control

The board makes sure that its decision making processes are well informed, rigorous and timely, that there is effective delegation, control and risk assessment supported by management systems to enable these to be monitored.

Rationale – the board is clear about the decisions it has reserved to itself and what it has delegated recognising that it cannot delegate its ultimate accountability and responsibility. It concentrates on strategy, strategic risk and its mitigation, and assurance. Where it has committees to support its work the board maintains responsibility and oversight.

How can it achieve this?

- How frequently is the scheme of delegation and reserved matters reviewed. How does it monitor the discharge of its delegated functions?

- Do all board committees have terms of reference that are periodically reviewed. Is the membership of committees changed from time to time?

- If functions are delivered by third party providers how is the board assured on quality, value for money, performance etc?

- Have you identified the key policies and procedures the board wants to be involved with and agreed when and how they should be reviewed?

- What involvement does the board have in business planning and monitoring including ensuring these dovetail with the charity's strategy and that there are appropriate monitoring arrangements in place including comparisons and benchmarks with similar organisations?

- Is risk well managed – the executive taking lead responsibility for operation and corporate risk and the board and its committees for strategic risk. Is there proper opportunity for the board to be involved in assessing risk, mitigations and controls?

- Is there an audit committee led by a suitably experienced trustee? Does it follow best practice in regard to external and internal auditors. Is the audit committee the guardian of "whistleblowing" as well as the risk system?

Principle 5 – Board effectiveness

Ensuring that the board works as an effective team, using the appropriate balance of skills, experience, background and knowledge to make informed decisions.

Rationale – For a charity to thrive, it needs an effective board so the approach to trustee recruitment must be rigorous and professional as must its attitude to development and appraisal individually and collectively. A good test of whether the board is a good team is whether it can explore difficult topics, disagree but maintain relationships and challenge constructively.

How can it achieve this?

- When the board meets it uses its time constructively – there is a thought through agenda, high quality papers issued in time for trustees to prepare and brief themselves?

- A vice/deputy/senior independent trustee is available to deputise but also to act as a sounding board and conduit for other trustees and senior managers if needed?

- The board takes time to understand how it can work together effectively – this can include how it conducts itself in terms of its business and interactions between members?

- From time to time the trustees take independent external advice about the quality of their governance and activities – this is in addition to access to legal or financial or other professional advice it needs to do its job?

- From time to time the board reviews the skills mix to ensure it can meet its statutory obligation as well as serving its beneficiaries and charitable objectives?

- Are trustees appointed through a formal, rigorous and transparent process with EDI matters weighed in the decision making. Is there a nominations committee to run the appointments process and make recommendations to the board?

- Is there a limit to trustee tenure with renewal dependent on performance which is regularly appraised (this includes the chair)?

- If any members are elected is there a programme to help them to understand the breadth of their role and to support them to become effective trustees?

- Is there a good induction programme and opportunities for personal development for trustees?

- Does the board undertake collective development sessions?

Principle 6 – Equality, Diversity and Inclusion

The board has a clear approach to supporting equality, diversity and inclusion within the board and the organisation. The approach supports good governance and the delivery of the charitable purposes.

Rationale – Addressing EDI issues helps a board to make better decisions, helps the charity to remain relevant to those it serves and helps it to reflect the values and abilities of those it serves.

The board reflects different perspectives, experiences and skills and sets a positive example through its commitment and behaviour.

How can it achieve this?

- Does the board know what its current situation is, where it aspires to develop and understand how it can make progress?

- Are its assessments of the charity's EDI data driven using "lived experiences".

- Has the board taken steps to eradicate bias in trustee recruitment and selection.

- Is its material accessible and can it demonstrate inclusive behaviours in decision making and in how it engages with staff, volunteers and beneficiaries?

- Are there plans and targets around its EDI programme including for appointment to the board and thereafter in behaviours at meetings?

- Does the board truly lead the organisation's progress towards achieving equality, receiving regular updates and information about new initiatives. Does this include periodic reflection on its own performance in this area?

- What does the board publish about its EDI policies, actions and progress?

Principle 7 – Openness and accountability

The board's leadership is transparent and accountable.

Rationale – public trust in charities is essential if they are to succeed and deliver to beneficiaries. Accountability means recognising success and learning from problems and mistakes and showing a willingness to do so. Working to the board's values, ethics and culture is central to building this confidence with all stakeholders.

How can it achieve this?

- Does the board know which its key stakeholders are, what their motivations an interest in its work are – this could include beneficiaries, staff, volunteers, donors, subject experts, communities?

- How does the charity communicate with its stakeholders talking about purpose, values, work and achievement? Does the charity measure the effectiveness of its communications?

- How does the board involve its stakeholders in its governance including consulting them about significant changes?

- Complaints – are these well handled and does the board receive periodic reports outlining themes, learning and improvements?

- Is the board's register of interests published along with remuneration packages of the most senior staff?

- If there is a membership that appoints trustees:
  o Are there clear policies on who can be a member?
  o There is an up to date register of members
  o Members know about the work of the charity and are consulted on key issues and developments?
  o How members can take part in governance is clear including election and appointment arrangements for becoming committee members or trustees as appropriate