



4. Governance

Tools for success:
doing the right things and doing them right



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About this guide

The purpose of this guide is to help you build an effective and responsible governance structure. It explores five key areas: reviewing strategy and finance; reviewing Board composition; boundaries and delegation; decision-making and accountability; risk management. In each area, we link the responsibilities of your Board with key activities and signpost websites where further information, support and advice can be obtained.

We use the terms ‘Board’ and ‘trustees’ throughout the guide but recognise that there is a variety of titles used in the sector including ‘management committee’, ‘governors’ and ‘directors’.

Reviewing general performance (including strategy and finances)

A trustee is

“ the person having the general control and management of the administration of the charity ”
(s97, Charities Act 1993)

Your Board is accountable for the whole organisation – determining its strategic direction and monitoring performance. See the **Direction guide** for information on developing strategy. It’s important not to confuse ‘governance’ with ‘management’. The Board needs distance to enable it to be a ‘critical friend’ and cast a fresh eye on the operation of the organisation.

Strategy

Your Board should review the strategic plan annually in order to:

- Monitor progress against agreed targets
- Check that any assumptions previously made are still valid
- Assess whether any anticipated changes in the external environment or circumstances mean that the plan needs to be modified.

To assist the Board in monitoring the organisation’s performance, key measurements should be built into the strategic plan. Agree a number of key organisational/ performance indicators (PIs – see the **Operations guide** for more information) that can be read at a glance to give an overview of how the organisation is doing, so that you avoid overloading your Board with large amounts of data. These indicators can be compared from meeting to meeting and year on year, building up a flow of data to provide a visual representation of trends.

Such performance indicators should be relevant and specific to your organisation and help your Board understand how the organisation is developing. Examples might include the numbers of beneficiaries supported, the unit cost of a service (i.e. the cost of assisting one person, animal etc.) and numbers of employees.

Finance

The Board is required to act as the ultimate financial controller of the organisation.

See the **Finance guide** for information on financial management.

Key responsibilities in this area include:

- Understanding, approving and monitoring the budget
- Ensuring there is budgetary control over income and expenditure
- Ensuring that investments are managed legally, ethically and prudently
- Ensuring that the charity's assets and income are only used to pursue the charity's objects as described in the governing document (see the **Compliance guide**)
- Ensuring that steps are taken to prevent fraud
- Ensuring that the accounts are audited and SORP-compliant (see the **Finance guide**).

Your Board must receive up-to-date and accurate financial information on a regular basis – at least every three months. Your trustees should be prepared and able to challenge a question and test any significant variances (i.e. the difference between the actual income/expenditure and budgeted amounts). It will help the process if the management accounts always include an explanation of any variance above an agreed figure.

As a result of information received and following scrutiny and analysis of the financial position, your Board should agree and approve appropriate management action and if necessary, changes to the budget. All decisions should be recorded in the signed Minutes of the meeting.



If the number in the variance column is in brackets, it means either that the income is that much **less** than budgeted or expenditure is that much **more** than budgeted.

Board composition, skills and development

Aim to develop your Board to be as effective and efficient as possible, helping your trustees to acquire the balance of skills, knowledge, qualities and experience that will support the current and future needs of the organisation. A high-performing Board is likely to be a mix of people with 'hard' skills (legal, financial, management skills), 'soft' skills (team-working, communicating, problem-solving abilities) as well as specific experience and knowledge relevant to your organisation.

You should assist your Board to assess how diverse it is. Does its composition reflect the needs of the community? The following questions may help:

- Do trustees live in the area your organisation serves?
- Do they, for example, have – or have experience of caring for someone with – the condition your organisation campaigns about?



The Board's primary responsibilities

- Proper administration of the charity, including the setting of policies and direction
- Ultimate responsibility for the actions of the charity
- Collective action; speak with a single voice
- Respect the confidentiality and sensitivity of the charity's business
- Safeguard and protect the charity's assets and values
- Act in the best interests of the charity
- Act reasonably and prudently in all matters concerning the charity
- Avoid conflict between personal interests and the charity's interests including any personal gain.

Tools for success: doing the right things and doing them right

- Are the languages, culture and religion(s), and age groups of your key stakeholders represented on your Board?

It helps to undertake a skills audit of your current Board (see skills assessment template below). It will identify any gaps in your current Board composition, so if you intend to recruit in the near future, you will be clear about the skills you wish new trustees to bring.

Ensure that trustees:

- Understand their role; the Charity Commission guidance note CC3(a) provides relevant information. Also see the checklist (on p. 5) of trustees' primary responsibilities



Carrying out a trustee skills assessment

- Consider the organisation's plans for the next few years
- Decide what skills, knowledge and experience you will need on your Board to help the organisation achieve its goals
- Identify the skills, knowledge and experience of your *current* trustees
- Ask the Board to complete and return a questionnaire which includes the following questions:
 - What skills, knowledge and experience do you bring to the Board? (Offer a checklist such as fundraising, marketing, HR, finance, administration, law, property, ICT, specialist activity relevant to the charity to assist thinking; leave space for 'other attributes')
 - How do you hope to contribute your skills, knowledge and experience to the charity?
 - In which area of the charity's work are you particularly interested?
- Analyse the responses as a basis for deciding what skills, knowledge and experience gaps your Board has before you start the trustee recruitment process.

- Have access to learning and development opportunities, funded where possible via a specific budget heading. Key development activities include:
 - Induction: all new trustees should receive induction training before and on taking on the role – see the **Compliance guide** for more information on trustee induction
 - Role training: all trustees should be trained in their individual and collective roles
 - Training on specific areas such as diversity or strategic planning as identified
 - Board self-assessment – addressing the question 'how well are we doing (in our governance role) in ensuring the organisation delivers to current and future beneficiaries?'



See the *Good practice in trustee recruitment toolkit* for support, advice and information on trustee recruitment downloadable from the NCVO website: www.ncvo-vol.org.uk



See acevo (2011) *Refreshing board appraisals* (London: acevo) available from winter 2011 at www.acevo.org.uk

Boundaries and Board delegation

Boundaries

As mentioned above, the Board is responsible for determining strategy and the Executive for delivering the agreed strategy.

The general distinction between governance and management tasks/roles is illustrated by the diagram below (adapted from Hudson, 2004).

The distinction between governance and management tasks/roles



The above distinction may be much less clear in small organisations where trustees can sometimes carry out work that would otherwise be undertaken by staff (i.e. editing a newsletter). For that reason, when the Board becomes involved in operational matters, it is important that they separate their strategic and operational roles and make it clear when they are operating as volunteers (as opposed to fulfilling their trustee role). To avoid confusion, the trustee's line management for the operational tasks should ideally be via the director or chief executive.

There are significant policy implications where trustees are also service users or carers of service users – see Charity Commission guidance CC24 (www.charity-commission.gov.uk).

Delegation

A common problem for Boards is spending the limited time they have available on activities that should be delegated – where there are resources for such delegation.

Your Board can only delegate responsibility for a piece of work to a sub-committee, management or even people who are not on the Board if:

- Such delegation is permitted in the governing document – see the **Compliance guide**
- It follows a proper approval process
- There is a clear role and task definition and/or terms of reference for a sub-committee
- There are adequate monitoring and review processes
- There are clear limits on delegated authority in terms of budgets and other matters
- The issue returns to the Board for ratification and signing off.

Effective decision-making and accountability

The Board sets the long-term strategy and the framework within which the organisation must function. Depending on the resources and size of the organisation, the executive/management decides on the means by which the strategic aims are to be achieved and carries out the work of the organisation.

Accountability

Your Board is accountable for the whole organisation, ensuring that it complies with its mission and governing document, that it is solvent and fulfils all its obligations. In practice, this means the Board must:

- Comply with all relevant legislation and regulation – see the **Compliance guide**
- Be accountable for its decisions and actions to all key parties, including statutory bodies, funders, donors, beneficiaries, service users, staff, volunteers, regulators, the public
- Submit to whatever scrutiny is appropriate
- Ensure that the organisation has a formal complaints procedure which is operated according to the agreed process and records kept
- Seek external advice when necessary.

Decision-making

It is essential that your Board has a robust decision-making process to ensure efficiency and effectiveness. This requires:

- Board agreement on how, where and at what level decisions are made
- Clarity of roles and responsibilities at strategic (Board) and operational (management) level

- Limits on financial authority – who can authorise spending (and by what process), up to what level
- Monitoring of organisational activities and actions.

In order to achieve this, you must ensure that the Board is provided with sufficient information – in good time before a Board meeting to allow for preparation – to be able to understand the full facts of the issue or proposal. Board members must be given adequate opportunity for debate and consultation before a decision is taken. Any resulting decision should be by consensus and/or consultation or where necessary a majority vote. It is important to ensure that the decision is formally recorded in the minutes of the meeting which are to be signed when approved.



Enhancing the efficiency and effectiveness of your Board

The efficiency and effectiveness of the Board can be enhanced by one or more of the following:

1. Developing and maintaining an annual calendar of key dates and milestones as to when decisions need to be made or action taken. This will include approving the annual accounts, submitting key returns, publishing the annual review, holding the AGM (if you decide to hold one), key events etc. This allows people to get the dates into their diaries.
2. Ensuring that the right agenda items are discussed. One way of keeping discussion to priority issues is to apply the following ‘tests’ (Robinson, 2005):
 - The test of **importance**: is this item important? Should we be discussing this?
 - The test of **scale**: is this issue a major one? Does it have significant ramifications for people or finances
 - The test of **consequence**: if we do this, then what?
3. Planning the agenda and setting times for all agenda items, ensuring that sufficient time is allocated to important items – so that they are not left to the end of the meeting when some trustees may have left.
4. Evaluating the effectiveness of the meeting at the end of each meeting by asking trustees what they found of value at the meeting.

Feedback from beneficiaries or service users

Part of your Board's accountability is ensuring that feedback is received from beneficiaries, service users or clients (particularly when reviewing your mission and vision) and that this is taken into account in future when making decisions.

It is essential to think about what is appropriate and will work in your organisation. Much will depend on your size and resources, your client group and the nature of the issues facing your organisation but Board decisions will benefit from feedback which enables them to 'put themselves in your clients' shoes'. Activities to assist this include one or more of the following:

- Building in plenty of opportunities for the organisation to hear the views and needs of service users
- Asking your clients what techniques and or approaches might help them offer the kind of feedback you are looking for
- Understanding what constitutes 'good service' from different perspectives (i.e. the beneficiary, the client, the service user, the management, the staff providing the service, the public).

You can effectively gather feedback on service provision and user satisfaction through:

- Interviews – structured or semi-structured (i.e. with pre-prepared questions)
- Meetings and focus groups, including 'meet the director' sessions
- Questionnaires
- Analysis of the number and outcome of compliments and complaints
- Case studies and stories
- Instituting some form of user advisory forum.

Risk management

Encourage your Board to understand that risk *management* is different from risk *assessment*. **Risk management** is not about avoiding risk, but determining the level of risk and deciding what risks your organisation is prepared to accept. Risk assessment is a step in the risk management process and is the determination of the risk related to a situation.

Everyone connected with your organisation has a duty of care to take reasonable steps to avoid anyone suffering injury, damage or loss because of something that could reasonably have been avoided. You should also check that your organisation is covered by public liability insurance in case a negligence claim is brought against it.

The Board will also need to satisfy itself that all the major risks to the organisation have been identified. Charities whose accounts are required to be audited (see Charity Commission and Risk Management: www.charity-commission.gov.uk) must also include a statement in their accounts that they have identified major risks and put in place systems to reduce those risks. It is good practice however, for all charities regardless of size to make such a statement.

Consequently, trustees must ensure that a proper risk assessment process is in place and that it is embedded throughout the organisation. In small organisations, your Board is likely to be more involved in the actual process than in larger charities. However distant or involved trustees are, they must be able to make a statement on risk management with reasonable confidence.

Undertaking risk management

1. Agree the main areas where risks might be identified which could include some or all of the following:

Potential risk area	Examples of potential risk(s)
Governance	Difficulty recruiting or retaining Board members; no written minutes of meetings; lack of engagement by Chair of Board members
Operational	Health and safety issues, e.g. lack of buildings maintenance; employment issues, e.g. loss of key staff; poor delivery of contracts
Financial	Cash flow or reserve level problems; recurring annual overspend; loss of a key funding source; inability to repay loans as required by terms set
External	Adverse publicity, government policy, demographic changes
Compliance with the law	Breach of legislation (e.g. employment, health and safety) or regulatory requirement (e.g. fundraising, service provision)

2. Your organisation can ensure adequate risk management if Board members:
 - Focus on major risks and assess the seriousness of the risks under each area
 - Determine the level of acceptable risk
 - Record the findings of the risk assessment
 - Ensure that procedures are in place to eliminate, reduce or control risks
 - Ensure that risk management is communicated and embedded into operational and management procedures across the organisation
 - Review the risk management plan at regular intervals
 - Meet any legal requirements for risk assessment.



Your risk assessment activity

Questions that might help to guide your risk assessment activity:

- What could or might go wrong?
- What is the probability (or likelihood) of each risk becoming a reality?
- What is the probable effect or the cost to the organisation if the event occurred, i.e. what would be the level of severity or impact on the organisation if it did happen?
- What is the overall risk? What level of risk are you prepared to allow?
- What control measures are currently in place to contain the risks?
- How do we monitor the risk?
- Who is responsible for overseeing this?
- What else do we need to do to eliminate, reduce or control the identified risk?
- When should we next review the way in which we manage our risks?
- How far are our partners involved in managing this risk?



See www.charity-commission.gov.uk for more information, especially on CC26 – charities and risk management.

Also see Lesirge R, Barnard H (2011) 'Towards a team at the top', a thought-piece looking a governance risks and opportunities in public sector contracting: <http://bit.ly/oSyocO>.

Completing a risk assessment

A sample risk assessment could look like the table on p.16.

Sample risk assessment

Risk area	Likelihood of occurrence (Low, Medium, High)	Severity of impact (Low, Medium, High)	Overall risk	Control procedure	Monitoring process	Who is responsible?	Further action required	Date of review
Financial – reduction or loss of statutory funding	Medium	High	High	Regular review by the Board; Financial appraisal of new projects; Communication with commissioners	Quarterly report by Director to the Board	Director	Diversify income sources; Consider fundraising	Annual
Operations – tribunal claim by employee	Medium	High	Medium	HR policies and procedures; Training; Supervision	Supervision and review	Director/managers	Re-inforce good practice via training and policies	Annual

Providing evidence of your achievements

There are many measurements you can use to demonstrate achievements in governance when appraising or reviewing the Board's performance. These can include ensuring that:

- An effective and comprehensive induction programme is offered to all new trustees
- Board members are aware of their key responsibilities and duties, including maintaining a clear boundary between governance and operational activities
- There are accurate minutes of decisions taken and actions agreed
- Records are kept of trustee attendance and targets set which achieve improvements in attendance levels year on year
- Trustees agree realistic budgets and receive regular financial reports.

Signposts

Publications

ACEVO (2002) *Leading the organisation* (London: ACEVO)

Adirondack S (2006) *Just about managing* (London: LVSC)

Dyer P (2003) *The good trustee guide* (London: NCVO)

Hudson M (2004) *Managing without profit* (London: DSC)

Lesirge R, Barnard H (2010) 'Governance – where is your board heading?', *Caritas Magazine* (London: Caritas)

Robinson M (2005) *Nonprofit Boards that work* (London: Wiley)

Websites

The Charity Commission

(www.charity-commission.gov.uk) and the Governance Hub provide support, advice and information from their websites – including the downloadable publication 'The hallmarks of an effective charity' (www.charity-commission.gov.uk/publications/cc10.asp)

KnowHow NonProfit

(www.knowhownonprofit.org/leadership/governance/governance): knowledge and expertise on governance from the sector.

NCVO (www.ncvo-vol.org.uk): follow links to governance and leadership.

Courses

Cass Centre for Charity Effectiveness offers training in many aspects of management and governance: www.cass.city.ac.uk/cce

Links to PQASSO

PQASSO is the practical quality assurance system for small organisations designed by Charities Evaluation Services. Independent data suggest PQASSO is by far the most widely-used quality system in the voluntary and community sector (VCS). For more information, see www.ces-vol.org.uk

Following this guide will help you to meet several of the indicators of PQASSO quality area 2 (Governance) in the second and third editions of the framework.

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3. Compliance
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5. Direction
6. Finance
7. People
8. Operations
9. Connect



Cass Business School

In 2002, City University's Business School was renamed Sir John Cass Business School following a generous donation towards the development of its new building in Bunhill Row. The School's name is usually abbreviated to Cass Business School.

Sir John Cass's Foundation

Sir John Cass's Foundation has supported education in London since the 18th century and takes its name from its founder, Sir John Cass, who established a school in Aldgate in 1710. Born in the City of London in 1661, Sir John served as an MP for the City and was knighted in 1713.

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