**Transforming Governance Resources**

The following document provides a series of resources for participants of the Transforming Governance Programme.

# Overview of Governance for Charity Trustees

This module provides an overview of good governance, as well as the roles, responsibilities and needs of Trustees.

## Charitable Purposes

To be a charity, an organisation must have exclusively charitable purposes and must operate for the public benefit, not the benefit of specific individuals. The Charities Act 2011 (consolidating 2006, 1993 and other laws) contains 13 descriptions of purposes:

* the prevention or relief of poverty.
* the advancement of education.
* the advancement of religion.
* the advancement of health or the saving of lives.
* the advancement of citizenship or community development.
* the advancement of the arts, culture, heritage, or science.
* the advancement of amateur sport.
* the advancement of human rights, conflict resolution or reconciliation or the promotion of religious or racial harmony or equality and diversity.
* the advancement of environmental protection or improvement.
* the relief of those in need by reason of youth, age, ill-health, disability, financial hardship, or another disadvantage.
* the advancement of animal welfare.
* the promotion of the efficiency of the armed forces of the Crown; or the efficiency of the police, fire and rescue services or ambulance services.
* any other purposes charitable in law.

[Full Resource Here](https://www.gov.uk/government/publications/charitable-purposes/charitable-purposes)

## Charity Commission: The Essential Trustee

This guidance explains the key duties of all trustees of charities in England and Wales, and what trustees need to do to carry out these duties competently.

Trustees have independent control over, and legal responsibility for, a charity’s management and administration. They play a very important role, almost always unpaid, in a sector that contributes significantly to the character and wellbeing of the country.

## There are six main duties of a Trustee:

1. Ensure your charity is carrying out its purposes for the public benefit
2. Comply with your charity’s governing document and the law
3. Act in your charity’s best interests
4. Ensure your charity is accountable
5. Manage your charity’s resources responsibly
6. Act with reasonable care and skill

[Full Guide Here](https://www.gov.uk/government/publications/the-essential-trustee-what-you-need-to-know-cc3/the-essential-trustee-what-you-need-to-know-what-you-need-to-do)

## The Charity Governance Code

Launched in July 2017 by NCVO along with steering group partners, the Code’s aim is to help charities and Trustees achieve high standards of governance.

Good governance is fundamental to a charity’s success. It enables and supports a charity’s compliance with the law and relevant regulations. It also promotes a culture in which everything works towards fulfilling the charity’s vision and is a practical tool to help charities and their trustees develop high standards of governance.

There are seven principles which make up this Code. These seven principles build on the assumption that a charity is meeting its legal and regulatory responsibilities as a foundation.

[Full Code Here](https://www.charitygovernancecode.org/en)

## The Seven Deadly Sins of Boards

*John Williams, Civil Society, 2016*

John Williams, the Vice Chair of Association of Chairs, looks at the most common failings of charity boards:

* No formal evaluation
* Lack of finite terms of office
* Not enough attention to sustainability and risk
* Skimping on recruitment
* Lack of engagement between meetings
* Lack of respect for SMT
* No investment in induction and training

[Full Article Here](https://www.civilsociety.co.uk/voices/after-kids-company--could-we-be-next--the-seven-deadly-sins-of-trustee-boards.html)

## The Key Concerns for Charity Boards

The charity sector has faced a challenging couple of years marked by turbulence, with external influences like the COVID-19 pandemic, Brexit, inflation, and the increasing cost of living significantly affecting the operational landscape of charitable organisations.

Charities Aid Foundation (CAF) and The **Institute of Chartered Accountants in England and Wales** (ICAEW) came together to commission research into the challenges and opportunities facing charities and their boards, and jointly produced the report 'What's on the horizon for charity trustees?'

1. **Financial resilience:** Even charities that have secure incomes worry about protecting these or the possibility of losing them.
2. **Collaboration:** The nature and involvement of a charity’s trustees can significantly impact the collaboration and culture within the organisation.
3. **Diversity:** Almost all trustees interviewed said that their boards were less diverse than they would like. However, they were also unsure about how to change this.
4. **Support and training:** Trustees would welcome additional support, guidance, and training to bridge gaps in knowledge and experience.
5. **Digital:** Digital covers a wide range of charity functions and is interpreted differently by trustees depending on their expertise and the relevance of various elements of technology to their charities.
6. **Sustainability:** While not the primary objective for most charities, climate change and sustainability considerations are increasing in relevance and importance.

[Full Report Here](https://www.icaew.com/technical/charity-community/articles/what-are-the-key-concerns-of-charity-boards)

## Charity Commission Investigations

The Charity Commission offers guidance to charities on both legal requirements and good practice to help them operate as effectively as possible and to prevent problems arising.

In some circumstances Trustees may also be personally liable for any debts or losses that the charity faces as a result. This will depend on the circumstances and the type of governing document for the charity. However, personal liability of this kind is very rare, and usually only applies where the Trustees have acted dishonestly or recklessly. Trustees who have followed their duties and good practice will generally be protected.

In 2022-23, the charity commission received 2,969 new serious incident reports, and in the same yearthe Charity Commission removed 4,146 charities from the register.

The Charity Commission describes a serious incident as being an adverse event - either actual or alleged - which either results in or risks significant harm to anyone who comes into contact with the charity through its work (for example, the charity’s beneficiaries or staff), loss of the charity’s money/assets, damage to its property or harm to the charity’s work or reputation.

[Further Information Here](https://www.gov.uk/government/publications/charity-commission-annual-report-and-accounts-2021-to-2022/charity-commission-annual-report-and-accounts-2021-to-2022)

## Guidance on Conflicts of Interest

*A conflict of interest is any situation in which a Trustee’s personal interests or loyalties could, or could be seen to, prevent them from deciding only in the best interests of the charity*. (Charity Commission definition)

Conflicts of interest may come in a number of different forms:

* Direct financial gain or benefit to the Trustee, such as:
  + Payment to a Trustee for services provided to the charity.
  + The award of a contract to another organisation in which a Trustee has an interest and from which a Trustee will receive a financial benefit.
  + The employment of a Trustee in a separate post within the charity, even when the Trustee has resigned in order to take up the employment.
* Indirect financial gain, such as employment by the charity of a spouse or partner of a Trustee, where their finances are interdependent.
* Non-financial gain, such as when a user of the charity’s services is also a Trustee.
* Conflict of loyalties, such as where a Trustee is appointed by the local authority or by one of the charity’s funders, or where a friend of a Trustee is employed by the charity.

[Further Guidance Here](https://www.gov.uk/government/publications/conflicts-of-interest-a-guide-for-charity-trustees-cc29)

## Accounting Essentials

Depending on the size of the charity, the day-to-day responsibility for financial matters will usually sit with a Finance Director or the CEO on a charity’s management team, who will report to the Board of Trustees.

Trustees have a number of legal responsibilities in relation to accounting and financial reporting. These include:

* Keeping 'sufficient' accounting records to explain all transactions and show the charity's financial position.
* Preparing an annual report and statutory accounts to meet legal requirements.
* Considering the need for a reserves policy, managing the level of reserves held and the disclosure of any reserves policy in the Trustees' Annual Report.
* Formally approving the Trustees' Annual Report and accounts.
* Ensuring that accounts are subjected to any external scrutiny required by law or by the charity's governing document.
* Ensuring that the Trustees' Annual Report, accounts, and annual return are filed on time with the Charity Commission where filing is required by law and, if the charity is a company, also filed with Companies House.
* Fulfilling requests from the public for copies of the charity's most recent Trustees' annual report and accounts.
* Safeguarding the assets of the charity and ensuring proper application of resources.
* Taking steps to prevent and detect bribery, fraud, financial abuse, and other irregularities.

[Further Guidance Here](https://www.gov.uk/government/publications/charity-reporting-and-accounting-the-essentials-march-2015-cc15c/charity-reporting-and-accounting-the-essentials-march-2015)

## Reading Charity Accounts

A charity’s accounts should include the following information:

* Introduction (charity information)
* Annual Report
* Auditor’s Report (if required)
* Statement of Financial Activities
* Balance Sheet
* Cash Flow Statement
* Notes, including disclosure of accounting policies
* Summary financial information and statements

There are a number of terms that often appear in a charity’s accounts, which members of the public may not be familiar with Earned income (income generated by trading goods and delivering services under contract); Reserves (that part of a charity’s income funds which are freely available); Unrestricted funds (funds held for the general purposes of the charity); Restricted funds (funds subject to special trusts or purposes specified by the donor); Designated funds (a type of unrestricted funds that the charity has earmarked for a purpose), and Voluntary income (donations or grants that do not provide any return to the donor other than the knowledge that someone will benefit from the donation).

[Further Guidance Here](https://www.sayervincent.co.uk/wp-content/uploads/2021/08/SV-MS-ReadingCharityAccounts-January2016.pdf)

## The Charities SORP

The Charities Statement of Recommended Practice (SORP) provides a comprehensive framework of recommended practice for charity accounting and reporting. It provides a mechanism enabling charities to meet the legal requirement for their accounts to give a true and fair view and provides consistency in the sector's interpretation of accounting standards.

The SORP also provides recommendations for annual reporting that are relevant to sector and stakeholders needs and are in line with wider developments in reporting for all Companies.

[Full Resource Here](https://www.gov.uk/government/publications/charities-sorp-2005)