



CONCISE GUIDE *of* ETHICS & GOVERNANCE

For the charity and the not-for-profit sector



Frances McCandless
Chief Executive,
The Charity Commission for Northern Ireland

Charities have long fulfilled an essential role in our society working towards the relief of poverty, furthering of education, promotion of faith, health, welfare, sciences, arts and many other causes on behalf of individuals and communities.

These organisations range in size, from small groups meeting local needs with few resources, to household name charities operating with significant budgets. Whatever their size or purpose, all charities must operate for the public benefit and independently of government or commercial interests. As regulators of charities in the sector, our role is to ensure greater accountability, to enhance public trust and confidence in charities and to protect against abuse of charitable status. Good governance lays the groundwork towards achieving this.

Charity trustees are the gatekeepers of governance and integrity in the sector. The clearer trustees are on their duties and the better guidance and support that they receive, the greater the sector will benefit. We believe trustees who are well-intentioned and well-informed, are key to increasing public trust and confidence in the sector.

We therefore welcome, and are delighted to support, Chartered Accountants Ireland’s initiative to produce this guide aimed at encouraging and supporting current and aspiring trustees. To run effectively and ethically, charities need the right people to step-up and become volunteer board members. The sector also



John Farrelly
CEO
Charities Regulator, Ireland

needs trustees as diverse as the charities they manage. This involves trustees of all age groups, genders and backgrounds in order to refresh the membership of management committees and boards of trustees.

Both our organisations, Charities Regulator and The Charity Commission for Northern Ireland, offer a number of guidance and support materials and e-learning tools for prospective trustees. A link to these resources can be found in the Appendix of this guide. We also maintain a public register of charitable organisations operating in our jurisdictions and ensure their compliance with the Charities Acts.



Frances McCandless
Chief Executive
The Charity Commission for Northern Ireland



John Farrelly
Chief Executive
Charities Regulator/An Rialálaí Carthanas



Niall Fitzgerald
Head of Ethics and Governance,
Chartered Accountants Ireland

Charities and not-for-profits have a valued status in society due to the wide range of invaluable services they provide in our society. In order to ensure their continued earning of public trust, these organisations need to maintain good governance practices and embed a culture of integrity in their organisations.

The sector needs people with the right skills, experience and commitment to serve as board members and those who step up should be acknowledged and supported. Board members play a central role and bear the ultimate responsibility for governing the organisation and ensuring delivery of the overall mission. Being a board member is not without its challenges and is normally unpaid, however it can be an immensely rewarding experience. We encourage members of our profession and others who share the passion of the purpose of any such organisation, and want to make a difference, to get involved.

Remember that you are not alone as a board member and if you need further assistance there are many, including members of Chartered Accountants Ireland, who are willing to support you and your charity or not-for-profit organisation in its important work. We sincerely hope this guide will provide you with some helpful and practical guidance in fulfilling this important role.

Best wishes,

Niall Fitzgerald
Head of Ethics and Governance, Chartered Accountants Ireland



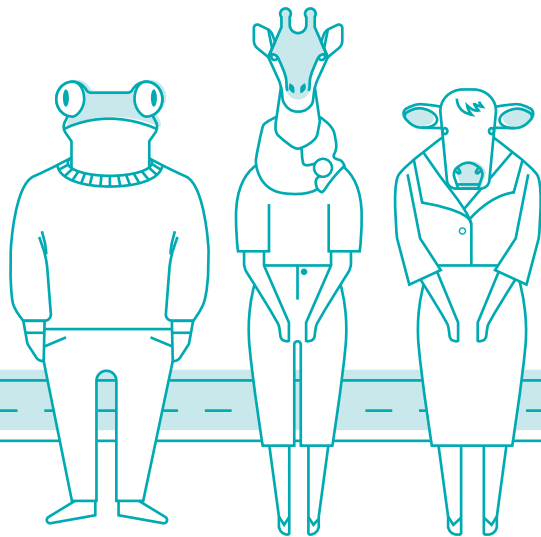
Contents

Setting the scene	6
A conversation with yourself	10
Duties, responsibilities & supports	12
What the sector expects from a trustee	15
Do your homework – Research the organisation	16
Reflecting on a governance framework	17
An ideal induction	20
An ethical culture	22
What makes a great board	24
Your time on the board	30
Closing comments	38
Appendix	39

Setting the scene

Introduction

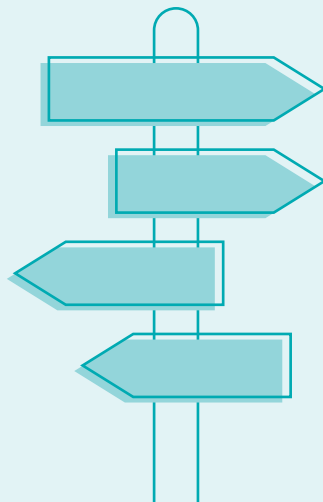
With this concise guide Chartered Accountants Ireland aims to provide meaningful value to our members involved, or thinking about getting involved, in the charities and not-for-profit sector ('the sector') in a non-executive/trustee capacity. Of course, you do not need to be a Chartered Accountant to benefit from the contents. The guide assumes a certain pre-existing understanding of technical knowledge as well as ethics and governance standards. Whilst not a comprehensive deep dive, we hope it provides you with a good steer.



Advice from the sector to the sector

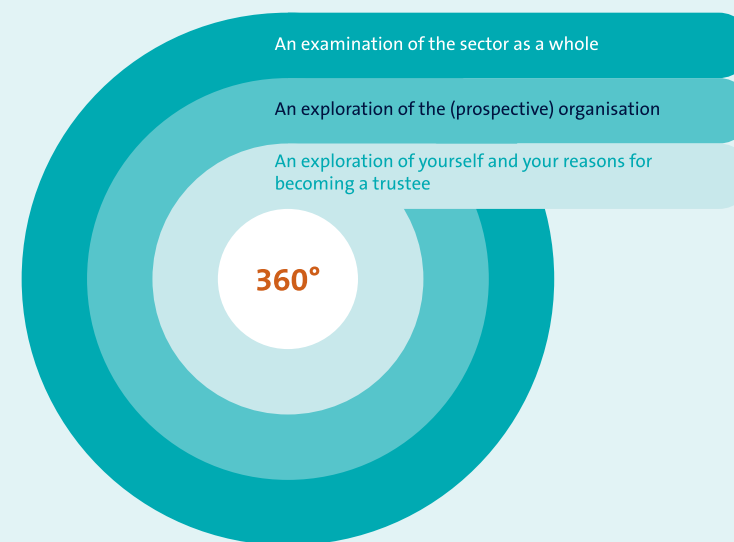
Chartered Accountants Ireland engaged in a number of initiatives as part of informing and producing this guide. We conducted a series of seven focus groups across the island of Ireland, using a structured discussion guide, to get views from the sector on the opportunities open to, and challenges facing, a trustee and issues that potential trustees, and those at a crossroads in their current trustee roles, should be aware of. We also carried out desk research that involved collating some of the existing guidance available to the sector and we met with charities regulators and people involved in the sector in various capacities, including staff, volunteers, management and trustees. We are very grateful to all who responded to an open invitation to participate and share their insights from a management and/or trustee perspective and explore common issues in greater detail.

As a result of the above methodology, we are proud that much of the advice contained in this guide comes directly from trustees, volunteers, staff members and others working in the sector.



Layout of the guide and your journey

The guide is structured in such a way to steer you (a current or potential trustee) through the stages of considering, accepting and undertaking the role of trustee. The advice we received from the sector was to **reflect, read and research** the wealth of **resources** available, and to **speak** to people in the sector. By using this guide you are led through three different avenues of enquiry, so that you emerge with a 360 degree view of being a trustee in a charity or not-for-profit organisation and how you would fit into such a role.



“It’s the action, not the fruit of the action, that’s important. You have to do the right thing. It may not be in your power, may not be in your time, that there’ll be any fruit. But that doesn’t mean you stop doing the right thing.”

— Mahatma Gandhi

A conversation with yourself

The first step in the process of considering a potential trustee role or reassessing your reasons for becoming a trustee is a time of reflection. To start you thinking we present five sets of questions below. In order to give this process sufficient time and thought we encourage you to answer in writing:

1 Why do I want this? What is my motivation for becoming a trustee?

This involves a reflection on not only your purpose, connection to a cause and objectives to achieve your goals in life, but also your ethical thought process and your values. Connect your values, purpose and objectives to the organisation you are, and want to be, part of. When considering your ethics and values you may find the [Chartered Accountants Ireland publication “Five Fundamental Principles, Five Practical Steps”](http://www.charteredaccountants.ie/ethics) useful (www.charteredaccountants.ie/ethics).

2 What can I offer in terms of skills and experience?

Consider your strongest professional skillsets but also look beyond these and consider your other valuable life skills and experience.

“By three methods we may learn wisdom: first, by reflection, which is noblest; second, by imitation, which is easiest; and third, by experience, which is the most bitter”

— Confucius

3 Can I make a difference? If so, how and where?

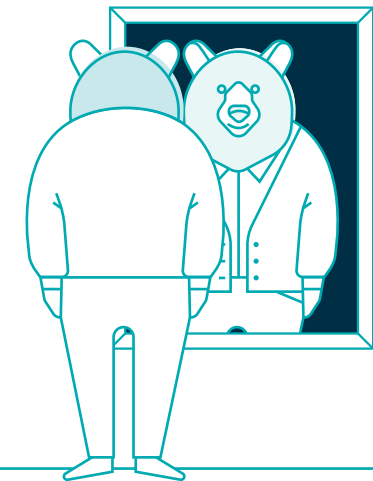
Consider your own potential including where and how you can make a difference. Prepare yourself for the journey and how you will work with others to make an impact.

4 Do I have the time and capacity to do this?

Being a trustee can be time consuming, but very rewarding. Acknowledge that you are a limited resource. Consider your ability and desire to give meaningful time to accomplish that which matters most to you (cue “why do I want to do this?” above). This thought process may encourage you to develop your self-management skills and ensure your ability to commit.

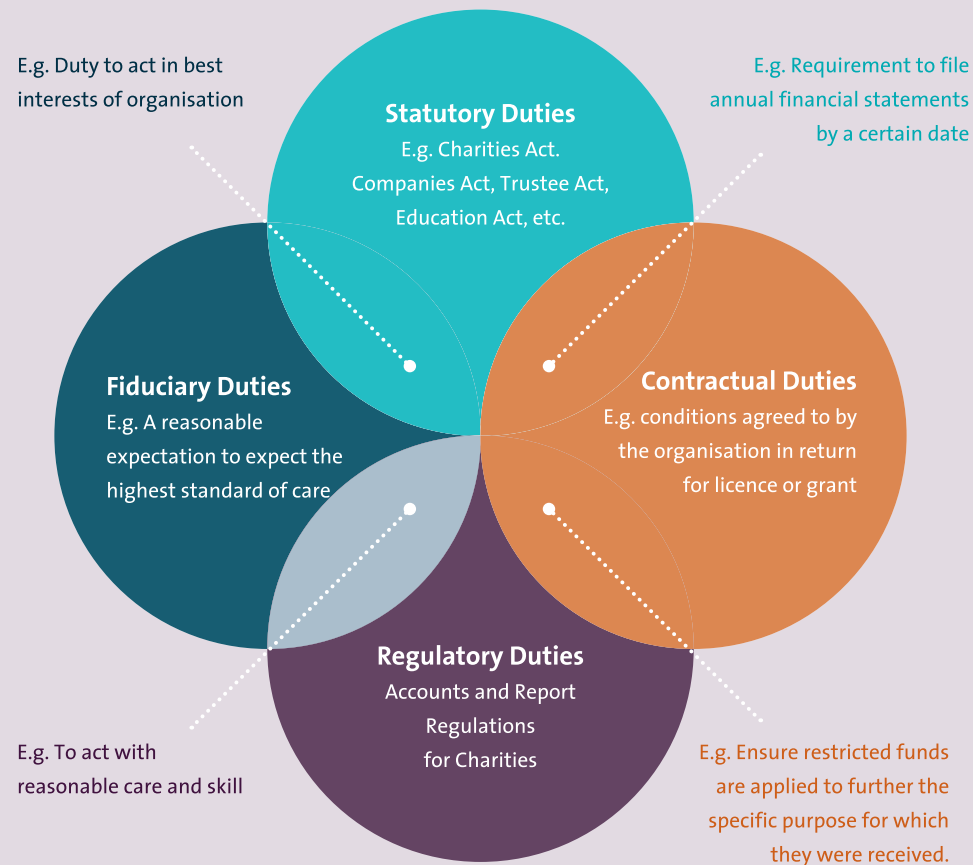
5 Am I prepared to find out more?

This concise guide will provide you with a steer on what is useful to know. Our own journey in producing this guide revealed that there is no shortage of information about the sector nor people in the sector willing to discuss with others what’s involved. This is not a journey you need to start out or continue alone. Consider what you are going to do to get informed.



Duties, responsibilities & supports

Being a board member involves certain statutory, fiduciary, regulatory and contractual duties. Some organisations are equipped, through their governance framework, to ensure compliance with these duties but others may not be. It is important to understand what duties apply to you. We recommend you first understand the organisation, the legal structure and the area within the sector in which it operates. **The following overview will guide you in understanding what such duties might look like and also illustrates that they often overlap:**



Statutory, regulatory and fiduciary duties can flow from the relevant legislation applicable to you and also from established case law. For example, if your organisation is a company established under Companies Acts you will have both defined statutory and fiduciary duties.

- **Statutory duties** include many requirements which, although may seem obvious, require very specific tasks, e.g. one such duty includes requirement to prepare financial statements that present a true and fair view may seem straightforward, but as any accountant knows this requires compliance with other applicable legislation, financial reporting standards (e.g. FRS 102) and other possible requirements (e.g. Charities SORP).
- **Regulatory duties** arise from specific regulations applying to a service you may provide (e.g. residential care), the type of organisation you are (e.g. requirements to apply charities accounts regulations), or, an activity you engage in (e.g. local planning regulations if you are organising a significant event).
- **Contractual duties** can be straightforward when they are in writing and explicit, e.g. rental agreement or a contract to provide services. The area of contractual rights and obligations can be very complex, especially when dealing with implied or implicit contracts. It is advised to ensure that there is some mechanism to capture when the organisation enters into a contractual obligation.
- **Fiduciary Duties**, while appearing straightforward, may require a deeper dive, especially if you have a specific concern in relation to an issue. For example, the requirement to exercise a certain level of “care, skill and diligence” requires understanding relevancy and context of the knowledge and experience you have versus the knowledge and experience that a reasonable person can expect of someone to have in your position. This can mean that a qualified professional accountant, acting as trustee, is expected to bring their professional knowledge to the board and can be held to a higher standard if they fail to do this.

Advice is available

— The Charities Regulator and The Charity Commission for Northern Ireland have both published very useful guidance on their websites for charity trustees on compliance with legal requirements including the Charities Act and other legislation. Both authorities place important emphasis on ensuring that the organisation is carrying out its charitable purpose for the public benefit, but doing so within the parameters of the law and regulations.

— Not-for-profit organisations that are ‘non-charities’ will need to clearly establish what legislation is applicable to their organisation. While these organisations are outside the scope of charities legislation they may still find some of the guidance applicable to charities useful. Advice from the sector is to ensure that your not-for-profit organisation has a reliable mechanism in place to keep informed on legal and regulatory requirements.



Rather than feel overwhelmed, we advise board members to ground themselves in the knowledge that while difficult challenges can be presented with legislation and regulations, mostly it requires only sensible and practical thinking, sound systems and sensible procedures to ensure overall compliance.

What the sector expects from a trustee

When asked to rank five common expectations of a board from a potential trustee, the majority of participants ranked in the following order. It was clear from discussions that nobody expects a potential trustee to meet all the expectations below at the very start, but they should be more than keen to meet them in the short term.

1

Basic knowledge of corporate governance and subscribe to similar ethics of the organisation

2

Good knowledge of the charitable purpose or not-for-profit objective of the organisation

3

Good knowledge of the charity and not-for-profit sector

4

Have access to resources and connections that will benefit the organisation

5

Good knowledge of fundraising

In addition, our participants emphasised the importance of understanding the amount of time and level of commitment involved in the role. They also expect the potential trustee to perform their own due diligence on the organisation before committing and query any concerns. A trustee should also understand the asset protection measures in place within the organisation.

Do your homework

Research the organisation



When considering a trustee position, a prospective trustee should carry out research in two ways: by availing of online and other resources, and by talking to other trustees and to people in the organisation. The process is also useful for current trustees taking stock of what they understand about their organisation.

Advice from the sector is to include the following in any due diligence exercise:

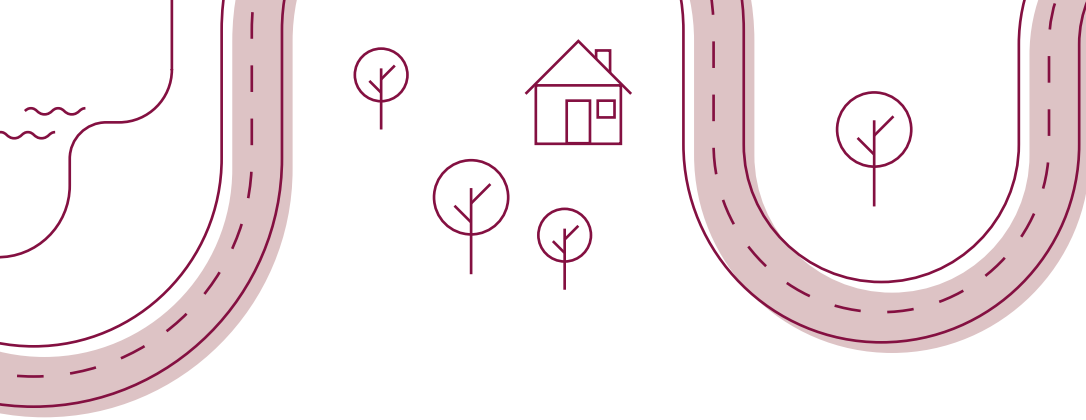
- 1 What is the focus and **direction of the organisation?** Does it have an up-to-date strategy?
- 2 What **impact** is the organisation having **on society?**
- 3 What are the **ethical values of the organisation?** And to what extent does it live those values?
- 4 What is the **time commitment** for the trustee?
- 5 What are the **main challenges** facing the organisation? What was the outcome of any regulatory inspection or investigation they may have had?
- 6 What **governance** does the organisation already have in place and what is in development?
- 7 **How transparent is the organisation?** Is reasonable governance information, including Financial Statements, easily and publically accessible?
- 8 What is their website and **social media presence** like? What media coverage have they had?
- 9 **What is the board profile** in terms of experience, range of skills and tenure? Who are the strong characters on the board?
- 10 What **mechanisms** are already in place **to deal with issues** on the board?
- 11 What are the **internal controls** in place? What mechanisms are not set in stone? What is more fluid?
- 12 **Meet with the CEO** and find out what is their understanding of the role of the board.

Reflecting on governance framework

A good governance framework in a charity or not-for-profit organisation promotes the organisations purpose while emphasising transparency and accountability. While laws, regulations and standards command basic governance requirements, it is in the organisation's interests to ensure that their governance framework is effective and fit for purpose. When reflecting on the governance framework of the organisation, have regard to the following;

- 1 **To ensure sufficient independent oversight, is there a clear delineation between the governance of the organisation, i.e. the trustees, and management of the organisation?**
- 2 **Is there a clear and transparent organisational structure that is publically available, including short biography and background on trustees and senior management?**
- 3 **Regardless of level of simplicity or complexity, are there transparent procedures in relation to selection and appointment of trustees?**
- 4 **Is there some form of evaluation of trustees and senior management in the organisation in addition to evaluation of the overall board?**
- 5 **Is there a mechanism for identifying, responding to and recording risks affecting the organisation?**
- 6 **Are there mechanisms to ensure the flow of information to and from the board and adequate controls to ensure the integrity of this information?**
- 7 **What are the internal and external financial reporting milestones and are there any independent audit or other assurance requirements?**





Having a good governance framework in place is the right thing to do and is an efficient way to organise and consistently run an organisation well. It is also essential for building stakeholder and public trust.

Having a governance code is an essential part of a good governance framework and there are some excellent codes available that have been developed by the sector and endorsed by the charity regulators. Some of these codes can also be tailored for adoption by other not-for-profit organisations. These codes contain a set of principles that the board, on behalf of the organisation, adopt to ensure they have practices and procedures in place that help them to do their work effectively and openly. In order to be effective, the code has to be more than just a document. It has to be a living culture that inspires progress, compliance and ethical decision making.

Our focus groups participants welcomed a governance code as it provided them with a clear roadmap for their organisations. The requirement to have a governance code encouraged their organisations, they said, to think about such things as formalising processes, having internal controls, and to understand them. Many referred to umbrella groups and the regulators as good sources for best practice sample governance codes. A link to some of these sources is included in the appendix to this guide.

Proportionality is another important factor to consider in relation to defining a governance code for the organisation. There was consistent expectation that every charity or not-for-profit organisation, regardless of size, should have a governance code in place. Many of the principles of governance that apply are the same, however it is the extent of policies and procedures required that can vary significantly. This is why a sensible and practical approach to defining a governance code is best and should always start with:

1. What is the purpose of the organisation?
2. How will that be achieved?
3. What must be complied with in order to engage in any activity?
4. What are the values by which this organisation will live?

Some acknowledged the difficulties that can arise if the organisation has to comply with a number of codes arising from regulation, or contractual conditions such as conditions of funding, membership of an umbrella group or other reasons. In such situations, participants advice was to maintain a master code. It is the trustees' responsibility to ensure the master code reflects the organisation's requirements. The code needs to be a living document and while all trustees are responsible, it is a good idea to appoint somebody, or a working party, that will ensure it is kept under regular review.

“Governance should not be viewed as a box-ticking exercise but rather as how you govern day to day.”

— Focus group participant

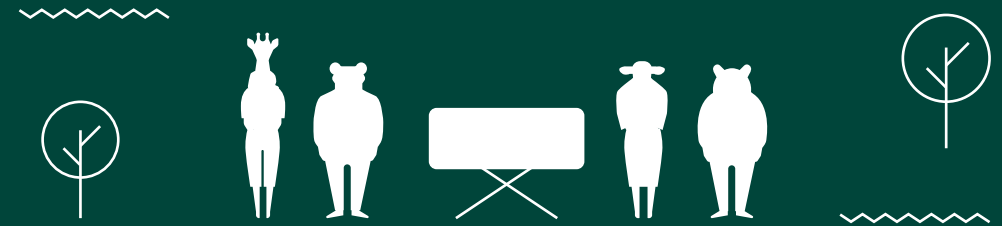
While there are a number of different governance code templates designed for the sector, each containing relevant and important principles, our participants ranked the following in the top four most important principles to include or reflect in a governance code:

1. Description of the board's roles and responsibilities.
2. Leadership and ensuring delivery of the organisation's overall purpose.
3. The processes in place to ensure transparency and accountability.
4. Board diversity, working well together and with integrity.

So you are now on the board...

What induction can you expect?

Formal inductions of new trustees have become more prevalent in recent years. They are vital to the successful start of any trustee. A good induction arms the incoming trustee with all the pertinent information to enable him/her to carry out the role as effectively as possible and to ensure a smooth beginning.



The form and content of inductions vary from organisation to organisation. A new trustee may simply be handed an annual report and offered a quick chat with the board member who recommended them. Other organisations plan a dedicated induction day once a year, where management makes themselves available to any new trustees and any board member who wants a refresher on the governance and procedures of the organisation. Proportionality is relevant and all our participants were agreed that some form of induction is important. In some situations where some resources are not available, e.g. formal induction packs, this may be a good starting point for the new trustee to make a contribution by overseeing the development of such a pack. Here we outline the ideal induction that will help achieve a smooth beginning.

An Ideal Induction

• Induction pack

You should receive an induction pack containing:

- Organisation's tailored governance handbook/code including governing document.
- Terms of reference for board and sub-committees.
- Previous annual reports (containing audited financial statements if applicable).
- Minutes from the last few board meetings.
- Current policy documents, e.g. Fundraising, managing conflicts of interest, speaking up, etc.

• Give it time

- There can be a lot to cover in an induction therefore we recommend it should be done formally.
- Needs to be a half-day or day-long exercise.

• Meet with the CEO and the Chair

- Get both perspectives on the purpose of the organisation, what's involved and what's expected of the trustee.
- For first meetings listen and observe only.

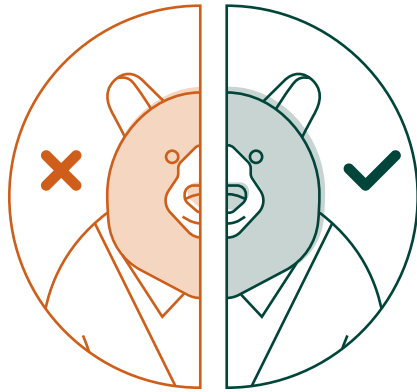
• Meet the staff

- Ask to meet with the front line staff and volunteers.
- Find out what the issues are on the front line.
- Listen to their perspectives on the purpose of the organisation.

• Inquire about Ethics

- Have a discussion regarding the ethics and values of the organisation.
- Find out what the culture is? Does it encourage people who speak up?

An ethical culture



When the topic of ethics was raised in our focus groups there was an initial silence, then a gradual discussion developed after some thought and reflection. This is the nature of ethics. Time and space needs to be made for it. There is an appetite in the sector for ethical discussion. While most noted an absence of a formalised code of ethics in their organisations, they emphasised the importance of discussion and debate at board level on ethical issues. They also emphasized a culture of listening and considering other people's values around the board, with some pointing to a greater diversity on the board adding to a variety of viewpoints that sparks ethical discussion.

What are your personal values?

Our participants were correct in identifying debate as important. Such debate is the conflict of a person's own values with those of another. We all rationalise differently and this affects how we respond to an ethical dilemma. The acknowledgement of personal values are at the heart of an ethical code of conduct. Earlier in this guide see "A conversation with yourself", we referred to **Chartered Accountants Ireland's Five Fundamental Principles and Five Practical Steps** as one useful resource to get you thinking, before you encounter an ethical dilemma.

What are the values of the organisation?

The values of the organisation then need to be defined before a code of ethics can be drafted. For a code to be authentic, it must be aligned with the purpose and culture of the organisation. Ethicists advise that this is then reviewed annually. Some form of evaluation, e.g. conduct risk survey, can be carried out to ensure that the behaviour in the organisation is in tune with the desired culture.

Embed an ethical culture in the organisation

In the sector, where resources are limited, the role of the Chair and CEO is even more pronounced in ensuring a culture of integrity permeates the organisation. Our participants highlighted the importance of the Chair in encouraging an open culture of ethical discussion and setting the tone at the top for a high ethical standard within the organisation. Ethical deliberation was needed right throughout the organisation: in the preparation of the strategy, the choice of donors, the various diverse backgrounds and viewpoints around the board, the impartiality of board members in voting on certain actions and the ability to say no in situations where the values of the organisation are threatened or in danger of being compromised.

Your code of ethics

A code of ethics needs to outline a thought process that assists in defining the way people in the organisation think and behave, for example; will the decision create a conflict of interest? How does this action benefit the beneficiaries? Will someone else suffer as a result of this action?

How would you rank the values?

We presented focus group participants with a list of eight values and asked them to rank the values according to their applicability to the charitable and not-for-profit sector. We list the values below. The majority ranked **integrity** and **honesty** as the most important values for a charity or not-for-profit organisation.. Other values included **Respect, Dignity, Selflessness, Openness, Objectivity, Confidentiality** in addition to **Professional Behaviour, Competence & Due care**.

Take some time to reflect on their importance to you and your role, or potential role, on the board of a not-for-profit or charity.

What makes a great board

From their experience on a variety of different boards, our participants gave their insights on what they believed to be the best attributes of a well-functioning board.

**Strong relationships
between members of
the board**

Teamwork

Constructive criticism

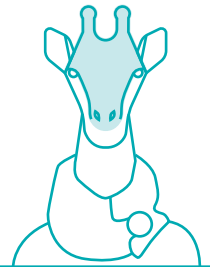
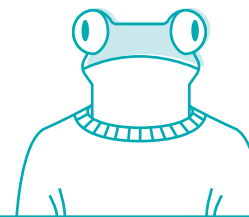
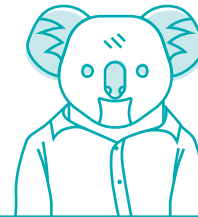
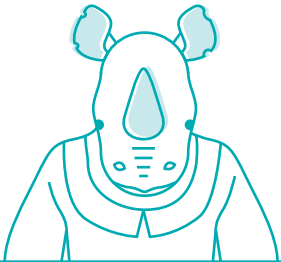
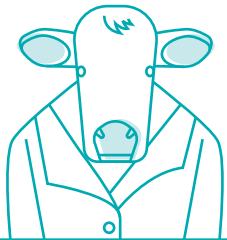
Communication

**Clearly defined roles and
responsibilities**

Terms of reference

Diverse members

Ethics



A great board...



Strong relationships between members of the board

- ...gets to know each other and the various skill sets around the board.
- ...gels the members of the board and builds a team dynamic.
- ...includes a form of mentoring and support for those who join or who may be inexperienced in board culture/behaviour. This encourages younger and more diverse trustees to step forward.
- ...respects the position of Chair and ensures that all members of the board have an opportunity to contribute.



Constructive criticism

- ...has a board culture where constructive criticism is welcome.
- ...speaks up, because silence can be a form of tacit acceptance.
- ...enables its board members to independently make decisions and not follow the crowd.
- ...knows that board evaluations can be constructive, but ensures board members are aware of what they and others want from the evaluation process.
- ...aims at arriving at the right decision, not the easy decision.



Teamwork

- ...is aware that the board is ultimately responsible for the governance of the organisation and members of the board collectively share this responsibility.
- ...knows that all members of the board need to understand the charity's financial position, not just the treasurer or the accountant.
- ...does not rely on too few people to do the majority of the lifting.
- ...knows that board evaluations can be useful for improving teamwork.
- ...avoids the 'silo effect' and ensures that sub-committees and working groups operate as extensions of the board rather than entirely separate to the board.



Communication

- ...has a clear and respectful relationship between the Chair and the CEO or head of the senior management team.
- ...has a good line of communication right through the organisation, from the board and its sub-committees or working groups, to the executive, to staff and front line volunteers.
- ...ensures management are invited to participate in board meetings on a regular basis.
- ...acknowledges the importance for the board to have occasional in camera meetings to discuss certain issues, e.g. fraud risk, management evaluation, etc. The same can apply to subcommittees, e.g. Audit Committee meeting in camera with external statutory auditor.

A great board...



Clearly defined roles and responsibilities

...understands that it is the board who bears ultimate legal responsibility under Charity law and other legislation

...makes it clear to each member of the board what their responsibilities are and understands the role of governance versus management.

...knows that a voluntary board is not an excuse for an unaware board.

...understands that the role of Chair is important for board effectiveness and amongst other tasks should ensure:

- there is follow through on any actions arising from the board;
- time is used effectively at the board meeting and that rabbit holes and hidden agendas are avoided;
- induction and some form of board evaluation happens;
- board papers are clear and distributed in a timely manner.



Terms of reference (TOR)

...knows comprehensive TOR are very important for the effective running of the board.

...is clear on what tasks are delegated to management and matters reserved for the board.

...is clear on what tasks are to be delegated to sub-committees, e.g. audit and risk, and/or working groups.

...ensures that each sub-committee has its own TOR and is clear on role to advise and make recommendations to the board, with board retaining ultimate responsibility for decision making.

...ensures TORs are annually reviewed and that the board familiarise themselves with its contents.



Diverse members

...is aware that many people recruit in the likeness of themselves. The CEO should not be picking his/her board members.

...knows that a well-formed and balanced board with a varied range of skill sets counteracts one strong character.

...keeps the board fresh by complying with the recommended limit on the length of a member's term of service as per TOR.

...balances the focus of the board on funds, surplus, reserves and solvency with focus on strategy, business targets, risk and overall purpose of the organisation.



Ethics

...acknowledges the board's responsibility to embed the desired culture of values and behaviour in the organisation.

...encourages open debate and discussion, e.g. a conflict of interest for one person may not be an issue for another.

...achieves consensus on "red line" ethical issues that undermine the core values and beliefs of the organisation.

...evaluates the culture of behaviour in the organisation and measures it against the desired culture of values.

...acknowledges that ethical leadership is not without challenge and that values such as trust and integrity are earned or lost as a result of behaviour.

Your time on the board

Tips from the sector on addressing certain common challenges for a board

The focus group participants listed the opportunities and challenges that the sector faced and gave insights on how they approached them. The areas they highlighted were:

- 1 Communication
- 2 Financial Reporting
- 3 Fundraising
- 4 Collaboration

In the following sections we endeavour to provide a concise guide to addressing these opportunities/challenges.

Communication

*1

Internal communication

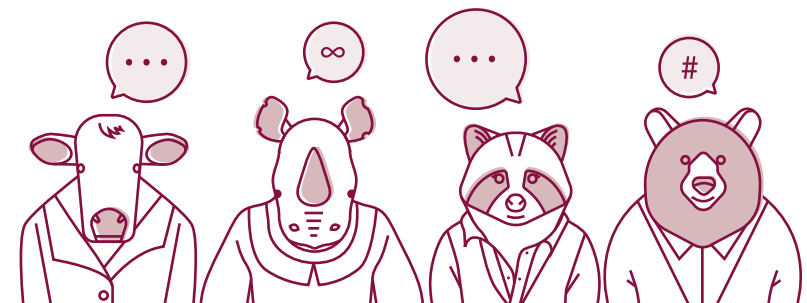
For a board to do its work properly, it must both be well-informed by the executive and it must actively inform the executive of its work, plans and progress. Therefore the board must organise to ensure that there is an adequate flow of relevant information to and from the board. Every person, whether board member, senior management, staff or volunteer, within the organisation should be clear on the lines of communication.

Larger organisations also have internal communication tools, e.g. E-newsletters, that inform volunteers and employees of plans for the months ahead and targets reached so far.

In the case of issues of misconduct or mismanagement, such as misuse of funds or bullying, a board must ensure there is a sufficient speak up policy in place. This requires procedures that enable a secure and confidential way for staff, volunteers and other third party stakeholders to communicate genuine concerns. Having an effective speak up function requires effort. It involves the design and implementation of effective internal controls and clear communication of the mechanisms in place that enable safe speaking up. Speaking up should be normalised so that it does not require a huge amount of courage to do so.

External communication

Many charities and not-for-profit organisations are regularly engaged in marketing or awareness campaigns. These campaigns target a wide group of stakeholders: such as donors, beneficiaries, the local community, politicians and the media. The tools they use are also varied: direct marketing, press releases, events, advertising and increasingly social media. Social media and the internet are today pervasive platforms of communication and exchange of opinions that a charity cannot afford to ignore. They are like a virtual town hall where the public can hold organisations, and people, accountable for their behaviour and performance. The importance of these channels and their potential impact on the reputation and image of the organisation has to be acknowledged.

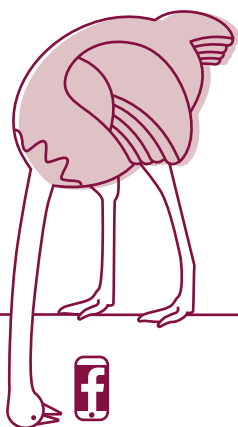


Focus group participants highlighted social media and the internet as both an opportunity and a challenge. These channels present opportunities for the organisation to engage with the public, to create awareness and also to hear about relevant problems, issues or concerns that need to be taken into account. The worst any organisation can do is fail to listen! With a proper strategy in place for proactive and reactive communications online, it is possible to get the benefit from these channels and manage the message your organisation wants to spread. While the context and content of communications differs for each organisation, they all share the requirement of communicating with integrity, clarity and transparency.

Fig 1 provides some insights on developing your organisation's social media policy.

Fig 1: Social Media Policy

Charities and not-for-profits are advised to put in place an online communications policy and protocol. This should define the parameters and approvals required around official communications including how to respond to negative comments, media release protocol, official social media and internet content, etc. The policy should also address trustees, staff and volunteers and their individual use of social media and internet postings about the organisation. The culture of values and desired behaviours of the organisation around communication need to be reflected in this policy document.



Financial reporting

*2

It is important that trustees do not leave the heavy lifting to just the qualified professional accountants on the board when it comes to financial reporting. Three simple matters for trustees to consider include:

1 Remember the purpose of Financial Reporting: Board members are encouraged to promote a culture of transparency and trust both within and around their organisation by considering how they report performance and impact externally. Charities and not-for-profits have important financial reporting compliance requirements to meet but also have a responsibility to ensure that there is sufficient qualitative as well as quantitative information around the activity, performance and financial position of the organisation. Ensure there is sufficient transparency to adequately inform your stakeholders.

2 Establish external financial reporting framework: This can vary depending on legal structure, size, specific regulatory requirements in addition to any stipulations contained within the organisations own governing document, e.g. constitution or trust deed. Trustees will also have to consider reporting requirements arising from specific donors or grant providers. Know your organisation, know where your funding is coming from, know where it's going, know your financial reporting requirements to sustain and grow.

3 What are the numbers telling you? All trustees have equal and joint legal responsibility, therefore should have an understanding of what is being reported in any financial report. Ultimately the financial statements should reflect the story of the organisation in numbers and every trustee should be in a position to analyse, critique and contribute on what is being presented. Responsibility does not rest solely with the Audit or Finance Committee nor with the qualified professional accountant(s) on the board. Rather, it is reasonable for the board to request a walk-through of the financials on an ongoing basis, therefore finance should feature as a regular agenda item throughout the year. Qualified professional accountants, or whoever may be providing the overview or walkthrough, should make a real effort to inform the board on what the numbers mean and the basis for their presentation. The more information provided, the greater the contribution that can be expected in return, and the greater the collective understanding and consensus.

Participants revealed the following as their most commonly referenced sections or parts of a charity or not-for-profit organisations annual report:

Trustees report

The report should tell a story consistent with the trustees' understanding of what happened in the year. There should be a consistency between this story and what the numbers in the financial statements are saying. The trustees report should also include a clear statement of compliance and responsibilities by the trustees' and a description of the governance structure and principal risks faced by the organisation. Every trustee should feed into the content and it is not a document to be left completely to the external accountant to prepare.

Income and sources of funding

Adequate and high quality disclosure in relation to amount and sources of funding and any other income is key to ensuring understanding and communicating transparency to the users of financial statements. Reviewing these parts of the annual report provides a useful sense check around the completeness of the reported income and reserves, given there would normally be much discussion of funding matters at board meetings during the year.

Impact, achievements and setbacks

The importance of communicating the purpose of the organisation, the strategy and an account of the organisations outlays measured against the objectives was highlighted. The absence of a demonstrable impact on society by the organisation can be very notable and seen as a missed opportunity. An interesting angle was reference to also disclosing setbacks that arose, again with a view to increasing transparency and reflecting the reality that everything does not always go according to plan. To increase transparency, some research participants were considering inclusion of some form of "statement of impact, achievements and setbacks" in their annual report.

Independent auditors' report

Some research participants pay particular attention to the opinion section of the independent auditors' report. They would prepare for serious discussion at the board if the opinion was anything but unmodified or if it had any reported issues such as an emphasis of matter. While the trustees are solely responsible for the financial statements contained within the annual report, participants felt there is a value in the independent auditors' report to their level of comfort.

Reserves

Reserves policy is seen as crucial to understanding the organisation's financial position. Trustees refer to the organisations disclosures on reserves, including policies, the amount held in reserves and the narrative to ensure that it contains sufficient detail to communicate clearly what the reserve is held for and exactly what it means for the organisations financial position. It is important that the reserves policy is drafted with input from the board and that the final policy is approved by the board. In some instances the external accountant is asked to provide assistance with this. It was agreed that clear and concise disclosure would ensure transparency and facilitate better understanding in this area.



Fundraising

*3

The focus group participants stressed the importance of having a fundraising strategy, drafted and regularly updated by the board. The fundraising strategy will help to chart fundraising for the year and remind the board of its requirements. It should include the various sources of funding and the various conditions that need to be complied with to access that funding.

The strategy should also contain a section on the distinctions between restricted and unrestricted funds. It is important that an organisation should distinguish between general funding, i.e. funding received with no specific conditions other than for the general purpose and operations of the organisation, and the funding received with specific conditions on its use attached. Difficulties can arise in situations where funding is received in relation to a specific project and the direct costs of the project are less than the amount of funding received. The organisation needs to ensure that there is an open and transparent process for allocating indirect costs to these projects (e.g. allocation of administration expenses) and that amounts are correctly accounted for in accordance with the reserves policy (e.g. are costs met from a general reserve or a specific reserve). All members of the Board need to be aware where that money is coming from.

Fundraising was highlighted as both an opportunity and a challenge by the focus group participants. They saw fundraising opportunities in the increasing engagement of corporations in Corporate Social Responsibility (CSR) and in the availability of EU grants. They also saw opportunities in tax incentives for charitable donations. They listed GDPR, Brexit, access to EU structural funds and donor affordability as some of the challenges their organisations faced when fundraising. It was recommended that a fundraising policy should be developed in synchronisation with strategy and carefully aligned with the values of the organisation. It is important to be aware of the applicable fundraising regulations and ensure they policy complies with them. Once established and approved by the board, the fundraising policy should be clearly communicated throughout the organisation (e.g. management, staff and volunteers) and also with any third party that the organisation employs for fundraising activities.

Collaboration

*4

The majority of focus group participants identified collaboration with other organisations in the sector as an opportunity to counter challenges presented by limited resources. There are a number of umbrella groups and shared service organisations, themselves operating as charities or not-for-profit organisations, that specialise in pooling certain resources such as administration, training, CSR, talent sourcing, etc.

In addition to potentially working with umbrella organisations or shared service providers, there is also the possibility of working with other charities or not-for-profit organisations in order to achieve a common purpose. Some of our focus group participants had first-hand experience of this and their first piece of advice was “do not rush in”.

The potential benefits of collaboration can be very quickly undone if adequate due diligence is not performed. At the outset, it is advisable for each collaborator to complete a ‘Value Proposal’ or ‘Expectations Assessment’ clearly outlining what they intend to bring and to get from the collaboration. Each collaborator should establish clearly:

- what problem they are trying to solve and what their version of the project is;
- how much time they expect to be involved;
- who takes ownership of the project;
- what resources they are willing to provide and what additional resources might be required;
- where they expect funding to come from;
- how will accountability be measured;
- how any intellectual property or physical asset arising from the project will be shared; and
- a proposed exit strategy.

Collaboration has many benefits including creation of synergies such as increased funder attractiveness, increased purchasing power, combining broader range of skillsets and talent resulting in better innovation, etc. They make sense only if there is a higher level of certainty around the potential result of collaboration being more beneficial than each individual organisation operating independently. While collaboration may not be for everyone, as it is not without its challenges, it is something worthy of serious consideration on a case by case basis rather than setting a general rule.

Closing comments

It is apparent that a trustee's role can differ from one organisation to another depending on the scale of resources available and functions that require performance. Some trustees who sit on a number of boards know that the requirements on the trustee can differ greatly. Every organisation is presented with different opportunities and challenges. While many of these can be common across the sector, the people, board, management and style of approach will be unique to each organisation. There are many other skills you may need including a practical understanding and appreciation of the work on the ground involved in delivering the purpose of the organisation. The primary focus of this guide has been the trustee who has the potential, in their role with others on the board, to govern the organisation and navigate it through the highs and lows.

Ethics permeates charitable and not-for-profit organisations as much as, if not more than, any other private organisation – from fundraising policies, to donor values, right through to conflicts of interest.

Our review of existing guidance reassured us in relation to the quality and volume of resources available to the sector. In addition to an explanation of key terms and how they are used in this guide, the appendix provides a list of further sources of information to consider in conjunction with this guide.

We hope this guide becomes a part of your and the charity or not-for-profit's journey to delivering a valuable service to society.

Appendix

What is a trustee

The term '**trustee**' is commonly used on the basis that responsibilities or roles of a charity or not-for-profit organisation typically flowed from a "**Deed of Trust**". This is not always the case nowadays but the term has become commonplace in describing people in a position of trust, who control and are ultimately responsible for the governance of such an organisation. Depending on the legal form of the entity used to run the organisation, Trustees may also be called directors, committee members, council members, governors, or board members, etc.

It is not necessarily what you are called that determines whether you are a trustee, rather what you do in your role on the board or subcommittee. Therefore, it is very important for clarity on the role through a formal letter of appointment and terms of reference on appointment to a board or committee.

Remuneration and rewards

Currently, in the Republic of Ireland, a charity trustee cannot be paid a salary or fee, or receive any benefit in money or money's worth, other than reasonable out of pocket expenses.

Currently, in Northern Ireland, while most trustees are unpaid, in exceptional circumstances, a charity may also seek to remunerate a trustee for their trusteeship. In certain circumstance some trustees may be paid where they provide services to the organisation that are distinct from their role as a trustee.

For not-for-profit organisations that are not charities there is no universal rule regarding trustee remuneration. These organisations will need to consider their own governing document and any specific rules and/or legislation that applies to them, including any Revenue/HMRC conditions for tax status.

The fact that trustees are unpaid is a distinctive feature of charities and not-for-profit organisations and this contributes greatly to public confidence and trust in them.

The rewards of being a trustee come in many forms including, for example:

- the bond the trustee has to the purpose of the charity;
- the satisfaction of making a difference and of giving back to society;
- the team spirit and sense of working together towards a common goal within the board;
- meet people who share the same passion for a particular cause or issue;
- the skills and experience the trustee gains may open up new opportunities, for example in employment.

What is a charity

In the Republic of Ireland (ROI), the Charities Act 2009, and in Northern Ireland, the Charities Act (Northern Ireland) 2008, sets out the requirements that an organisation must meet to be considered a charity.

An organisation is considered to be a charity if its purposes are deemed to be ‘charitable’ and it fulfils a ‘public benefit’. The legislation above, in the ROI and the UK, specifies how such factors are determined.

In the ROI, for example, the charitable purpose must fall into one of these categories:

- The prevention or relief of poverty;
- The advancement of education;
- The advancement of religion;
- Any other purpose that is of benefit to the community.

The list of categories in Northern Ireland, available in section 2 of Charities Act (Northern Ireland) 2008, is longer than above.

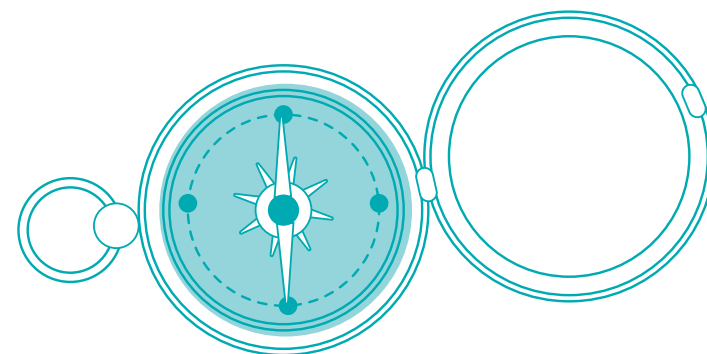
Charities are different from general not-for-profit organisations in that they focus on goals of a philanthropic nature that are deemed by individual societies to serve the public interest or common good.

What is a not-for-profit?

A **not-for-profit** is not easy to define as the term covers such a wide group of entities, institutions, bodies and associations. Here is one definition, but it is not exclusive!

“Not for profits are entities that are: (i) organized, i.e., possessing some institutional reality; (ii) private, i.e., institutionally separate from government; (iii) non-profit-distributing, i.e., not returning any profits generated to their owners or directors; (iv) self-equipped to control their own activities; and (v) voluntary, i.e., involving some meaningful degree of voluntary participation, either in the agency’s activities or management.”¹

Not-for-profits are usually not a source of income, profit or other financial gain for those that establish, control, or finance them. All charities are considered to be not-for-profit organisations, however not all not-for-profit organisations are charities, e.g. sports organisations and professional or learned societies.



1. Salamon, Lester M. and Helmut K. Anheier. ‘The Nonprofit Sector: A New Global Force’, Working Papers of the Johns Hopkins Comparative Nonprofit Sector Project, no. 21, edited by Lester M. Salamon and Helmut K. Anheier. Baltimore: The Johns Hopkins Institute for Policy Studies, 1996.

Resources

There is a rich resource of guidance and support available from a number of regulatory bodies and umbrella groups for the charity and not for profit sector. These groups share practical information and tips on everything from governance to accessing grants to hiring and managing volunteers. Here is a list of the organisations that our participants found most useful:

Charities Regulator/An Rialálaí Carthanas – www.charitiesregulator.ie

The Charity Commission Northern Ireland – www.charitycommissionni.org.uk

Chartered Accountants Ireland* – www.charteredaccountants.ie

Northern Ireland Council for Voluntary Action - <http://www.nicva.org/>

Developing Governance Group (The Code of Good Governance) - www.diycommitteeguide.org

The Wheel – www.wheel.ie

Charities Institute – www.charitiesinstituteireland.ie

3rd Sector – www.thirdsector.co.uk

Civil Society UK – www.civilsociety.co.uk

Carmichael House – www.carmichaelcentre.ie

Boardmatch Ireland – www.boardmatchireland.ie

Chief Officers 3rd Sector (CO3) – www.co3.bz

Good Governance Awards (ROI) – www.goodgovernanceawards.ie

The National Council for Voluntary Organisations (NCVO) – www.ncvo.org.uk

Charity Commission for England and Wales – www.gov.uk/government/organisations/charity-commission

**Chartered Accountants Ireland support members working in or for the Charity and Not-for-Profit sector with various expert publications including books, guides, as well as toolkits for practitioners or advisors to the sector, in addition to professional development courses, professional education qualifications, and also member support services such as enquiry helplines, etc.*

Published by:

Chartered Accountants Ireland

Chartered Accountants House

47–49 Pearse Street - Dublin 2

www.charteredaccountants.ie

Copyright in this publication is owned by Chartered Accountants Ireland. All rights reserved. No part of this text may be reproduced or transmitted or communicated to the public in any form or by any means, including photocopying, Internet or e-mail dissemination, without the written permission of Chartered Accountants Ireland. Such written permission must also be obtained before any part of this document is stored in a retrieval system of any nature.

The content of this publication is provided as a guide only and does not purport to give professional advice. It should, accordingly, not be relied upon as such. It is provided on the understanding that Chartered Accountants Ireland is not engaged in rendering professional services. Chartered Accountants Ireland disclaims all liability for any reliance placed on the information contained within this publication and recommends that if professional advice or other expert assistance is required, the services of a competent professional should be sought.

© Chartered Accountants Ireland, 2018.

Chartered Accountants Ireland is the operational name of the Institute of Chartered Accountants in Ireland.

design and layout by www.martamasnou.com

