Good governance gathers pace
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Methodology
This report is based on a desktop review of the latest financial statements filed with the Charity Commission in summer 2013 by the top 100 charities (by income) in England and Wales. The range of financial year-ends means the financial statements reviewed cover the period from 31 December 2011 to 31 March 2013.

Within the report we refer to our report ‘The science of good governance: Towards charity best practice’ as the 2013 report and this year’s report as 2014. Last year’s report is available to download from our website https://www.grant-thornton.co.uk/en/Services/Business-Risk-Services1/Governance-matters/Charity

We have based our review on the Charity SORP (Accounting and Reporting by Charities: Statement of Recommended Practice 2005), the Charities Act 2011, the Companies Act 2006 and best practice guidance from other sectors, such as the UK Corporate Governance Code.

Carol Rudge would like to thank Amanda Tilley, Louise Hughes, Phil Keown, Renee Weeks, Rachael Rickwood and Aleen Tirmizey for their help in preparing this report.
A reduced number of charities cite the economic environment as one of their key risks (43% compared to 58% last year).

The average annual report is 58 pages, nine pages longer than in 2013.

22% of the top 100 have a female chair compared to just 1.5% of FTSE 350 companies.

86% of charities have an audit committee, and 50% have a nominations committee.

Only 15% of charities provide a short biography of the trustees serving on their board.

74% of charities publish a copy of their annual report on their own website.

Only 35% of charities include an environmental policy in their annual reports.

74% of charities have profiles on all three of the main social media platforms: Twitter, Facebook and LinkedIn.

26% disclose an investment policy that restricts the investments it makes.

49% of charities do not disclose a diversity policy.

CONTRIBUTION OF THE TOP 100 CHARITIES TO THE UK ECONOMY

Employees (full-time equivalent): Approx. 190,000

Total incoming resources: Approx. £14 billion

Total investments: More than £11 billion
This year has been one of continued pressure on the charitable sector in the UK. Further onslaughts on the sector’s reputation continued, with increased media interest in remuneration levels, investment policies and taxable status and significant pressure on the charity sector to be considered ‘best in class’. In the face of such pressure, the annual report can be a powerful tool to demonstrate transparency and good governance.

A charity’s annual report is a document that must be prepared each year and made freely available to any member of the public. However, in many organisations the annual report is considered a tick-box compliance exercise that is part of the finance team’s job, with some input from fundraising and strategy teams.

However, we continue to believe that the annual report is a chance to showcase what the charity has achieved during the year and its plans for the future. Importantly, it can also set the tone of the organisation and give a transparent account of its activities and ways of working. Many funders and contractors read the annual report as part of their due diligence. As such, it can be an opportunity to tell a compelling story about why other organisations and individuals would want to work with the charity. While reporting on good governance is not the same as having good governance, it nevertheless reveals something about the organisation. Our review of key risks disclosed showed an increased percentage of charities considering public attitude as one of their key risks and the annual report can support a charity’s public relations. In short, it can be a valuable part of the marketing strategy for a charity.

Our review found that, encouragingly, a reduced percentage of charities mentioned the effects of the economic climate as a key risk compared to our first review. However, more felt their reliance on key contracts to be one of the top threats to their
operation. With continued pressure on the public purse and many top charities having significant local and central government contracts, this is hardly surprising.

Culture, values and ethical principles are the cornerstones of good governance. The governance disclosures in the annual report are only part of the public face of the charity – but with annual reports used by grant makers, contract reviews and potential donors and partners, they are a crucial facet. An effective and transparent annual report may avert or reduce critical media coverage on issues such as levels of remuneration, ethical investments and use of volunteers.

Communication with stakeholders through the annual report is supported by the charity’s own website and its use of social media. While three-quarters of the top 100 charities include their latest annual reports on their websites, a quarter do not. Likewise, 74% of charities have profiles on three of the main social media sites (Twitter, LinkedIn and Facebook). Others have profiles on just some of these sites, while 9% choose not to get involved in this arena at all.

Following the intense focus on large corporates and BIS regulations regarding the detailed disclosure of top executives’ remuneration, it is not surprising that public interest soon widened to include the charitable sector. The disclosures made in annual reports can be used to demonstrate there is nothing to hide. If a Freedom of Interest request is submitted, being able to say “It’s already out there” can be a powerful way to neutralise media interest.

Many charities use chair and chief executive statements to introduce their annual reports. While in the corporate sector these are used to summarise key events and set the tone from the top, in the charitable sector they are often used to acknowledge or thank those who have worked with the charity in the year. Although public thanks are part of a charity’s ethos and tradition, these statements could be employed more usefully to reinforce the achievements of the charity.

Our review revealed a continued use of ‘silo’ reporting, with most reports including separate sections on the past, present and future, financial review, objects and risk reporting. It is often noticeable that the different sections of the reports are written by different people within the charity: this undermines the impression of an integrated organisation working to a common aim. It may be more beneficial to adopt a lateral approach, involving consideration of the objects of the charity, its performance against them, risks that may hinder progress and future plans. The activities of charities are interlinked with risks in all its activities: risk should not be considered as a separate activity but as an integral part of the operations of the charity and how it is achieving its objects.

This year we continue to draw on the guidance found in the UK Corporate Governance Code, designed for listed companies but also relevant to large charities which operate at a similar level of complexity. We also refer to our companion review of corporate governance in the FTSE 350 in order to draw parallels and to highlight areas where the charity sector leads, for example in diversity, and where, in turn, it can learn from the commercial sector, such as trustees’ biographies.
This review provides a valuable snapshot of the way in which some of the largest charities on our register report on their governance arrangements. Good governance matters in all organisations and sectors. But in charities, it is fundamental; supporters and the public expect charities to ‘be good’, as well as ‘do good’ – and to be accountable about their work and impact. Research looking at the drivers of public trust in charities (published in May 2012) revealed that 96% of people say it is important that charities provide information about how they spend their money; in 2013-14, charities’ details on the online register were viewed over six million times. Trustees’ Annual report and Accounts (TAR) are an important way for charities to explain their governance arrangements and they provide some measure of how seriously trustees take their reporting duties. This report should serve as a further reminder to charities that their annual reports are subject to increasing public scrutiny.

There are of course minimum requirements that trustees must meet in preparing their TAR. These vary according to charities’ size and are set out in the Charities’ SORP and our guidance Charity reporting and accounting: the essentials. But trustees should think beyond these requirements and treat their report as a ‘shop window’ for their charities.

I welcome in particular the emphasis this report places on risk management reporting. Effective risk management is a crucial component of strategic management and trustees must ensure that risks are regularly reviewed and reported on. The charities reviewed for this report, the top 100 registered charities by income, may not fully reflect the wider sector; that would be an oversimplification. Nevertheless, it is interesting to note the shifts in the risks charities are reporting; for example, it is heartening to note that trustees appear to be increasingly aware of the need to consider and manage reputational risks facing their charities.
Understanding the risks charities face

Those charged with governance need to understand the risks the charity faces, the potential impact of those risks and how to manage them. This is a key part of governance, since failings of organisations are often associated with poor governance and poor management of risks. It is not usually the role of those in governance to actively manage risks, but to provide strategic input into how the risks can be viewed, monitored and mitigated. Imagining and planning for what would happen in a variety of ‘worst case’ scenarios is good management.

Risk should not be considered a separate part of a charity’s structure, but should be woven into all its activities. There will be risks present throughout the organisation and risk management and reporting should be regarded as an integral part of the day-to-day operations of the entire organisation rather than being limited to an internal audit or risk department. Disclosures within annual reports should deal with the potential impact of risks on the achievement of the charity’s objectives, enabling a reader to see both the threats and the good management and mitigation of those risks.

Within the annual reports reviewed, there was a varying level of disclosure surrounding identified risks. Sixteen per cent of charities did not mention specific risks; some gave ‘boiler plate’ disclosures, while others provided detailed analysis of the key risks the charity faces. The average number of key risks identified was 3.6 (compared to 4.5 in 2013). This is significantly lower than among the FTSE 350, where an average of 11 key risks were identified in company annual reports. With the complexity of some of the top 100 charities comparable to many FTSE 350 firms, it is surprising that the number of key risks disclosed is so low in comparison.

“Strategy and risk: Trustees are responsible for setting the charity’s strategic aims, objectives and direction. Identifying risks arising from its activities and managing those risks is important in helping to ensure that the charity achieves its strategic aims and objectives.”

The essential trustee: what you need to know (CC3) Charity Commission guidance
Good governance gathers pace

Managing risk

Especially in the relative volatility of recent times, the risks a charity faces should be reviewed regularly at the right level. However, 34% (compared to 44% in our previous review) of charities did not disclose how often they reviewed their risk register or their risks. Although this does not mean such reviews are not taking place, good management and governance would be to disclose their frequency and explain who is undertaking them.

Many charities (22%) state that they review their risks ‘regularly’, but without referring to relevant committees charged with risk management, or explaining how often the risks are reviewed. There is a danger that readers of the annual report are left with the impression that risks are not taken seriously – even though they may be in practice. The remaining 44% of charities included good disclosure of how they monitor and review the risks to which they consider themselves exposed.

Disclosure of main risks

Where the top 100 charities disclosed the key risks they face we mapped these against the types of risks identified. As the top 100 charities focus on a wide range of causes, the structures of operations also vary widely (from primarily fundraising organisations to those with significant operational activities).

Unsurprisingly, the ongoing impact of the economic climate continues to be the main risk in the charity sector, although a reduced number of organisations disclosed this as one of the key risks they face.

In contrast, an increasing number now consider a loss of key contracts to be one of the principal risks. Although clearly linked to going concern, the risk of losing key contracts or winning new large contracts demonstrates the sector’s reliance on contract funding to support their activities. The introduction of the ‘Big Society’ has heralded changes to the contracting environment at local and national government level and it is likely that this, along with the risk of not delivering the services associated with these contracts and changes in government policy, will remain key for many charities in the top 100.

An increasing number of charities have disclosed reputational risk as one of the key risks they face. However, the damage to reputation normally results from governance failings and the realisation of other risks, such as poor delivery and health and safety failings. The wide-scale media interest in stories such as the Cup Trust and the Dove Trust demonstrate that risk committees should take this risk seriously.

Our review found that a number of charities are now disclosing risks surrounding fundraising and the reliance on shared services or partners. This is not surprising given the changing nature of the fundraising climate and the operating model of many charities who are now working with other organisations to deliver and use services.

It is perhaps surprising though that the listing of fraud as a risk was less prevalent this year. Only 2% of charities (8% in 2013) disclosed fraud as a key risk, in spite of the continuing risks of fraud caused in part by the economic environment.

Example disclosure:

“The Board oversees strategic risk annually with additional operational risk assessment through delegation to the Audit Committee. Risk control is exercised appropriately by Executive Directors undertaking a formal half yearly review of strategic and operational risks for their respective areas.

Risk management is embedded into the organisation by Executive Directors and Senior Managers calculating the risk reviews and obtaining feedback to inform the half yearly reviews.”

Methodist Homes, Board of Directors’ Report including Trustees’ annual report for the year ended 31 March 2013
“Many of our clients are finding that the contracting environment is tightening, with contract terms shortening and payment by results increasing. It’s not surprising that the risks associated with these changes are high on the risk agenda in charities.”

Phil Keown, Director, Grant Thornton
Environmental impact

The impact of a charity’s activities on the environment may influence donors and fundraisers as well as grant-making bodies. An effective environmental strategy should be led by the trustees and implemented by the senior management team to influence the charity’s ways of working to ensure minimal environmental impact and increase efficiencies.

However, our review showed that 65% of the top 100 charities do not include an environmental policy within their published annual reports.

Of those that do, only 14% gave details of their plan, including targets for reducing their environmental impact in the future. DEFRA published environmental reporting guidelines in June 2013, which include recommendations on reporting greenhouse gas emissions. These guidelines should be adopted by listed companies with year ends falling on or after 30 September 2013. Although there is no requirement for charities to comply, disclosure requirements for charities often follow those already trailed by listed companies.

We suggest a brief environmental policy be included in the Trustees’ report to demonstrate the charity’s commitment to the environment. Unsurprisingly, environmental charities are the most detailed in their disclosures on environmental impact.

Example disclosure:

Barnardo’s continues in its efforts to reduce its overall impact on the environment and reduce its carbon footprint through the following initiatives:

1. Purchasing ‘green’ electricity produced from sustainable, renewable energy sources for all our premises, resulting in lower carbon emissions and less impact on the climate.
2. All diesel vehicles in our car fleet have been replaced with 100g/km low-emission models.
3. Continuing to promote the ‘Big Switch Off’ energy campaign, with the aim of reducing energy consumption by five per cent each year.
4. Promoting recycling within our larger sites, reducing the amount of waste being sent to landfill.
5. Recycling unsold and damaged donations for retail shops, including textiles, shoes, plastics, DVDs, CDs, books, cardboard, and metal and electrical items. Additionally, we recycle old mobile phones and printer cartridges, both those received from the public and those used by Barnardo’s.
6. Promoting video conferencing, which has been used more than 1,100 times during the year, saving an estimated 500,000 business miles.

Barnardo’s annual report for the year ended 31 March 2013

WHAT DOES GOOD LOOK LIKE?

AN ENVIRONMENTAL POLICY

It should include:

- Overall stated environmental policy
- Targets for aspects of the policy, for example carbon emissions reduction over a time period
- Risks of not implementing or adhering to the policy, for example financial risks or the impact on the charity’s reputation
- Where environmental impact is considered a key performance indicator, the environmental policy should cross refer to the charity’s KPIs
Investments

There has been significant media interest in the investment policies of charities, with press articles covering the ‘unethical’ investments held by some large organisations.

Just over a quarter (26%) of the top 100 charities disclose an investment policy which restricts the investments they make on ethical grounds, for example not investing in tobacco companies.

We recommend that the investment policies in the trustees’ report reflect the level of influence the charity has over its managed funds. In many instances the charity’s investment note to the financial statements discloses investments in managed funds where the charity may have little control over individual company investment decisions. Where this is the case, it may not possible for a charity to say that it fully complies with an ethical investment policy.

Online reporting

Like the annual reports themselves, charities’ online reports can provide an important means of retaining and attracting new supporters. While online reporting is an effective and cheap way of communicating with the public and funders, not all charities make the best use of these resources. With a continued pressure on funding, charities need to find cost-effective and impactful ways of communicating with their supporters.

Most (74) of the top 100 charities include a copy of the annual report on their websites. Of these, the vast majority (95) include a pdf copy of the annual report with no interactive features. The remaining five include an interactive element, which allows the report to be read in book format with simple search facilities, this makes it much more user friendly.

AN INVESTMENT POLICY

It should include:

- The charity’s investment approach – does it invest for growth, income or a mix of the two?
- The investment policy – does the charity preclude the investment in certain sectors it deems unethical, regardless of the level of growth or income it may achieve from them?
- The management method – are the investments handled by a single external manager, a range of external managers or internally? Is the charity able to control where its money is invested?
- Responsibility for the investment strategy – who oversees it: an Investment Committee or the full Board of Trustees?
- Where there is a separate Investment Committee disclosure should be made of its remit, composition and activities during the period.

Trustees of any charity can decide to invest ethically, even if the investment might provide a lower rate of return than an alternative investment. Ethical investment means investing in a way that reflects a charity’s values and ethos and does not run counter to its aims. However, a charity’s trustees must be able to justify why it is in the charity’s best interests to invest in this way.

The law permits the following reasons:

- A particular investment conflicts with the aims of the charity
- The charity might lose supporters or beneficiaries if it does not invest ethically
- There is no significant financial detriment

Charities and investment matters: a guide for trustees (CC14)
Charity Commission

We recommend that the investment policies in the trustees’ report reflect the level of influence the charity has over its managed funds.
Understanding those charged with governance

With the Board of Trustees charged with the strategic direction of the charity, its investment policy, the use of funds and employee engagement, it is important that stakeholders of the charity (such as grant makers, potential donors and contractors) understand both the calibre and involvement of those on the Board.

We encourage charities to provide brief biographies of members of the Board to demonstrate what each member brings to the Board. While many charity websites give details, including photographs, of the Board of Trustees, only 15% included information in their accounts beyond the basic statutory information required by law (the name and date of appointment/resignation if this was during the accounting period or until the annual report is signed).

Many charities are able to attract high-calibre Board members who carry out the role on an entirely voluntary basis, without remuneration. Providing trustee biographies in the annual report, and on websites, allows readers to gain some understanding of what these individuals bring to the Board and how the Board members may work together. Likewise, a clear disclosure of how new trustees are recruited and nominated enables a reader to have an understanding of the rigorous recruitment process which operates in most top 100 charities. This makes it simple to rebut any accusations of cronyism and ‘jobs for the boys’. Although 50 of the top 100 charities disclosed the existence of a Nominations Committees charged with this important aspect of governance, many charities do not disclose what this committee had done during the year or the methods used to seek new trustees.

The governance framework

In charities, the traditional governance framework is a Board of Trustees which is responsible for the governance of the charity – setting the tone, ethics and strategy of the organisation – with day-to-day management of the charity delegated to a Chief Executive supported by a senior management team.

The Board meets regularly and is usually akin to the non-executive directors of a commercial for-profit organisation, ie with a focus on strategy rather than management. The Chief Executive is often part of the public face of the charity but does normally sit on the body charged with governance of the charity, although the Chief Executive is accountable to it.

Providing trustee biographies in the annual report, and on websites, allows readers to gain some understanding of what these individuals bring to the Board and how the Board members may work together.
Induction

It is a requirement of the Charity SORP that the trustees’ report should include information on the training and induction of trustees. Our review showed an improvement in the disclosures on trustee induction and ongoing training, with only 17% of charities (compared to 20% in 2013) providing either no or minimal disclosure. Although stating that policies and procedures around trustee induction exist and training is undertaken complies with the Charity SORP, it doesn’t provide reassurance that those charged with governance have been given the training required to understand the unique nature, diversity and activities of the top 100 charities. Conversely, those giving detailed disclosure within their annual reports are able to demonstrate to a reader of the annual report that they take the role of the trustees seriously.

“With the pace of change in charities, ongoing training for trustees is as important as the initial induction. Many charity boards schedule an extra session aside from the usual board meetings for a topical update to ensure that trustees are kept abreast of significant developments.”

Steve Robinson, Audit Partner, Grant Thornton

<table>
<thead>
<tr>
<th>DISCLOSURE ON TRUSTEE INDUCTION (NUMBER OF CHARITIES)</th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Detailed disclosure</td>
<td>5</td>
<td>9</td>
</tr>
<tr>
<td>Reasonable level of disclosure</td>
<td>17</td>
<td>18</td>
</tr>
<tr>
<td>Some disclosure</td>
<td>28</td>
<td>36</td>
</tr>
<tr>
<td>Limited disclosure</td>
<td>20</td>
<td>29</td>
</tr>
<tr>
<td>Minimal or no disclosure</td>
<td>17</td>
<td>21</td>
</tr>
</tbody>
</table>

Example disclosure:

“For new trustees, Macmillan has a wide-ranging induction programme, which is also open to existing trustees to attend. The programme includes visits to Macmillan services, coverage of the charity's aims and how they are being fulfilled, the role and duties of the trustees, company and charity law and governance, and financial and risk management. Further ongoing training is arranged for trustees individually or the Board as a whole as needed.”

Macmillan Cancer Support, Annual report for the year ended 31 December 2012
Good governance gathers pace

Involvement of trustees

There is little guidance on the frequency of full Board meetings, with the UK Corporate Governance Code stating only that “the board should meet sufficiently regularly to discharge its duties effectively”.

Almost half (45) of the top 100 charities did not disclose the frequency of full Board meetings, while the remainder varied widely in the number of full meetings each year (ranging from two to 14, with an average of six). This figure remains significantly lower than within the FTSE 350 where there were, on average, 8.6 meetings per year. The right number of meetings will depend on the complexity of the organisation and the number of sub-committees within the governance structure.

Most (76) of charities did not disclose the attendance rate of individual trustees for Board and/or Committee meetings. Although there are some arguments as to why this disclosure should not be included – for example, it may discourage trustees from joining the Board, it can give stakeholders an insight into the ongoing involvement and commitment of trustees, an important aspect of good governance.

“Not every charity conducts all its business at meetings of the trustees, but many do. If the charity does so, it cannot be administered properly unless the trustees meet regularly. How often that needs to be will depend on the size and nature of the charity, but requirements for meetings may be set out in the governing document.”

UK Corporate Governance code A.1.1.

“The board should meet sufficiently regularly to discharge its duties effectively. There should be a formal schedule of matters specifically reserved for its decision. The annual report should include a statement of how the board operates, including a high-level statement of which types of decisions are to be taken by the board and which are to be delegated to management.”

The essential trustee: what you need to know (CC3) Charity Commission guidance
Use of committees

Most Boards make use of committees, typically Audit, Investment and Operations, to review certain aspects of their roles in more detail than allowed at a time-constrained Board meeting. Committees then report to the full Board on their findings and recommendations. The use and disclosure of committees varied considerably in the top 100 charities, with some not making use of committees at all, while others had a broad range. The number of committees used by charities ranged widely from none to 14, with an average of four.

In our view, the most essential committees are considered to be Audit, Finance, Remuneration, Nominations, Investment and, where a charity has significant operations, an operational or trading committee.

Many charities continued merely to list the names of the committees they use with little or no information on the key responsibilities and activities of these committees during the year. The most useful disclosures included details of the remit, meeting frequency, reporting structure, names of members (and why they sit on the committee) and attendance rates.

The most common committees were audit committees, with 86% having one. In 14% of cases the Audit and Finance Committee were combined as one body. In our opinion, the activities of the Audit Committee and Finance Committee are best kept separate, to allow for full focus in both areas.

An Audit Committee has a key role in supporting the Board yet the majority (59%) of those disclosing the use of a such a committee did not discuss its work during the period. Those that gave details of the committee’s activities and remit provide more assurance to the readers of the annual report that they take risk management and governance seriously.

Example disclosure:

“...The Board has delegated certain responsibilities to a number of committees. The standing committees of the Board are: the Board Audit Committee; the Remuneration Committee; the Construction Projects Committee, and the Board Investment Committee. The minutes of the meetings of the Board Audit Committee, the Construction Projects Committee, and the Board Investment Committee are made available to all the Members of the Board on a timely basis. The Board also receives an Annual Report from the Chair of the Board Audit Committee at its meeting in July each year. The non-executive members of the Board receive an annual report from the Chair of the Remuneration Committee at their annual private meeting session in May. The terms of reference for the Board Committees are available on our website at: www.bl.uk/aboutus/governance/blboard/boardcommittee.pdf

The Board has not established a nominations and governance committee. Instead, the purpose of the annual private meeting session for the non-executive members of the Board, in addition to receiving a report on the work of the Remuneration Committee, is to facilitate self-assessment and review, needs assessment and succession planning, development needs assessment, and agenda planning.

British Library Annual Report and Accounts 2012/13
### Number of Committees Disclosed in the Annual Report

<table>
<thead>
<tr>
<th>Number of Committees</th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>More than five</td>
<td>23</td>
<td>37</td>
</tr>
<tr>
<td>Five</td>
<td>13</td>
<td>11</td>
</tr>
<tr>
<td>Four</td>
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<tr>
<td>Three</td>
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<td>14</td>
</tr>
<tr>
<td>Two</td>
<td>7</td>
<td>9</td>
</tr>
<tr>
<td>One</td>
<td>6</td>
<td>8</td>
</tr>
<tr>
<td>None (or none disclosed)</td>
<td>8</td>
<td>3</td>
</tr>
</tbody>
</table>
What are the main responsibilities of the Audit Committee?

The main role and responsibilities of the audit committee should be set out in written terms of reference and should include:

- to monitor the integrity of the financial statements of the company and any formal announcements relating to the company’s financial performance, reviewing significant financial reporting judgements contained in them
- to review the company’s internal financial controls and, unless expressly addressed by a separate board risk committee composed of independent directors, or by the board itself, to review the company’s internal control and risk management systems
- to monitor and review the effectiveness of the company’s internal audit function
- to make recommendations to the board, for it to put to the shareholders for their approval in general meeting, in relation to the appointment, re-appointment and removal of the external auditor and to approve the remuneration and terms of engagement of the external auditor
- to review and monitor the effectiveness of the company’s internal audit function
- to make recommendations to the board, for it to put to the shareholders for their approval in general meeting, in relation to the appointment, re-appointment and removal of the external auditor and to approve the remuneration and terms of engagement of the external auditor
- to review and monitor the external auditor’s independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements
- to develop and implement policy on the engagement of the external auditor to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm; and to report to the board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken
- to report to the board on how it has discharged its responsibilities.

UK Corporate Governance Code C.3.2

Other than Audit Committees, the most common committee within the top 100 charities was a remuneration committee, with 55% including one in their governance structure. A remuneration committee is a requirement of the UK Corporate Governance Code with its members including at least three or, in the case of smaller companies, two independent non-executive directors (UK Corporate Governance Code D.2.1). In 2013 FTSE 350 companies’ Remuneration Committees met on average 4.9 times per year. This level of disclosure is not provided by the top 100 charities, but it is encouraging that 55 have a remuneration committee and this percentage is likely to increase with the increased level of media scrutiny.

Half of the top 100 charities also had a Nomination Committee. The level of disclosure in this area was generally good, with mention of how often the Nominations Committee has met in the year being commonplace (generally meeting where new trustees are required to join the board). We consider both remuneration and nomination committees to be an essential part of good governance.
The role of the Chair

The Chair of the Board of Trustees has a crucial role in setting the tone from the top in terms of governance. The Chair should embed the ethical principles of the charity as the key trustee within the Board. The Chair is responsible for reviewing the governance arrangements of the charity, reviewing its day-to-day management and appraising the Chief Executive.

In charities, the majority (53%) of Chairs sit on at least one committee – the most common being either the Remuneration or Nominations Committee. With remuneration being such a crucial and sensitive topic Chairs within the voluntary sector may choose to follow the lead of listed companies who have to have Remuneration Committees.

Forty six per cent of charities chose to include a Chair’s statement, written either separately or jointly with the Chief Executive, in the annual report. Most used this as a way of acknowledging the work of trustees and staff during the year and giving thanks to those donating time or money. Such statements often appear at the start of the document. Care should be taken to ensure that these are not too inwardly focused, so as to detract from the main achievements of the charity. We would encourage those who do publish a Chair’s statement to use it to stress the importance of good governance and to reinforce the ethics and culture of the charity to its external stakeholders.

“The role of Chair is a really varied one – overseer, negotiator, forward thinker and sometimes peacemaker. It’s not one to be taken on lightly, but done well it can make a huge difference to a charity.”

Joanne Love, Associate Director, Grant Thornton

Number of Board members

The number of trustees serving on boards has decreased slightly from 13.5 to 12.8. This remains at the high end of the range suggested in studies of the optimum board size and is significantly higher than the average of 9.6 for the FTSE 350. With the constitutions of some charities requiring board members from certain constituencies or groups, the necessity to include these, and also ensure a mix of skills and experience, can mean that the numbers on the full Board can quickly grow.

In contrast to the FTSE, the charity sector does not usually have a requirement for non-executive directors, since the trustees are normally non-executive, and senior management executives do not sit on the Board. In a minority of cases trustees have executive roles and/or are in full-time or nearly full-time roles and are remunerated accordingly.

**WHAT DO WE EXPECT FROM THE CHAIR?**

An effective Chair will:

- understand the organisation, its objects and its ambition
- set the tone for governance
- collaborate with the chief executive to embed the charity’s values
- provide effective chairmanship of Board meetings

**WHAT DOES GOOD LOOK LIKE?**

**AVERAGE NUMBER OF BOARD MEMBERS**

<table>
<thead>
<tr>
<th>FTSE 350</th>
<th>Top 100 charities</th>
</tr>
</thead>
<tbody>
<tr>
<td>9.6</td>
<td>12.8</td>
</tr>
</tbody>
</table>
Board evaluation

“The board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors.”

UK Corporate Governance Code, main principle B.6.

While a requirement of the UK Corporate Governance Code is to undertake an annual board evaluation and for this to be externally facilitated every three years, there is no such requirement for charities. However, conducting such an evaluation is considered best practice to ensure the effective running of a Board.

Many top charities have carried out board evaluation or effectiveness reviews in the last year or plan to do so in the near future. Understandably, they may not wish to share the results of this review, but we would encourage them to disclose their Board evaluation and appraisal policies in their annual reports. This allows charities to clearly demonstrate the importance they give to the performance of the Board both in an individual and collective capacity.

“We’ve seen some Board evaluations work really well with trustees relishing the opportunity to make the Board more effective and look at things from a different light – not assuming that the way it’s always been done is the way it should be.”

Kyla Bellingall, Audit Director, Grant Thornton

Example disclosure:

The Board is well balanced in composition, and supports the Director in leading SMG through strategic direction, monitoring activity and achievement of objectives, and ensuring good governance is in place. The work of the Board is well supported by strong committee management. Regular evaluation by the Board of its effectiveness, including the views of senior staff, ensures that the Board is reviewing its activities and processes to continue to improve its performance.

Science Museum Group Annual Report and Accounts 2012-2013
Diversity

Gender diversity on boards in all sectors continues to be a high-profile issue, with frequent media interest in this area. Within the top 100 charities, where it is possible to determine from the disclosure of names, 29% of trustees were women, exceeding the 25% target set by Lord Davies in the 2011 report ‘Women on Boards’. Although some boards did not have any female members, in seven cases men were outnumbered by women.

This is far stronger than in the corporate sector, where 19% of FTSE 100 board members and 15% of Mid 250 board members are female; internationally, just 19% of board roles are held by females. (Grant Thornton International Business Report 2013, ‘Women in senior management: setting the stage for growth’).

Charities continue to strive to increase the involvement of women in their boards, and a recent initiative by Cass Business School has been designed for female charity trustees to receive training and mentoring to encourage them to apply for positions on boards outside the sector.

### WHAT PERCENTAGE OF FEMALES ARE THERE ON THE BOARD?

<table>
<thead>
<tr>
<th></th>
<th>Mid 250</th>
<th>FTSE 100</th>
<th>International</th>
<th>Charities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percentage</td>
<td>15%</td>
<td>19%</td>
<td>19%</td>
<td>29%</td>
</tr>
</tbody>
</table>

### GENDER OF THE CHAIR (%)

<table>
<thead>
<tr>
<th></th>
<th>Male</th>
<th>Female</th>
</tr>
</thead>
<tbody>
<tr>
<td>Charity Sector</td>
<td>22%</td>
<td>78%</td>
</tr>
<tr>
<td>FTSE 350</td>
<td>98.5</td>
<td>1.5%</td>
</tr>
</tbody>
</table>

Again, charities led the way in terms of diversity of the Chair. In 22% of the top 100 charities the Chair was female, while within the FTSE 350, the comparative figure was only 1.5%.

With limited disclosures within the annual reports on information about serving trustees, it is often impossible to judge other areas of diversity such as ethnicity, background and age. Almost half (49%) of charities did not disclose a diversity policy, and only 21% explained diversity policies including two or more elements. With so much attention being given to Board diversity, we recommend that annual reports include disclosure on the diversity policy of the charity in terms of at least board and senior management level appointments.
Trustee remuneration

Most of the top 100 charities (87%, consistent with last year) did not pay trustees for their time. Although there is ongoing debate in the charitable sector, and more generally across all sectors concerning pay levels, there has been little movement in remuneration levels disclosed in the latest financial statements compared to last year. Of those charities that paid their trustees, some remunerated all trustees, while others chose to pay just the Chair or those who committed a certain amount of time to the charity in lieu of loss of earnings.

In all cases where trustees were remunerated, disclosures within the financial statements provided full details of the level of pay, as required by the Charity SORP. Charities could consider giving more information about pay reviews and benchmarking to help maintain public trust and confidence. Furthermore, we recommend that the report makes clear the involvement of trustees in the day-to-day management of the charity; in those instances where trustees are remunerated, it can be the case that the trustees are more akin to executive directors and are rewarded on that basis.

Trustee expenses

The Charity Commission encourages trustees to claim expenses to ensure that “the opportunity to be a trustee is open to all” (Charity Commission guidance ‘Trustee expenses and payments’ CC11). Our review found that 87% of the top 100 charities’ trustees claimed expenses higher than last year (when 80% did so). The majority of expenses continued to be travel expenses associated with attending trustees’ meetings.

Unlike in the case of the directors of commercial companies, it is not normal practice for charity trustees, or people connected with them, to receive remuneration, or other benefits from the charities for which they are responsible, or from institutions connected with those charities.”

Charity SORP
Good governance gathers pace

Senior management remuneration

The remuneration of senior management has been an increasingly high-profile issue over the past year, with media scrutiny moving from banks and large corporates to the charity sector. Therefore, charities may wish to consider including commentary on the level of senior management pay, in addition to the salary bandings required under the Charity SORP.

We also suggest large charities should have a Remuneration Committee with a clear remit to benchmark and review pay. The main activities of the Remuneration Committee should be disclosed in the annual report so there is transparency over this sensitive issue.

“There should be a formal and transparent procedure for developing policy on executive remuneration packages for individual directors. No director should be involved in deciding his or her own remuneration.”

UK Corporate Governance Code, main principle D.2

Review of performance

Many of the annual reports included a section reviewing the charity’s performance against its objects within the year. And many of these made reference to specific projects completed in the year, together with case studies featuring those helped by the charity. Most organisations (91%) provided commentary against at least one of their objects, although the level of detail continued to range widely, with 44% providing factual data against the activity plus description of what has been achieved. We would encourage charities to use the annual report as one of the ways of ‘taking stock’ of financial performance and reporting against each objective.

With the introduction of the requirement for a strategic report (for charities incorporated under the Companies Act for years ending after 30 September 2013) the review of performance will be a key part of the strategic reporting within the annual report.

While 13% of charities included impact reports on their websites, there was little impact reporting included within their annual reports, where content was generally limited to financial reporting. We would encourage charities to share their impact within the annual reports.

Financial performance

The majority of charities continued to include a separate financial performance section within their annual report. This section varied in length from a short paragraph outlining the surplus/deficit in the year compared to the prior year, to several pages of explanation with diagrams and graphs. As we noted in our first charity governance review, we believe that best practice is to link financial performance to the charity’s strategy, its investment and reserves policies and its impact.

This works best when either a team collaborates together, editing the document as a whole, or a sole writer draws ideas and information from a range of sources and brings them together into the document. Without either of these approaches coherence may suffer, and it is all too easy to distinguish the different ‘voices’ narrating the annual report.
Social media

The published annual report, by its very nature, is a historical document and provides useful detailed financial information and static governance disclosures for grant funders, potential donors and prospective volunteers and employees, but cannot give up to date or prospective information. Social media offers an opportunity to change this if used properly.

Almost all (99) of the top 100 charities have a website and most (74) provide current and historical annual reports online, along with details of the board of trustees, impact reports and case studies showcasing the organisation’s projects. However, for more real-time information, social media provides the opportunity for charities, chief executives and trustees to communicate with those who are interested in their activities.

Many charities communicate through social media, with 74 of charities on all three of the main communication platforms (Facebook, Twitter and LinkedIn). Perhaps surprisingly, nine of the top 100 were on none of the above platforms at the time of this research.

*Many charities communicate through social media, with 74 charities on all three of the main communication platforms.*
We also reviewed the number of chief executives with profiles on Twitter. Of the top 100 charities, only 29 chief executives engaged in tweeting, with the number of followers ranging from seven to 6,000.

Charities use social media in a number of different ways – to broadcast their thoughts, share information on their latest campaigns, raise awareness on fundraising and have interaction with their supporters (and detractors). While social media is a useful, relatively cheap, platform to share news it is most effective where charities are having two-way communication with their followers. This increases the level of engagement and feeling of affinity from their followers and also increases the volume of communication with, for example, ‘retweets’ on Twitter and ‘likes’ on Facebook.

The board of trustees should consider the charity’s approach to social media and how it links with and assists the charity’s overall strategy. They should also agree on their response should negative stories be shared on such platforms, since reputational damage can be swift and difficult to control.
We are Grant Thornton UK LLP

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

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Grant Thornton in the charity sector

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

Our involvement in the sector is extensive:

- we have created NFP Interchange, a forum for Non-Executive Directors (NEDs) of Not for Profit organisations, run in partnership with the Guardian, to enable NEDs to debate topics that resonate across the sector on subjects such as governance, strategy and values
- we have membership of a number of key sector bodies including the Charity Finance Group and ACEVO
- we provide an annual varied and topical seminar programme for the sector
- we contribute to cutting-edge thinking by being involved in sector studies
- we have members on regulatory technical boards including the SORP Committee and ICAEW Charities’ Technical Sub-Committee
- we produce regular technical literature including newsletters, factsheets and responses to regulatory consultations
- we develop thought leadership demonstrating our in-depth knowledge of the sectors in which we specialise.

We combine award-winning technical expertise with the intuition, insight and confidence gained from our extensive sector experience and a deep understanding of our clients.
Bringing international experience to bear

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

Benchmarking

We are able to provide benchmarking of your own governance disclosures against the top 100 charities reviewed within this report. This can highlight areas of improvement in both disclosure and practical terms.

Use of social media

We have a dedicated social media team who are able to advise on the effective use of social media and can implement best practice guidelines.

Board evaluation

We can assess your Board at an individual and Board level, providing valuable recommendations for improvements and changes to governance structures to meet your individual needs along with training support.
Contact us

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