

# AN OVERVIEW OF CHARITY GOVERNANCE

IN SINGAPORE

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A PROJECT BY THE CENTRE FOR SOCIAL DEVELOPMENT ASIA | NOVEMBER 2017



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# FOREWORD BY THE CHARTERED INSTITUTE OF MANAGEMENT ACCOUNTANTS (CIMA)

The Chartered Institute of Management Accountants (CIMA) Centre of Excellence is pleased to sponsor this third piece of research by the Centre for Social Development Asia (CSDA) on Charity Governance, following the successful completion of two other research works on the financial characteristics of Institutions of a Public Character (IPCs) in 2015 and the fundraising practices of Health, and Social and Welfare IPCs in Singapore in 2016.

We are living through a time of profound economic, social and technological change and the environment in which charities are working is altering dramatically. These changes have posed new challenges for charities and good governance is more critical now than ever before. We therefore commend CSDA for this timely publication, which ultimately aims to build a stronger charity sector in Singapore.

In order to deliver effectively for their beneficiaries, charities need strong governance, with robust structures, processes and good behaviour. Coupled with good disclosure practices in financial management, donors will have the comfort of transparency and accountability that the funds are well managed.

We commend the team at CSDA for their efforts in the research on charity governance and the successful release of this report.

## **Dr Noel Tagoe, FCMA, CGMA**

Executive Vice President - Academics, Management Accounting,  
Association of International Certified Professional Accountants



## About the Chartered Institute of Management Accountants (CIMA)

The Chartered Institute of Management Accountants (CIMA), founded in 1919, is the world's leading and largest professional body of management accountants, with over 232,000 members and students operating in 177 countries, working at the heart of business. CIMA members and students work in industry, commerce, the public sector and not-for-profit organisations. CIMA works closely with employers and sponsors leading-edge research, constantly updating its qualification, professional experience requirements and continuing professional development to ensure it remains the employers' choice when recruiting financially-trained business leaders.

Professionalism and ethics are at the core of CIMA's activities, with every member and student bound by robust standards so that integrity, expertise and vision are brought together. Together with the American Institute of CPAs (AICPA), CIMA has established the Chartered Global Management Accountant (CGMA) designation. CGMA is the global quality standard that further elevates the profession of management accounting. The designation recognises the most talented and committed management accountants with the discipline and skill to drive strong business performance.

The AICPA and CIMA also make up the Association of International Certified Professional Accountants (the Association), which represents public and management accounting globally, advocating on behalf of the public interest and advancing the quality, competency and employability of CPAs, CGMAs and other accounting and finance professionals worldwide.

# FOREWORD BY THE CENTRE FOR SOCIAL DEVELOPMENT ASIA (CSDA)

The Centre for Social Development Asia (CSDA) is pleased to release the third and final report on charity's accountability and transparency. This three-year project is supported by the Chartered Institute of Management Accountants (CIMA).

Good governance is critical for charities to maintain integrity in the social service industry. It is important for charities to be well governed, transparent and accountable to their stakeholders.

This year's research focuses on governance of Institutions of a Public Character (IPCs) in Singapore's Health, and Social and Welfare sectors. The research documents the development of charity governance in Singapore, discusses the challenges IPCs face in implementing Board and charity governance, and highlights the best practices of charity governance disclosure. These exploratory studies provide the much-needed insights on charity governance practices in Singapore.

I wish to congratulate the team on the release of the three booklets and I look forward to future research and collaborations with CIMA and other institutions.

## Dr S. Vasoo

Chairman

Centre for Social Development Asia, Department of Social Work,  
Faculty of Arts and Social Sciences, National University of Singapore



## About the Centre for Social Development Asia (CSDA)

The Centre for Social Development Asia (CSDA) was launched in July 2007 by then Minister for Finance Mr Tharman Shanmugaratnam. It is under the purview of the Department of Social Work, Faculty of Arts and Social Sciences, National University of Singapore. The Centre was established in collaboration with the Centre for Social Development, George Warren Brown School of Social Work, Washington University in St Louis. The primary mission of CSDA is applied research and knowledge building to inform policies and programmes in social development, with a focus on Asia.

For more information about CSDA, please visit:

[http://www.fas.nus.edu.sg/swk/partners\\_and\\_donors/research\\_partner/overview](http://www.fas.nus.edu.sg/swk/partners_and_donors/research_partner/overview)

For more information on the Department of Social Work, please visit:

<http://www.fas.nus.edu.sg/swk/>

# REPORT HIGHLIGHTS

## WHAT IS CHARITY GOVERNANCE?



- Charity governance differs across countries because every country has its unique social, economic, cultural and political contexts that shape its perspectives.
- In Singapore, governance in the charity sector refers to the framework and processes concerned with managing the overall direction, effectiveness, supervision and accountability of an organisation (Charity Council, 2017a).
- The Charity Council developed the Code of Governance for Charities and Institutions of a Public Character (IPCs) in 2007. Two refinements were made, in 2011 and 2017, to provide greater clarity about good governance to the charity sector (Charity Council, 2017a).
- The Code operates on the principle of 'comply or explain', and is not mandatory. It is meant to help charities prepare themselves to cater to an increasingly discerning public (Ministry of Culture, Community and Youth, 2017).
- It is also organised into nine sections, with the guidelines tiered according to charity or IPC status and size.

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## LITERATURE REVIEW: BOARD GOVERNANCE IN THE CHARITY SECTOR



### People (Who) in Non-profit Board Governance

#### BOARD SIZE

The size of charity Boards tends to be larger than for-profit Boards (Stone & Ostrower, 2007). According to Olson (2000), large Boards can be beneficial as Board members give personally to the charity, leading to more resources for the charity.

#### BOARD PROFILE

According to Cornforth (2001), the presence of Board members with the right mix of skills and experience is essential to effective Board governance. Therefore, diversity of Board members is important for charities.

#### BOARD RECRUITMENT AND RETENTION

Effective recruitment is necessary to ensure charities secure highly competent Board members (Brown, 2007). Besides recruiting competent Board members, charities should try to retain them.

#### BOARD MEETINGS

Board meetings are important as they bring Board members together as a collective body (BoardSource, 2015). Board attendance at meetings are important markers of Board service.

#### BOARD TRAINING

Brown (2005) noted that charities should provide orientation and training for Board members to ensure that they are equipped with the relevant skills to lead the organisation.



### Work (What) in Non-profit Board Governance

#### BOARD ROLES AND RESPONSIBILITIES

The Board is responsible for both the internal and external functions of the charity. Therefore, Board members should clearly understand their roles and responsibilities (BoardSource, 2015).

#### BOARD INDEMNITY

It is recommended that charities purchase directors' liability insurance, to ensure that Board members can cover against lawsuits (The Centre for Community Organisations, 2009).

#### BOARD REMUNERATION

Wise (2001) revealed that payment of remuneration may significantly increase the willingness of potential trustees to join charities.



### Culture (How) in Non-profit Board Governance

#### BOARD RENEWAL AND TENURE

Hyndman and McDonnell (2009) suggested that the Board should have procedures in place to review its own performance and ensure its continuing renewal. It is agreed that long-tenured Boards are likely to be more committed to their organisations, because they feel a greater sense of responsibility (Olson, 2000).

#### SUB-COMMITTEES

Most non-profits in the United States have created committees to help Board members with their work, and these entities act as part of the governance system of their respective organisations (Renz, 2007).

#### RELATIONSHIP BETWEEN BOARD AND MANAGEMENT

It is necessary to ensure good relationship between Board and Management. This is because non-profit Boards and chief executives bring complementary skill sets to the governance partnership (BoardSource, 2015).

## LITERATURE REVIEW: CHARITY GOVERNANCE PRACTICES



### 1. Conflict of Interest

Charities need to have a conflict of interest policy, which clearly outlines the organisation's expectations for such circumstances (Renz, 2007). To encourage declaration and disclosure of conflicts of interest, charities should have whistle-blowing policies in place (Harris, Petrovits & Yetman, 2015).



### 5. Financial Management and Controls

To ensure sustainable financial health for charities, Ryan and Irvine (2012) suggested adequate financial management, in the form of calculating financial ratios for internal evaluation.



### 2. Strategic Planning

According to Sawhill and Williamson (2001), a charity's mission and vision should be defined as clearly as possible, so that it can stay focused and align itself with its charitable purposes.



### 6. Disclosure and Transparency

According to Gandia (2011), disclosure of relevant information and programmes is key to promoting a more sustainable environment for non-profit organisations, because it creates trust and ensures appropriate funding decisions from donors.



### 3. Programme Management

Herman and Renz (2004) suggested that each charity should continually seek to improve its own practices, such that its practices are consistent with its values, mission, as well as stakeholders' expectations.



### 7. Fundraising

Having fundraising ratios allow charities to assess their own fundraising effectiveness, productivity and growth, allowing them to develop more efficient fundraising practices (Aldrich, 2009).



### 4. Human Resource and Volunteer Management

The adoption of volunteer management practices is important to the operations of charities, as it helps them enhance their volunteer management capacity and their ability to retain volunteers (Hager & Brudney, 2004).



### 8. Public Image

Having a good public image can help improve a charity's financial performance and donation income (Bennett & Sargeant, 2005). According to Kang and Norton (2004), technology offers charities a chance to reach multiple groups of donors without enormous financial burdens.







## 1 INTRODUCTION

Currently, there is a lack of local research on charity governance. The aim of this research study is to contribute to local literature, by providing a better understanding on the development of charity governance in Singapore.

The research report on charity governance will be presented in three booklets: Booklet 1 – ‘An Overview of Charity Governance in Singapore’, Booklet 2 – ‘Charity Governance in Singapore: Insights from Focus Group Discussions’, and Booklet 3 – ‘Disclosure of Board and Management Matters: An Exploratory Study on Charity Governance’.

The objective of this first booklet, 'An Overview of Charity Governance in Singapore', is to give readers a better understanding of Singapore's charity landscape, charity governance legislation and key guidelines. Country studies on Hong Kong, Australia and the United Kingdom are included to provide a broader view of how charity governance are implemented in other commonwealth countries. Readers will realise that there is no one-size-fits-all approach to charity governance, as it is practiced differently in different countries. Literature review on Board governance, as well as charity governance practices, have been carried out. This is to provide readers with an overview on the research development and key findings on this important topic. Lastly, an interview with Professor Chris Cornforth, has been included to provide an expert's insights on non-profit Board matters.



## 2 DEFINITION OF CHARITY GOVERNANCE

The term ‘governance’ does not have a fixed definition, as it is used in various fields of study (Kooiman, 1999). Each country will have unique social, economic, cultural and political contexts that shape its perspectives. Consequently, the definition of charity governance will differ across countries, making it impossible to establish a universal form of measurement for charity governance (Cutt & Murray, 2002).

Despite the variety of circumstances that shape the nature of non-profit governance, there remain some functions that are fundamental to non-profit governance. These basic functions include (Renz, 2007):

- **Setting direction**
- **Making policy and strategic decisions**
- **Monitoring organisational performance**
- **Ensuring accountability**

In Singapore, governance in the charity sector can be seen as the framework and processes that are involved in guiding the direction, effectiveness, supervision and accountability of an organisation (Charity Council, 2017a). Governance is thus crucial for both charities and the public. For charities, governance is crucial as it impacts how the charity is run and the services it provides (Charity Council, 2017a). For members of the public, understanding what good governance entails will help them make informed choices on which charities they wish to support (Charity Council, 2017a).



## 3 DEVELOPMENT OF CHARITY GOVERNANCE IN SINGAPORE

This section tracks the development of charity governance in Singapore. It covers:

- a. An overview of the charity sector in Singapore
- b. Key players in the charity governance landscape
- c. Legislations and key voluntary guidelines for the charity sector
- d. Publicly available resources that charities can tap on to meet the legislations and voluntary guidelines

Figure 1: Development of Charity Governance in Singapore (2006 to 2017)



## 3.1 Charity Sector

Charities in Singapore play a crucial role in serving the needy in society, with the government emphasising “self-reliance and mutual support”, rather than an over-reliance on government welfare. Under the ‘Many Helping Hands’ approach (Ministry of Community Development, Youth and Sports, 2009), the government encourages community-led initiatives and a community-based framework where government bodies, enablers, grant-makers, donors, volunteers, and Social Service Organisations provide social assistance to the poor, vulnerable and disadvantaged (Sim, Loh & Teo, 2017).

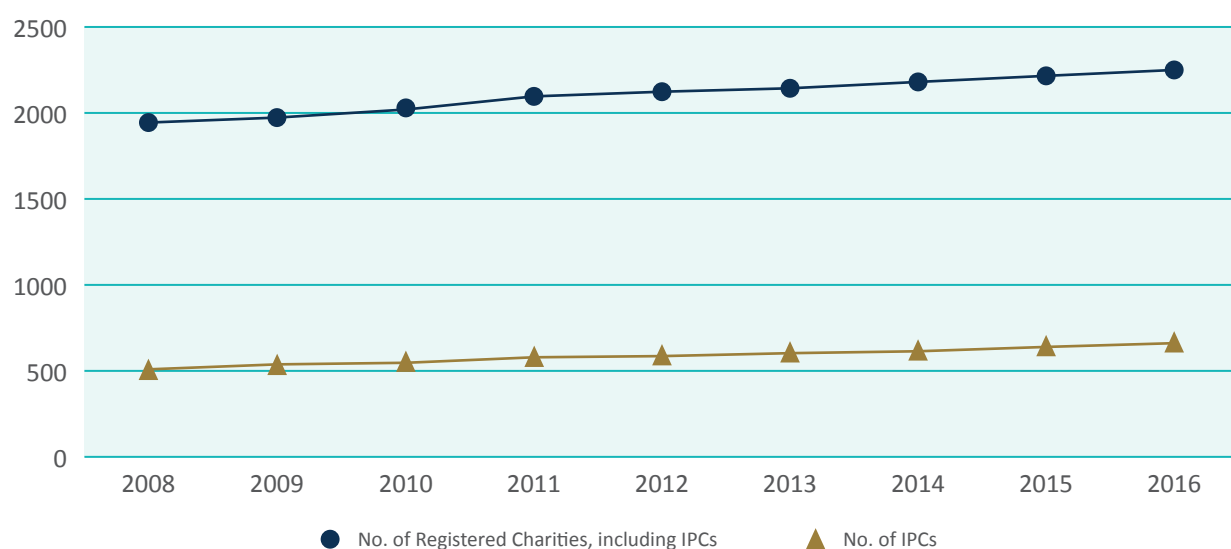
In Singapore, several organisations are required by law to apply for charity registration with the Office of Commissioner of Charities (COC). They include organisations that operate on a not-for-profit basis, as well as those that are established exclusively for charitable purposes and carry out activities to achieve these purposes for the benefit of the public (Charity Portal, 2016a). Charities are registered under one of the eight sectors in Singapore (Ministry of Culture, Community and Youth, 2017). The eight sectors are outlined in Table 1.

All registered charities enjoy income tax exemption and property tax exemption for properties used exclusively for charitable purposes, subject to review by the Comptroller of Property Tax. The charitable purposes include (Charity Portal, 2016a):

- Relief of poverty
- Advancement of education
- Advancement of religion
- Other purposes beneficial to the community

In 2016, there is a total of 2,247 registered charities, in Singapore (Ministry of Culture, Community and Youth, 2017). Some of these registered charities may be conferred the status of an Institution of a Public Character (IPC); these organisations may then issue tax-deductible receipts to their donors (Ministry of Culture, Community and Youth, 2017). As an IPC, a charity serves the needs of the community in Singapore as a whole, and is not confined to sectional interests (Ministry of Culture, Community and Youth, 2017). The following figure provides a snapshot of the increase in the number of both registered charities and IPCs in Singapore between 2008 to 2016.

**Figure 2: Number of Registered Charities and IPCs in Singapore (2008 to 2016)**



**Note:**

The figures for the number of registered charities and IPCs were obtained from the Commissioner of Charities Annual Report 2016 (Ministry of Culture, Community and Youth, 2017).

Charities and IPCs in Singapore are split into different sectors, as reflected in the following table.

**Table 1: Distribution of Registered Charities and IPCs by Sector**

Sector	Registered Charities including IPCs		IPCs	
	Number	Percentage	Number	Percentage
Sports	66	2.9%	45	6.9%
Community	92	4.1%	77	11.8%
Education	130	5.8%	43	6.6%
Health	138	6.2%	83	12.7%
Arts and Heritage	140	6.2%	83	12.7%
Social and Welfare	396	17.6%	232	35.5%
Religious	1,075	47.8%	-	-
Others	210	9.4%	90	13.8%
<b>Total</b>	<b>2,247</b>	<b>100%</b>	<b>653</b>	<b>100%</b>

**Notes:**

1. The figures for the number of registered charities and IPCs were obtained from the Commissioner of Charities Annual Report 2016 (Ministry of Culture, Community and Youth, 2017).
2. Charities under 'Others' include charities set up for animal welfare, environment conservation and youth development.
3. There are no IPCs in the religious sector in Singapore. This is because under the Charities (Institutions of a Public Character) Regulations, the activities of an IPC must be beneficial to the community in Singapore as a whole, and not confined to sectional interests or group of persons based on race, creed, belief or religion.

## 3.2 Singapore's Charity Governance Landscape

The key players in Singapore's charity governance landscape include:

- **Office of Commissioner of Charities and Sector Administrators**
- **Charity Council**
- **Enablers**
- **Charities' Boards**
- **General Public and Donors**

### OFFICE OF COMMISSIONER OF CHARITIES AND SECTOR ADMINISTRATORS

The Office of Commissioner of Charities (COC) is the governmental institution overseeing all charities in Singapore. It was set up on 1 July 2006, as part of the Inland Revenue Authority of Singapore (IRAS), but was officially transferred to the Ministry of Community Development, Youth and Sports (MCYS) on 1 September 2006. It then came under the purview of the Ministry of Culture, Community and Youth (MCCY) on 1 November 2012 (Charity Portal, 2016d).

The role of the COC's Office is to develop a well-governed and thriving charity sector that has strong public support. To do so, it adopts the following strategies (Charity Portal, 2016d):

- **Promote good governance and best practices amongst charities and IPCs**
- **Ensure regulatory relevance and compliance**
- **Be a proactive charity advisory**

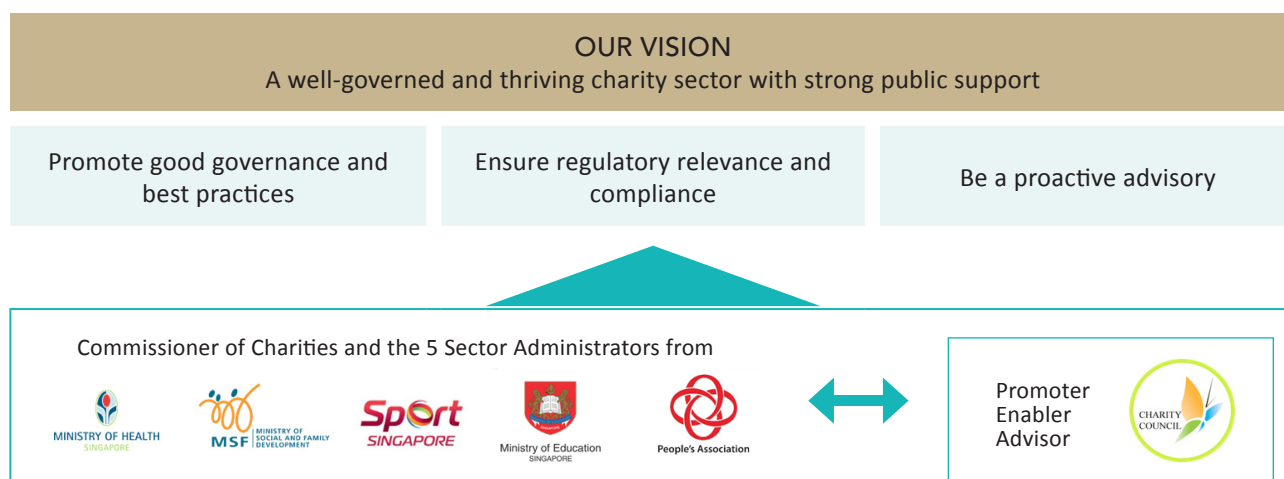
The COC's Office manages the Charity Portal, which gives charities in Singapore access to a range of resources to aid them in managing their daily operations. Resources provided include regulatory guidelines and templates, as well as information on the Charities Accounting Standard (CAS) (Charity Portal, 2016h).

In Singapore's charity sector, the COC's Office oversees all charities. It is supported by the five sector administrators and the Charity Council. The five sector administrators are as follows (Charity Portal, 2016c):

- a. **Ministry of Education (MOE)** for charitable objects related to the advancement of education
- b. **Ministry of Health (MOH)** for charitable objects related to the advancement of healthcare
- c. **Ministry of Social and Family Development (MSF)** for charitable objects related to the relief of poverty or those in need by reason of youth, age, ill-health, disability, financial hardship or other disadvantages
- d. **People's Association (PA)** for charitable objects related to the advancement of citizenship or community development
- e. **Sport Singapore (SportSG)** for charitable objects related to the advancement of sports

The following figure outlines the relationship between these groups.

**Figure 3: Relationship between the Charity Council, the COC's Office and the Sector Administrators**



**Note:**

Adapted from "Commissioner of Charities Annual Report 2016," by Ministry of Culture, Community and Youth, 2017. Retrieved from <https://www.charities.gov.sg/Publications/Documents/Commissioner%20of%20Charities%20Annual%20Report%202016.pdf>. Copyright by the Ministry of Culture, Community and Youth 2017. Adapted with permission.

**CHARITY COUNCIL**

The Charity Council acts as a promoter, enabler and advisor in Singapore's charity sector. Now in its sixth term, comprising 15 members, including the Chairman, the Charity Council was legally appointed on 1 March 2007 after the revised Charities Act was brought into operation (Charity Portal, 2016b). The specific roles of the Charity Council are as follows (Charity Portal, 2016b):

- **Promote and encourage the adoption of good governance and best practices, to help enhance public confidence and promote self-regulation in the charity sector**
- **Build capabilities of charities and IPCs so that they are able to comply with regulatory requirements and enhance public accountability**
- **Advise the Office of Commissioner of Charities on key regulatory issues such as proposals on new regulations where they may be broad-ranging impact on charities and IPCs**

In fulfilling its role, the Charity Council, with the support from the COC's Office, organises the following events (Ministry of Culture, Community and Youth, 2017):

- **Charities Transparency and Governance Awards**, which recognise charities for their good disclosure and governance standards
- **Town Hall Meetings**, which serve as a platform to raise awareness on the need to improve core competencies and practices of charities
- **Charity Governance Conferences**, which bring together charities and corporations

## ENABLERS

Enablers are institutions within the charity industry that provide the resources necessary to enable charities to abide by charity governance standards. In Singapore, these institutions include the National Council of Social Service (NCSS), the Centre for Non-Profit Leadership (CNPL), and Shared Services for Charities (SSC).

NCSS acts as the umbrella body for Voluntary Welfare Organisations (VWOs) in Singapore. It provides capability and capacity building for VWOs by supporting them in their organisational needs and development (National Council of Social Services, n.d.). NCSS administers on behalf of MSF and MCCY the VWOs-Charities Capability Fund (VCF) grants, which include grants such as training and consultancy grants. NCSS also provides training courses via the Social Service Institute (Social Service Institute, 2017a).

CNPL helps the non-profit sector create a leadership pipeline and build effective Boards. Its strategy for achieving this goal includes (Centre for Non-Profit Leadership, n.d.-b):

- **Source** - identify best fit candidates for Board renewal and leadership pipeline
- **Develop** - cultivate and nurture leadership competencies for better performance
- **Align** - strengthen leadership capacity to enhance Board effectiveness

By supporting the charity sector in strengthening the leadership of charity organisations, CNPL enables charities to operate with good governance and best practices (Centre for Non-Profit Leadership, n.d.-b). In addition, CNPL has commissioned two studies. They are the study on the Disclosure and Governance Practices of Charities in Singapore (2012), and the Board Leadership Survey (2016). Findings and recommendations from these studies go a long way in helping charities with their governance practices (Centre for Non-Profit Leadership, 2013; National Volunteer and Philanthropy Centre, 2017).

SSC is an approved IPC and a full member of the NCSS. Set up by the Singapore Exchange Limited and BinjaiTree in 2008, SSC was established with the aim of bringing professional services to enhance governance and organizational excellence to charities (Shared Services for Charities, n.d.-a). Responding to the heightened demands of regulators, donors, volunteers, and the general public for high levels of transparency and governance, SSC's core programmes are tailored to allow charities to assess their existing practices for improvements, thereby providing assurance to Boards and stakeholders (Shared Services for Charities, n.d.-a). SSC's in-house team is made up of qualified experienced professionals, augmented by qualified industry partners, who volunteer their time and expertise (Shared Services for Charities, n.d.-a).

## CHARITIES' BOARDS

Charities' Boards are responsible for driving charity governance by overseeing the management of their respective charities. Even though the Code and Governance Evaluation Checklists (GECs) are rightly recognised as being the main drivers of charity governance, the Board is responsible for implementing good governance practices such that their charities run well and operate responsibly, and continue to be effective, credible, and sustainable (Charity Portal, 2016f).

As resource catalysts, Board members are able to further value-add to their organisation through providing the necessary connections to influential funders and their own technical competencies to their organisation and provide strategic direction for their organisation (Brown, 2005). In addition, the Board monitors the self-interested behaviour of executives, ensuring that a spirit of altruism is not overlooked (Brown, 2005). In other words, since non-profit Board members originate from outside charity organisations, they are able to more effectively monitor strategic decision-making with objectivity and detachment (Coombes, Morris, Allen & Webb, 2011).

## GENERAL PUBLIC AND DONORS

Charity organisations are dependent on external sources of income, such as donations and grants. To gain the support and approval of donors, charities have to legitimise their activities to the public and would-be donors. Charities can obtain legitimacy by deploying different accountability mechanisms to demonstrate that the values, beliefs and successes of the organisation are commensurate with stakeholder expectations and demands (Dhanani & Connolly, 2012).

Because charities are community organisations working for public benefit (Charity Council, 2017a), they naturally have to be accountable to the public. Therefore, the general public and donors are important drivers of charity governance in Singapore.

## 3.3 Legislations and Key Voluntary Guidelines

The key charity governance legislations and guidelines in Singapore include:

- **Charities Act**
- **Code of Governance**
- **Governance Evaluation Checklist**
- **Charity Transparency Framework**

### CHARITIES ACT

Introduced in 1995, the Charities Act (2007) makes provisions for:

- **Registration of charities**
- **Administration of charities and their affairs**
- **Regulation of charities and IPCs**
- **Regulation of fundraising activities carried on in connection with charities and other institutions and the conduct of fundraising appeals, and for purposes connected therewith**

Five key subsidiary legislations supplement the Charities Act:

- Charities (Institutions of a Public Character) Regulations** - provide specific guidelines for IPCs in Singapore
- Charities (Large Charities) Regulations** - provide specific guidelines for large charities in Singapore
- Charities (Registration of Charities) Regulations** - provide specific guidelines on conditions that qualify organisations as charities
- Charities (Accounts and Annual Report) Regulations** - provide specific guidelines regarding the requirements for accounting standards and annual report disclosures for charities
- Charities (Fund-raising Appeals for Local and Foreign Charitable Purposes) Regulations** - provide specific guidelines regarding fundraising matters

### CODE OF GOVERNANCE FOR CHARITIES AND IPCS

The Code of Governance for Charities and IPCs (thereafter, "the Code") was first published in 2007 and sought to make charities more effective, and to provide Board members with guidance to improve their competencies as fiduciaries (Charity Council, 2017d). It applies to all registered charities in Singapore. In applying and implementing the Code's principles and practices, a "well-governed and thriving charity sector" can be developed in Singapore (Ministry of Culture, Community and Youth, 2017).










Two refined versions of the Code were released in 2011 and 2017 (Charity Council, 2017a). The purpose of the first refinement was to provide greater clarity and relevance about good governance to the charity sector. Similarly, the purpose of second refinement was to assist charities to apply the Code more effectively. The refinement was deemed necessary, as good governance is increasingly becoming a focus for charities worldwide, and there is growing emphasis for charities to adopt greater transparency and accountability measures to enable informed giving decisions (Charity Council, 2016).

The Code is organised into nine broad sections, each espousing a general principle (Charity Council, 2017b):

- a. Board Governance
- b. Conflict of Interest
- c. Strategic Planning
- d. Programme Management
- e. Human Resource and Volunteer Management
- f. Financial Management and Internal Controls
- g. Fundraising Practices
- h. Disclosure and Transparency
- i. Public Image

Figure 4 below summarises the nine sections.

**Figure 4: Principles of Charity Governance in Singapore**

	<p><b>Board Governance</b> The Board is responsible for the Charity's compliance with its governing instrument, all relevant laws and regulations. This section covers the importance of Board independence, and Board and Board Committees' roles and responsibilities.</p>
	<p><b>Conflict of Interest</b> There should be clear policies and procedures set in place to declare, prevent and address potential conflicts of interest.</p>
	<p><b>Strategic Planning</b> Charities should have strategic and long-term plans for their sustainability. They are also encouraged to conduct regular review of the vision, mission and objectives to stay relevant to changing environment and needs.</p>
	<p><b>Programme Management</b> Outlines the operations and programmes directed towards achieving the objectives, clearly defined outcomes, and measurement of effectiveness and outcomes.</p>
	<p><b>Human Resource and Volunteer Management</b> Covers appropriate human resource and volunteer management policies.</p>
	<p><b>Financial Management and Internal Controls</b> Relates to the basic operational controls, internal control systems for financial matters, budget planning and monitoring, capital asset management, and reserves management</p>
	<p><b>Fundraising Practices</b> Covers the best practices on the transparency and accountability of the charity's fundraising activities, such as the use of third-party fundraisers and accountability to donors</p>
	<p><b>Disclosure and Transparency</b> Charities should be transparent and accountable in its operations. This includes making its annual report publicly available, and disclosure of remuneration and benefits.</p>
	<p><b>Public Image</b> Requires an accurate portrayal of image to be consistent with its charitable objectives.</p>

**Notes:**

1. Adapted from "Accounting for Good: Helping Charities Do Good Better" by Sim, Loh & Teo, 2017. Retrieved from [http://www.fas.nus.edu.sg/swk/doc/CSDA/ISCA\\_Charity\\_E-Book\\_hires\\_binder.pdf](http://www.fas.nus.edu.sg/swk/doc/CSDA/ISCA_Charity_E-Book_hires_binder.pdf). Copyright by the Institute of Singapore Chartered Accountants (ISCA) 2017. Adapted with permission.
2. The nine sections in the figure are based on the Code (Charity Council, 2017b).



The Code guidelines are applicable depending on the IPC status and size of the charity. Charities that have gross annual receipts or total expenditure, whichever is higher, of less than S\$50,000 are excluded from the submission of the GEC. However, these charities are still strongly encouraged to refer to the Code and apply its principles (Charity Council, 2017b).

The following table summarises the changes in respective tiers of charities from Code 2011 to Code 2017.

**Table 2: Tiers for Registered Charities in the Code 2017**

Charity Size (by gross annual receipts or total expenditure)	Tiered Guidelines to comply		What changed
	Code 2011	Code 2017	
S\$50,000 to less than S\$500,000	Basic II	Basic	New tier for non-IPC charities.
S\$500,000 to less than S\$10 million	Basic II	Intermediate	"Basic II" renamed "Intermediate"; includes principles of the former Basic II tier as well as selected guidelines in the former Enhanced tier.
S\$10 million or more	Enhanced	Enhanced	No changes in tiers.

**Note:**

Adapted from "Code of Governance for Charities and Institutions of a Public Character," by the Charity Council, 2017. Retrieved from [https://www.charitycouncil.org.sg/en/Our%20Work/~/\\_media/FC31537353E94437A7695081AF0A2C60.ashx](https://www.charitycouncil.org.sg/en/Our%20Work/~/_media/FC31537353E94437A7695081AF0A2C60.ashx). Copyright by the Charity Council 2017. Adapted with permission.

The following table summarises the changes in respective tiers that IPCs belong to from Code 2011 to Code 2017.

**Table 3: Tiers for IPCs in the Code 2017**

IPC Size (by gross annual receipts or total expenditure)	Tiered Guidelines to comply		What changed
	Code 2011	Code 2017	
Less than S\$500,000	Basic II	Intermediate	"Basic II" renamed "Intermediate"; includes the principles of the former Basic II tier as well as selected guidelines in the former Enhanced tier.  IPCs with annual income or expenditure between S\$200,000 and S\$500,000 will be subject to the new Intermediate tier instead of the former Enhanced tier.
S\$500,000 to less than S\$10 million	Enhanced	Enhanced	Only IPCs with annual income or expenditure of S\$500,000 and up to S\$10 million are subject to the new Enhanced tier.
S\$10 million or more	Advanced	Advanced	No change in tiers for large IPCs.

**Note:**

Adapted from "Code of Governance for Charities and Institutions of a Public Character," by the Charity Council, 2017. Retrieved from [https://www.charitycouncil.org.sg/en/Our%20Work/~/\\_media/FC31537353E94437A7695081AF0A2C60.ashx](https://www.charitycouncil.org.sg/en/Our%20Work/~/_media/FC31537353E94437A7695081AF0A2C60.ashx). Copyright by the Charity Council 2017. Adapted with permission.

The Code is a guide that is non-mandatory, and operates on a 'comply or explain' principle (Charity Council, 2017a). However, charities and IPCs should follow the disclosure guidelines in the table below.

**Table 4: Disclosure Guidelines for Charities and IPCs**

All charities (Including IPCs)	<ul style="list-style-type: none"> <li>All charities are required to submit a Governance Evaluation Checklist on the Charity Portal.</li> <li>All charities should explain why it cannot comply with certain Code guidelines (wherever relevant).</li> <li>All charities should then indicate the steps it plans to take to comply, or explain why it decides not to comply.</li> <li>For all charities, disclosure of this checklist is made publicly available for public viewing on the Charity Portal.</li> </ul>
IPCs	<ul style="list-style-type: none"> <li>For IPCs, their respective Sector Administrators would consider the IPC's extent of Code compliance, as well as reasons for non-compliance, when assessing an IPC's application to renew its IPC status.</li> </ul>

**Note:**

Adapted from "Code of Governance for Charities and Institutions of a Public Character," by the Charity Council, 2017. Retrieved from <https://www.charitycouncil.org.sg/en/Our%20Work/~media/FC31537353E94437A7695081AF0A2C60.ashx>. Copyright by the Charity Council 2017. Adapted with permission.

### GOVERNANCE EVALUATION CHECKLIST

The Governance Evaluation Checklist (GEC) is designed to help charities and IPCs self-evaluate the extent to which they have complied with the essential guidelines found in the Code mentioned above. Charities with gross annual receipts or total expenditures, whichever is higher, of more than S\$50,000, and all IPCs are required to submit their GECs to their respective sector administrators via the Charity Portal, within six months after the end of each financial year (Charity Portal, 2016g). The GECs will be published on the Charity Portal for public viewing (Charity Portal 2016g).

In the Code 2011, IPCs in the Basic II, Enhanced and Advanced tiers have 18, 23, and 25 compliance questions in their GECs respectively. The distribution of questions based on the nine sections of the Code 2011 is presented in Table 5.

### CHARITY TRANSPARENCY FRAMEWORK

The Charity Transparency Framework (CTF) is a non-mandatory set of self-assessment guidelines designed to serve two purposes (Charity Council, 2017d):

- a. To help charities enhance their disclosure and governance practices and
- b. As a public education tool through highlighting key areas of disclosure to the public and donors to allow them to deepen their understanding of the work of their chosen charity and subsequently make better informed giving decisions

Under the CTF, there is a Charity Transparency Scorecard which highlights nine key areas of disclosure that are strongly encouraged, as shown in Figure 5.

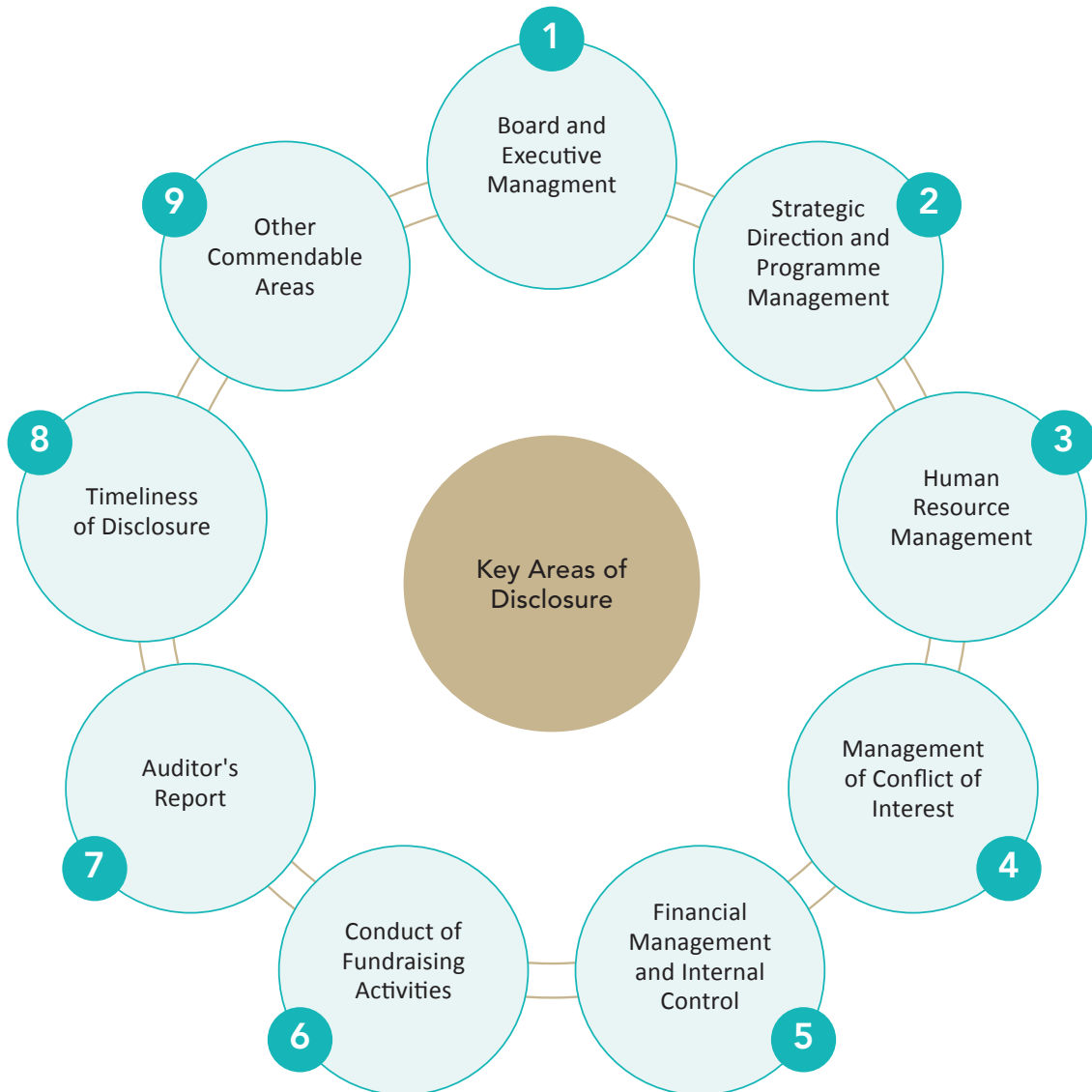
**Table 5: Distribution of Questions based on the Nine Sectors of the Code 2011**

Section / Tier	Basic II Tier (gross annual receipt of less than S\$200,000)	Enhanced Tier (gross annual receipt of between S\$200,000 and S\$10 million)	Advanced Tier (gross annual receipt of more than S\$10 million)
Board Governance	5	5	6
Conflict of Interest	3	2	2
Strategic Planning	1	2	2
Programme Management	0	0	0
Human Resource Management	1	2	3
Financial Management and Controls	5	5	5
Fundraising Practices	1	1	1
Disclosure and Transparency	1	5	5
Public Image	1	1	1
<b>Total no. of GEC items</b>	<b>18</b>	<b>23</b>	<b>25</b>

**Note:**

The Governance Evaluation Checklists can be found in the Code 2011 and Code 2017. Both of the Code 2011 and 2017 can be downloaded from the Charity Council website (<https://www.charitycouncil.org.sg/en/Our%20Work/Code%20Of%20Governance.aspx>) and Charity Portal website (<https://www.charities.gov.sg/manage-your-charity/Day-to-Day-Operations-of-Charity-IPC/Pages/Code%20of%20Governance%20for%20Charities%20and%20IPCs.aspx>).

Figure 5: Nine Recommended Key Areas of Disclosure in the Charity Transparency Scorecard



**Note:**

Adapted from "Charity Transparency Framework," by the Charity Council, 2017. Retrieved from [https://www.charitycouncil.org.sg/en/Our%20Work/~/\\_media/C4EF6F66B6B24DD987F32751E10F5783.ashx](https://www.charitycouncil.org.sg/en/Our%20Work/~/_media/C4EF6F66B6B24DD987F32751E10F5783.ashx). Copyright by the Charity Council 2017. Adapted with permission.

## 3.4 Publicly Available Resources

The Code of Governance for Charities and IPCs functions as a best practices guide, and all charities are “strongly encouraged to apply the principles and practices of governance and management” (Charity Council, 2016). In abiding by the Code, charities can be more effective, transparent and accountable to their stakeholders (Charity Council, 2016). However, as explored in the qualitative study reported in Booklet 2, local charities face multiple challenges in implementing the governance practices in the Code. For a more in-depth discussion on challenges faced by charities to adopt the Code, readers can refer to the qualitative study reported in Booklet 2.

This section provides a survey of the resources that are publicly available for charities in Singapore, and how charities can utilise them to improve their governance practices.

### GUIDELINES AND SAMPLE TEMPLATES

The Charity Council and its partners provide guidelines and sample templates to help charities. These guidelines and sample templates are published online and made readily available.

These are meant to provide information and guidance for the governance and management of charities. The list of templates and guides provided are grouped according to different sections (Charity Council, n.d.):

- a. **Board Governance**
- b. **Conflict of Interest**
- c. **Financial Management and Internal Controls**
- d. **Fundraising**
- e. **Legal Matters**
- f. **Personal Data Protection**
- g. **Public Relations and Corporate Communications**
- h. **Risk Management**
- i. **Volunteer Management**

### TRAINING COURSES

The Social Service Institute (SSI) is set up to provide training programmes for volunteers and Board volunteers, to raise the standard of the social service sector. The Institute offers a range of learning initiatives to aid Board members of charities in improving their performance (Social Service Institute, 2017a). A good example of this would be the Develop Board Volunteers Initiative (DBVI), conceived by the SSI, to enable non-profit Board members to learn how to manage in the best interests of their stakeholders while using resources more efficiently (Social Service Institute, 2017b). This initiative works by providing a holistic learning roadmap for non-profit Board members, integrating different learning methods to suit their varied learning preferences (Social Service Institute, 2017b).

### REVIEW SERVICES

Review services provided by Shared Services for Charities (SSC) allow charities to assess their governance practices, ultimately addressing shortcomings and providing solutions. Services available for charities include (Shared Services for Charities, n.d.-b):

- **Governance Review**
- **Internal Controls Review**
- **Policies and Procedures Documentation**
- **Risk Assessment**
- **Whistle-blowing Policy and Ethics Hotline Management**
- **Personal Data Protection Review**

## BOARD MATCH

Board Match is a flagship programme by the Centre for Non-Profit Leadership (CNPL) that brings diversity and rejuvenation to the Boards of non-profit organisations in Singapore. The programme matches senior executives with at least five years of management and leadership expertise from the public and private sectors with the Boards of non-profit organisations (Centre for Non-Profit Leadership, n.d.-a). Since the start of the programme, CNPL has successfully matched 500 Board members to 190 non-profit organisations in Singapore (Centre for Non-Profit Leadership, n.d.-a).

## VWOS-CHARITIES CAPABILITY FUND

The portion of VWOs-Charities Capability Fund (VCF) funded by MCCY is under the administration of NCSS. It is a public fund that aims to enhance the operational efficiency, governance and management capabilities of all charities and IPCs through four grants (Charity Portal, 2016i):

- **VCF Training Grant**
- **VCF Consultancy Grant**
- **VCF Shared Services Grant**
- **VCF Info-Communications Technology (ICT) Grant**

VCF Training Grant provides co-funding for charities to send their Board members, executive heads and Management staff of charities for training courses in six policy areas (Charity Portal, 2016i):

- a. **Board Governance and Conflict of Interest**
- b. **Strategic Planning**
- c. **Financial Management and Controls**
- d. **Human Resource Management**
- e. **Fund Raising Management**
- f. **Volunteer Management**

VCF Consultancy Grant provides co-funding for charities to engage external consultants in governance and management consultancy projects to improve key governance and management areas. Charities are then able to review procedures and policies in areas like internal controls, governance compliance and disclosure practices (Charity Portal, 2016i).

VCF Shared Services Grant provides co-funding to charities that choose to outsource their payroll, finance and accounting functions to a third-party service provider (Charity Portal, 2016i).

VCF Info-Communications Technology Grant provides co-funding for small and medium charities to harness Info-Communications Technology (ICT) to facilitate submission of documents on the Charity Portal. This grant partially covers the costs of obtaining basic ICT infrastructure components, commercial off-the-shelf software, website development costs, and costs incurred in the conversion of existing accounting systems to accommodate the Charities Accounting Standard (Charity Portal, 2016i).



## 4 SINGAPORE'S CODE OF GOVERNANCE FOR CHARITIES AND INSTITUTIONS OF A PUBLIC CHARACTER (IPCS)

After looking at the development of Singapore's charity governance landscape, key legislations and voluntary guidelines, and publicly available resources, the attention is now turned to Singapore's Code of Governance for Charities and IPCs. In this section, the various requirements and recommendations found in the Code and Charities Act are extracted and classified according to three main themes:

- a. Roles and Responsibilities of a Charity Board
- b. Guidelines and Disclosure regarding Board Matters
- c. Disclosure and Governance Practices of Charities

By classifying the requirements according to these themes, readers are provided with a succinct checklist and summary of guidelines specified in the Code 2011 and 2017.

### 4.1 Key Roles and Responsibilities of a Charity's Board

The key roles and responsibilities of charities' Boards, as highlighted in Code 2011 and 2017, are summarised in the table below. The table concerns guidelines on accounting and financial matters, human resource and volunteer management, conflict of interest, strategic planning, and public image. Charities can use the tables below as a checklist for their Board members and Board meetings.

#### A. Board's Responsibilities in Charities' Accounting and Financial Matters

##### 1. Approval of Annual Budget

The Board should approve an appropriate annual budget and monitor the expenditure regularly. During the Board meeting, financial statements with comparative budget figures should be presented, with analysis and explanations given for major differences.

*[Clause 6.2.1 in Code 2011 for Basic II, Enhanced and Advanced Tiers]*

*[Clause 6.2.1 in Code 2017 For Basic, Intermediate, Enhanced and Advanced Tiers]*

##### 2. Approval of Financial Assistance Outside of Core Charitable Programmes

The Board's approval should be obtained if the charity wishes to provide loans, donations, grants or financial assistance, which are not part of its core charitable programmes.

*[Clause 6.1.1 in Code 2017 for Basic, Intermediate, Enhanced and Advanced Tiers]*

##### 3. Approval and Regular Review of Internal Control Procedures

The Board's approval should be obtained for the internal control procedures for financial matters including procurement, receipting and payment, and delegation of authority. The Board should ensure that such internal controls, processes, key programmes and events (e.g. fundraising) are reviewed regularly.

*[Clause 6.1.2 and 6.1.3 in Code 2017 for Basic, Intermediate, Enhanced and Advanced Tiers]*

##### 4. Risk Management

The Board should ensure that there is a process to identify, regularly monitor and review the charity's key risks, including the mitigation measures and controls for all these key risks.

*[Clause 6.1.4 in Code 2017 for Intermediate, Enhanced and Advanced Tiers]*

##### 5. Efficient and Effective Usage of Facilities and Assets

The Board should ensure that the charity's facilities and assets are efficiently and effectively utilised.

*[Clause 6.3.2 in Code 2011 and 2017 for Advanced Tier]*

## B. Board's Responsibilities in Charities' Human Resource and Volunteer Management

### 1. Approval of Documented Human Resource Policies

The Board should approve documented human resource policies for staff that cover areas, such as recruitment, remuneration, benefits, training and development, performance appraisals, disciplinary actions, and cessation of employment.

*[Clause 5.1 in Code 2017 for Basic, Intermediate, Enhanced and Advanced Tiers]*

### 2. Approval of Documented Code of Conduct

The Board should approve a documented Code of Conduct for Board members, staff and volunteers (where applicable).

*[Clause 5.3 in Code 2017 for Basic, Intermediate, Enhanced and Advanced Tiers]*

### 3. Process for Staff's Remuneration Setting

The Board should ensure there is a process for setting the remuneration of staff. Any performance-related element in the remuneration package should be linked to fulfilling measurable and clearly defined targets in line with the charity's objectives.

*[Clause 5.2 in Code 2017 for Basic, Intermediate, Enhanced and Advanced Tiers]*

### 4. Documented Policy for Claims Reimbursement

There should be documented policies for Board members, staff and volunteers with regards to claims for reimbursement of expenses incurred while carrying out the charity's affairs.

*[Clause 5.6 in Code 2017 for Intermediate, Enhanced and Advanced Tiers]*

### 5. Processes for Staff Supervision, Appraisal and Development

The Board should ensure that there are processes for regular staff supervision and appraisal, as well as professional development. A fair and transparent performance review and appraisal should be in place for staff.

*[Clause 5.6 in Code 2011 for Enhanced and Advanced Tiers]*

*[Clause 5.5 in Code 2017 for Intermediate, Enhanced and Advanced Tiers]*

## C. Board's Responsibilities in Charities' Conflict of Interest

### 1. Declaration of Conflict

Board members and staff should declare any actual or potential conflicts of interest to the Board at the earliest opportunity. Board members or staff should also declare if the appointment of staff is a close member of the family of the current Board members or staff, and should not influence any decisions made regarding the appointment.

*[Clause 2.1 and 2.5 in Code 2011 for Basic II, Enhanced and Advanced Tiers]*

*[Clause 2.1 and 2.5 in Code 2017 for Basic, Intermediate, Enhanced and Advanced Tiers]*

### 2. Procedures to Deal with Conflict of Interest

There should be special procedures to deal with the conflict of interest when Board members have stakes in organisations that are in contact with the charity or in organisations that will be dealing with the charity soon.

*[Clause 2.3 in Code 2011 for Basic II, Enhanced and Advanced Tiers]*

*[Clause 2.3 in Code 2017 for Basic, Intermediate, Enhanced and Advanced Tiers]*



### 3. Recusal from Meeting and Decision-making

When there is an actual or potential conflict of interests, the Board member concerned should recuse himself or herself from the meeting, and should not vote on the matter or participate in discussions.

*[Clause 2.4 in Code 2017 for Basic, Intermediate, Enhanced and Advanced Tiers]*

### 4. Arrangement and Review of Whistle-blowing Policy

The charity should have a whistle-blowing policy that is reviewed by the Board. The Board should ensure that there are arrangements in place for concerns to be raised, to be investigated independently, as well as follow-up actions to be taken.

*[Clause 8.6 in Code 2017 for Enhanced and Advanced Tiers]*

## D. Board's Responsibilities in Charities' Strategic Planning

### 1. Approval and Review of Vision and Mission

The Board should periodically review and approve the vision and mission of the charity to ensure that they stay relevant to its changing environment and needs. This should be clearly documented and communicated to its members and the public.

*[Clause 3.1.1 and 3.1.2 in Code 2017 for Basic, Intermediate, Enhanced and Advanced Tiers]*

### 2. Approval and Review of Strategic Plan

The Board should approve a strategic plan and periodically review the plan, to ensure that the charity's activities are in line with its objectives. The Board should ensure that this strategic plan, as well as implemented programmes and outcomes, are reported to relevant stakeholders.

*[Clause 3.2.2 and 3.2.3 in Code 2011 for Enhanced and Advanced Tiers]*

*[Clause 3.2.2 and 3.2.3 in Code 2017 for Intermediate, Enhanced and Advanced Tiers]*

### 3. Self-evaluation on Performance and Effectiveness

The Board should conduct regular self-evaluation to assess its performance and effectiveness once per term or every three years, whichever shorter.

*[Clause 1.1.12 in Code 2017 for Enhanced and Advanced Tiers]*

## E. Board's Responsibilities in Charities' Public Image

### 1. Documented Communication Policies

The Board should ensure that there are documented communication policies on the release of information about the charity and its activities to its stakeholders, including the media and the public, across all media platforms.

*[Clause 9.2 in Code 2017 for Enhanced and Advanced Tiers]*

### 2. Designated Spokesperson

The Board should designate an appropriate spokesperson(s) for the charity.

*[Clause 9.3 in Code 2011 and 2017 for Enhanced and Advanced Tiers]*

## 4.2 Key Guidelines and Disclosure regarding Board Matters

The key guidelines and disclosure regarding Board Matters stated in Code 2011, Code 2017, Charities (IPCs) Regulations and Charities (Large Charities) Regulations, are summarised in the table below. These guidelines and disclosure are in reference to the areas of Board size and profile, Board tenure and renewal, Board remuneration and indemnity, Board training, Board meetings, Board committees, and the roles of Board and Management.

### A. Charities' Board Size and Profile

#### 1. Minimum Number of Board Members

For large IPCs and large charities with more than S\$10 million in gross annual receipts, there should be at least 10 governing Board members. The Sector Administrator should be notified immediately if there are less than 10 governing Board members. The respective IPC and charity has to take necessary measures to increase the number to at least 10, within six months or later if approved by the Sector Administrator.

*[Charities (IPCs) Regulations, Part V, Section 20]*

*[Charities (Large Charities) Regulations, Sections 2 and 4]*

#### 2. Suitability of Board Members

The Board should comprise members who possess credible personal attributes and excellent core skills. Commitment is also necessary to govern the charity effectively.

*[Clause 1.1.9 in Code 2011 for Enhanced and Advanced Tiers]*

*[Clause 1.1.11 in Code 2017 for Intermediate, Enhanced and Advanced Tiers in Code 2017]*

### B. Charities' Board Tenure and Renewal

#### 1. Term Limits for Board Members

For steady Board renewal, there should be established term limits for all Board members. Re-appointment can be considered after a lapse of at least two years. The reasons for retaining Board member(s) who have served for more than 10 consecutive years should be disclosed in the annual report.

*[Clause 1.1.13 in Code 2017 for Enhanced and Advanced Tiers]*

#### 2. Re-nomination and Re-appointment of Board Members

All Board members should be required to submit themselves for re-nomination and re-appointment, at least once every three years.

*[Clause 1.1.8 in Code 2017 for Basic, Intermediate, Enhanced and Advanced Tiers]*

#### 3. Succession Planning for Board Members

The Board should have a strategy and arrangement for succession planning for Board members resigning or finishing their terms of office, particularly for key office bearers, such as the Chairperson, General Secretary and Treasurer.

*[Clause 1.1.9 in Code 2017 for Basic, Intermediate, Enhanced and Advanced Tiers]*

#### 4. Term Limits for Treasurer

For the Treasurer (or the person responsible for overseeing the finances of the charity), there should be a maximum limit of four consecutive years. Re-appointment can be considered after a lapse of at least two years. It will be taken that the Chairperson oversees the finances if the charity has no appointed Board member for that function.

*[Clause 1.1.7 in Code 2017 for Basic, Intermediate, Enhanced and Advanced Tiers]*

## C. Charities' Board Remuneration and Indemnity

### 1. Remuneration Setting

A Board member or staff should not be involved in setting his or her own remuneration.

*[Clause 2.2 in Code 2011 for Basic II, Enhanced and Advanced Tiers]*

*[Clause 2.2 in Code 2017 for Basic, Intermediate, Enhanced and Advanced Tiers]*

### 2. Board Remuneration

In general, Board members should not be remunerated for their services. If the charity permits the remuneration of Board members, the exact remuneration and benefits received by each member should be disclosed in the annual report. If any of the three highest paid staff serve on the Board, it should be disclosed, along with the total annual remuneration (if exceeding S\$100,000) in incremental bands of S\$100,000, in the annual report.

*[Clause 8.3 and 8.4 in Code 2017 for Basic, Intermediate, Enhanced and Advanced Tiers]*

### 3. Board Indemnity

There should be appropriate insurance coverage for Board members, staff and volunteers.

*[Clause 5.10 in Code 2017 for Advanced Tier]*

## D. Charities' Board Training

### 1. Board Induction

For incoming Board members, there should be appropriate induction and orientation programme, covering the duties as a Board member, how to discharge those duties and to be familiar with the charity's work and governance practices.

*[Clause 1.1.2 in Code 2017 for Basic, Intermediate, Enhanced and Advanced Tiers]*

### 2. Board Training

Board members should know their responsibilities and the charity's work, to ensure that the charity is well-managed and fulfils its objectives. Appropriate training should be provided to Board members, when required.

*[Clause 1.1.1 in Code 2017 for Basic, Intermediate, Enhanced and Advanced Tiers]*

### 3. Board Training and Qualifications

Board members should attend relevant training to develop their competencies and keep abreast of relevant new laws and regulatory requirements. Recognised accounting qualifications and/or appropriate practical experience are preferred for the Chairperson of both the Audit and Financial Committee, as well as the Treasurer.

*[Clause 1.1.11 in Code 2017 for Basic, Intermediate, Enhanced and Advanced Tiers]*

## E. Charities' Board Meetings

### 1. Meeting Quorum

The Board should meet regularly. The quorum required for a meeting should be at least one-third of the Board or at least three members, whichever is greater, if it is not stated in the charity's governing instrument.

*[Clause 1.3.1 in Code 2011 for Basic II, Enhanced and Advanced Tiers]*

*[Clause 1.3.1 in Code 2017 for Basic, Intermediate, Enhanced and Advanced Tiers]*

### 2. Disclosure of Number of Board Meetings

The charity should disclose the number of Board meetings in the year, and the attendance of each Board member, on a named basis, in its annual report.

*[Clause 8.2 in Code 2017 for Basic, Intermediate, Enhanced and Advanced Tiers]*

## F. Charities' Board Committees

### 1. Board Committees

There should be written terms of reference, which clearly set out the authority and duties of the Board and each of its Board committees. The Board should have committees (or designated Board members) to oversee the following areas, where relevant to the charity. Relevant committees differ across Tiers and these are detailed below.

Basic II Tier	Enhanced Tier	Advanced Tier
<p><b>Recommended Sub-Committees in Code 2011</b></p> <ol style="list-style-type: none"> <li>1. Audit</li> <li>2. Programmes and Services</li> </ol> <p><b>Additional recommended Sub-Committees in Code 2017</b></p> <ol style="list-style-type: none"> <li>3. Finance</li> <li>4. Fundraising</li> </ol>	<p><b>Recommended Sub-Committees in Code 2011</b></p> <ol style="list-style-type: none"> <li>1. Audit</li> <li>2. Programmes and Services</li> <li>3. Fundraising</li> <li>4. Appointment or Nomination</li> <li>5. Human Resource</li> </ol> <p><b>Additional recommended Sub-Committee in Code 2017</b></p> <ol style="list-style-type: none"> <li>6. Finance</li> </ol>	<p><b>Recommended Sub-Committees in Code 2011</b></p> <ol style="list-style-type: none"> <li>1. Audit</li> <li>2. Programmes and Services</li> <li>3. Fundraising</li> <li>4. Appointment or Nomination</li> <li>5. Human Resource</li> <li>6. Investment</li> </ol> <p><b>Additional recommended Sub-Committee in Code 2017</b></p> <ol style="list-style-type: none"> <li>7. Finance</li> </ol>

**Note:**

1. Basic II Tier was renamed as Intermediate Tier in Code 2017.

*[Clause 1.2.1 in Code 2011 and 2017 for the respective tiers]*

## G. Role of Board and Management in Charities

### 1. Distinctive Roles between Board and Management

There should be a clear distinction between Board roles and Management or operational roles, in the event that Board members are directly involved in operational decisions and matters.

*[Clause 1.1.4 in Code 2011 for Basic II, Enhanced and Advanced Tiers]*

*[Clause 1.1.5 in Code 2017 for Basic, Intermediate, Enhanced and Advanced Tiers]*

## 4.3 Key Disclosure and Governance Practices of Charities

The key disclosure and governance practices of charities stated in Code 2011 and 2017 are summarised in the table below. This includes financial management and internal controls, fundraising, programme management, disclosure and transparency, human resource and volunteer management, and public image.

### A. Disclosure of Financial Management and Control for Charities

#### 1. Accounting for Fixed Assets

There should be a fixed assets register to account for all the fixed assets of the charity. The charity should safeguard the value of its assets, e.g. by getting its fixed assets adequately insured.

*[Clause 6.3.1 in Code 2011 for Basic II, Enhanced and Advanced Tiers]*

*[Clause 6.3.1 in Code 2017 for Basic, Intermediate, Enhanced and Advanced Tiers]*

#### 2. Resource Utilisation

Generally, charities should spend its resources on ways to further its charitable purposes.

*[Clause 6.1.1 in Code 2017 for Basic, Intermediate, Enhanced and Advanced Tiers]*

#### 3. Maintenance of Reserves Policy

The charity should maintain some level of reserves to ensure its long-term financial sustainability.

*[Clause 6.4.1a in Code 2017 for Basic, Intermediate, Enhanced and Advanced Tiers]*

### B. Disclosure of Fundraising for Charities

#### 1. Treatments to Fundraising Collections

All collections received (solicited or unsolicited) should be properly accounted for and promptly deposited.

*[Clause 7.2.2 in Code 2017 for Basic, Intermediate, Enhanced and Advanced Tiers]*

#### 2. Treatments to Donations-in-kind

All donations-in-kind received should be properly recorded and accounted for by the charity.

*[Clause 7.2.3 in Code 2017 for Basic, Intermediate, Enhanced and Advanced Tiers]*

### C. Disclosure of Programme Management for Charities

#### 1. Programmes Towards Achieving the Charity's Objectives with Clearly Defined Outcomes

The charity should ensure that its operations and programmes are directed towards achieving its objectives. The outcomes for each programme should be clearly defined and the Board should be updated regularly on the progress of the programmes and services.

*[Clause 4.1, 4.2 and 4.3 in Code 2011 for Basic II, Enhanced and Advanced Tiers]*

*[Clause 4.1, 4.2 and 4.3 in Code 2011 for Basic, Intermediate, Enhanced and Advanced Tiers]*

#### 2. Evaluation of Programme Effectiveness and Outcome

The charity should develop an evaluation system that measures the effectiveness of its programmes and whether the outcomes are in line with its mission and objectives.

*[Clause 4.4 in Code 2011 and 2017 for Enhanced and Advanced Tiers]*

## D. Disclosure and Transparency for Charities

### 1. Disclosure in Annual Reports

The charity's annual report should be made available to its stakeholders with information on its programmes, activities, audited financial statements, and Board members and Management.

*[Clause 8.1 in Code 2011 for Basic II, Enhanced and Advanced Tiers]*

*[Clause 8.1 in Code 2017 for Basic, Intermediate, Enhanced and Advanced Tiers]*

## E. Disclosure of Human Resource and Volunteer Management for Charities

### 1. Human Resource Policies on Attracting and Retaining Staff

Human resource policies should aim to attract, retain and motivate staff who have suitable qualifications, experience and performance.

*[Clause 5.4 in Code 2017 for Intermediate, Enhanced and Advanced Tiers]*

## F. Disclosure of Public Image for Charities

### 1. Accurate Portrayal of Image

The charity should accurately portrays its image to its members, donors and the public.

*[Clause 9.1 in Code 2011 for Basic II, Enhanced and Advanced Tiers]*

*[Clause 9.1 in Code 2017 for Basic, Intermediate, Enhanced and Advanced Tiers]*



## 5 CHARITY GOVERNANCE IN HONG KONG, AUSTRALIA AND THE UNITED KINGDOM

The following country studies provide an overview of the charity governance frameworks in Hong Kong, Australia and the United Kingdom. The objective is to understand how the different jurisdictions regulate and manage their charity sectors. Hong Kong, Australia and the United Kingdom have been selected because they are all part of the Commonwealth, and share many similarities in their accounting and legal frameworks. Hong Kong was part of the Commonwealth up until 1997.

For each country study, an overview on their charity sector, key regulations and accounting standards, and voluntary guidelines for charities will be presented. For ease of reference, the section begins with Hong Kong, which has the least regulations for charities, and ends with the United Kingdom, which provides comprehensive guidelines for their charity sector.

From the country studies, it is clear that each country has its own way of regulating and managing charities. Although there are similarities in their approach towards charity governance topics and issues, each country's regulations and guidelines often differ. Charity governance in different countries is operationalised differently, shaped by their unique social, economic, cultural and political contexts (Cutt & Murray, 2000).

### COUNTRY STUDY 1: HONG KONG

#### Brief Overview of the Charity Sector in Hong Kong

As of 2016, there are almost 9,000 charities registered with the Inland Revenue Department (IRD) for the purpose of tax-exemption (Zhao, 2017). It is not compulsory for charities to register with the IRD, unless a charity wants to seek tax exemption.

In Hong Kong, there is no regulator for the charity sector, nor a mandatory registration system for charities in the country. For charities seeking tax exemption, an application can be sent to the Commissioner of Inland Revenue, Hong Kong (Quek and Cheung, 2010).

#### Key Regulations and Accounting Standards in Hong Kong

There are no key regulations governing the charity sector in Hong Kong. However, the IRD will, from time to time, call for accounts, annual reports, or other documents to review whether an institution's objectives are still charitable, and whether its activities are compatible with its objectives (Inland Revenue Department, 2010).

#### Voluntary Guidelines for Charities in Hong Kong

Even though regulations for charities are absent in Hong Kong, help for charities does exist in the form of several guidelines for best practices. The 'Management of Charities and Fund-Raising Activities' is a guide on good governance for charities; this document also provides a checklist for best practices (Independent Commission Against Corruption, n.d.). In addition, the Social Welfare Department of Hong Kong has also produced two guides to aid charities in effective governance (Social Welfare Department, 2002; Efficiency Unit, 2015):

- a. **Leading Your NGO - Corporate Governance**
- b. **Guide to Corporate Governance for Subvented Organisations**

The Hong Kong Council of Social Service also introduced the 'WiseGiving' initiative in late 2007. Charities are able to join this initiative on a voluntary and self-reporting basis (WiseGiving, 2017). Therefore, even though this self-disclosure platform is not mandated by law, the initiative provides an avenue to "enhance charity accountability standards on governance, finances, fundraising, service quality and information transparency" (The Law Reform Commission of Hong Kong, 2011).

## COUNTRY STUDY 2: AUSTRALIA

### Brief Overview of the Charity Sector in Australia

In Australia, there are at least 54,000 registered charities (Australian Charities and Not-for-profits Commission, 2017). There is no obligation for charities to register with the Australian Charities and Not-for-profit Commission (ACNC). However, registration is compulsory for those charities seeking access to certain Commonwealth tax concessions (CPA Australia, 2013).

The ACNC acts as the regulator for the charity sector in Australia. As a regulator, the ACNC registers eligible organisations as charities, helps charities understand and meet their obligations, and works with state governments to develop a standardised reporting framework for charities in the country (Australian Charities and Not-for-profits Commission, n.d.). The ACNC also maintains a free public register that provides information on all registered charities (Australian Charities and Not-for-profits Commission, n.d.).

### Key Regulations and Accounting Standards in Australia

In Australia, legal guidelines for charities exist in the form of the Australian Charities and Not-for-profits Commission Act 2012, and the Charities Act 2013. These acts are a form of legal framework for all charities in the country to follow. The Australian Charities and Not-for-profits Commission Act 2012 set out the objectives and functions of the ACNC as a regulator. In addition, the Act outlines the framework for the registration and regulation of charities in Australia (Australian Charities and Not-for-profits Commission Act 2012). The Charities Act 2013 defines what a charity is, and what constitutes charitable purposes.

Accounting standards for charities are issued by the Australian Accounting Standards Board. Medium and large charities preparing their financial reports are required to follow these accounting standards.

### Voluntary Guidelines for Charities in Australia

'Governance for Good', with its latest revision in 2013, is ACNC's guide for charities' Board members. This document lists out and elaborates on the expected responsibilities of Board members of registered charities (Australian Charities and Not-for-profits Commission, 2013).

Additionally, 'Governance Standards', found in Australian Charities and Not-for-profits Commission Amendment Regulation 2013 (No. 1), is a set of guidelines to aid charity governance. Charities are required to comply to the best of their abilities. The five main governance standards found in this document are as follows (Australian Charities and Not-for-profits Commission, 2013):

- **Purposes and not-for-profit nature of a registered entity**
- **Accountability to members**
- **Compliance with Australian Laws**
- **Suitability of Board members**
- **Duties of Board members**



## COUNTRY STUDY 3: UNITED KINGDOM

### Overview of the Charity Sector in the United Kingdom

In the United Kingdom, there are 183,423 registered charities in England and Wales (Charity Commission for England and Wales, 2017), 24,280 registered charities in Scotland (Office of the Scottish Charity Regulator, n.d.-b), and 5,847 registered charities in Northern Ireland (The Charity Commission for Northern Ireland, n.d.-c).

The Charity Commission for England and Wales acts as the regulator for charities found in England and Wales. The Charity Commission registers eligible organisations as charities, ensures charities meet their legal requirements, and takes enforcement action whenever there is malpractice or misconduct in the charity sector (Charity Commission for England and Wales, n.d.). The Office of the Scottish Charity Regulator (n.d.-a) acts as the regulator and registrar for charities located in Scotland, and its objectives include helping charities understand and comply with their legal duties, as well as ensuring public confidence in charities. The Charity Commission for Northern Ireland acts as the regulator for charities operating in Northern Ireland. It ensures that charities meet their legal requirements and help them meet the expectations and obligations of donors (The Charity Commission for Northern Ireland, n.d.-a).

### Key Regulations and Accounting Standards in the United Kingdom

In the United Kingdom, key regulations for charities vary across regions. In England and Wales, the key regulation is the Charities Act 2011. The Charities Act 2011 dictates how all charities should be registered and regulated in the United Kingdom (National Council for Voluntary Organisations, 2017). In Scotland, the key regulation is the Charities and Trustee Investment (Scotland) Act 2005. In Northern Ireland, the key regulation is the Charities Act (Northern Ireland) 2013, which is a revision of the previous iteration of the Act in 2008 (Charity Commission for Northern Ireland, n.d.-b).

Accounting standards for charities in the United Kingdom are determined by the Charities Statements of Recommended Practice (SORP) (Charity Commission for England and Wales & Office of the Scottish Charity Regulator, n.d.). The SORP was introduced in 2006, and was developed in accordance with the policy on Statements of Recommended Practice established by the Financial Reporting Council (Charity Commission for England and Wales & Office of the Scottish Charity Regulator, n.d.).

### Voluntary Guidelines for Charities in the United Kingdom

The 'Charity Governance Code' was introduced in 2017 to aid charities in England and Wales. This Code was previously known as 'Good Governance – a code for the Voluntary and Community Sector', and was introduced in 2005. Subsequently, this code was revised twice, in 2010 and 2017, to offer more detailed guidance for charities (National Council for Voluntary Organisations, 2016). The Code consists of seven key principles to aid charities in the United Kingdom in their governance practices (Good Governance Steering Group, 2017):

- a. **Organisational Purpose**
- b. **Leadership**
- c. **Integrity**
- d. **Decision Making, Risk and Control**
- e. **Board Effectiveness**
- f. **Diversity**
- g. **Openness and Accountability**

In Scotland, 'Being a Charity in Scotland' is a guide by the Office of the Scottish Charity Regulator (2017) to aid:

- **Charity trustees and people working in charities**
- **People who want to set up charities**
- **Organisations that want to become charities**

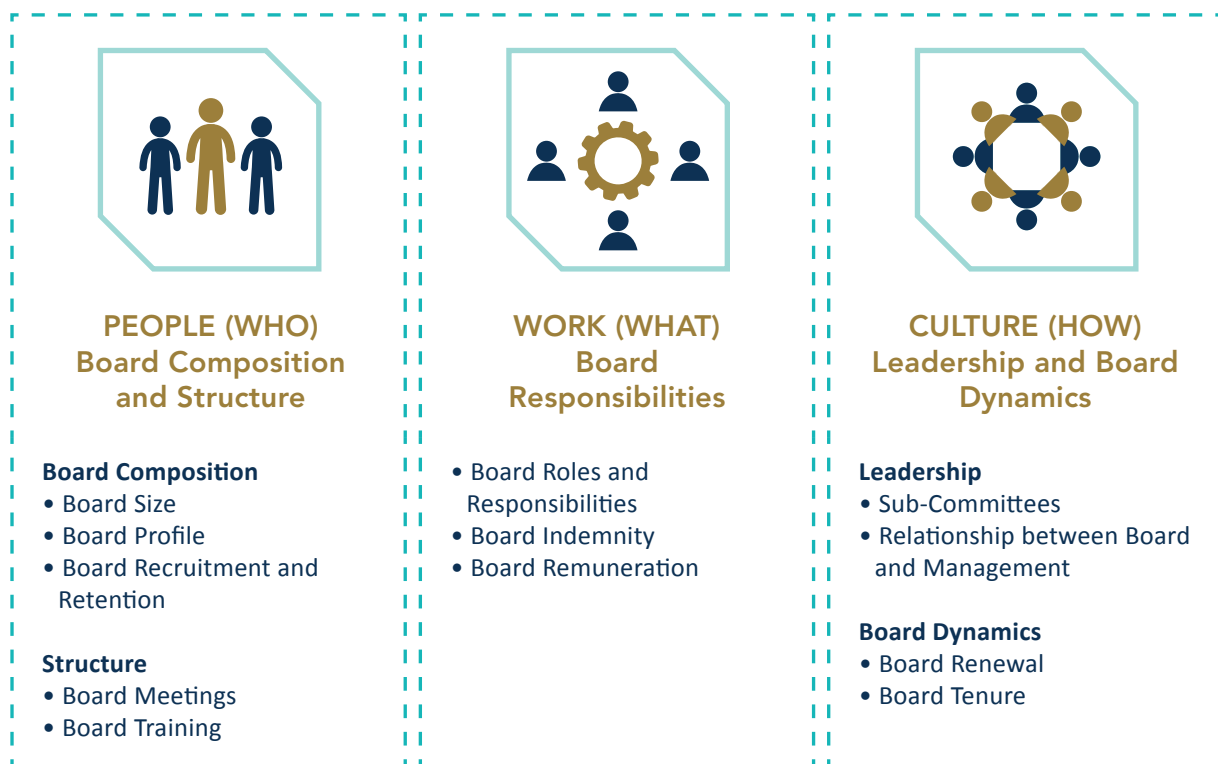
In Northern Ireland, 'The Code of Good Governance' was first launched in 2008, and subsequently revised in 2016. This Code sets out the principles and key elements of good governance for the Boards of voluntary and community organisations in Northern Ireland (Developing Governance Group, 2016).



## 6 LITERATURE REVIEW: BOARD GOVERNANCE IN THE CHARITY SECTOR

A literature review is carried out to identify and explore research studies on charity governance. It is structured according to the nine sections of Singapore's Code of Governance for Charities and IPCs. As non-profit Board governance is an important subject with many research topics, it will be covered as a section by itself here. Literature review of the remaining eight sections of Singapore's Code of Governance will be covered in Section 7. For clarity and coherence, the literature review on non-profit Board governance in this section will be structured according to "The Who, What and How of Board Performance" framework used in the BoardSource (2015) study. This framework examines the people, work and culture of the nonprofit's Board.

Figure 6: The Who, What, and How of Board Performance



**Notes:**

1. Adapted from "Leading with Intent: A National Index of Nonprofit Board Practices," by BoardSource, 2015. Retrieved from <https://leadingwithintent.org/wp-content/uploads/2017/09/LWI2015-Report.pdf>. Copyright by BoardSource 2015. Adapted with permission.
2. While Board Ethics is an important aspect of Board Governance, this area was not explored in this study. It is suggested that Board Ethics can be a topic for future research.

## 6.1 People (Who) in Non-profit Board Governance

Board composition and Board structure refers to how people are organised in non-profit boards. Under Board composition, the common research topics include Board size, Board profile, as well as Board recruitment and retention. Under Board structure, the common research topics include Board meetings and Board training.

### BOARD SIZE

The size of charity Boards tends to be larger than for-profit Boards (Callen, Klein & Tinkelman, 2003; Stone & Ostrower, 2007). Large Boards can be beneficial as Board members are likely to give personally to the charity, leading to more resources for the charity (Olson, 2000).

On the other hand, other studies have shown that having too large a Board can lead to decreased efficiency for charities, because of problems in communication, coordination, and decision making (Andrés-Alonso, Cruz and Romero-Merino, 2006). O'Regan and Oster (2005) went further to suggest that, as a charity's Board increases in size, free-rider problems start to set in, leading to declining Board effectiveness.

### BOARD PROFILE

Board profile refers to the composition of Board members in a charity. The presence of Board members with the right mix of skills and experience is essential to effective Board governance (Cornforth, 2001). Therefore, diversity of Board members is important for charities.

Studies have suggested that organisational size, prestige and area of activity are important variables in determining Board diversity (Abzug & Simonoff, 2004; Moore & Whitt, 2000). A non-profit organisation's external governance practices are positively affected by the gender, age, racial and ethnic diversity of Board members (Buse, Bernstein & Bilimoria, 2016). As charities' Boards are more diverse than for-profit Boards, the diversity offers the potential for a broader variety of skills and perspectives that can provide more resources for the charity (Coombes, Morris, Allen & Webb, 2011).

### BOARD RECRUITMENT AND RETENTION

The composition of a charity's Board is contingent upon the recruitment practices that it employs. Studies show that charities rely heavily on the social networks of Board members for recruitment (Parker, 2007). This may not be the best approach. Effective recruitment is necessary, so that charities can secure highly competent Board members; the presence of high-quality Board members will contribute to improved Board performance (Brown, 2007).

After recruiting competent Board members, charities have to be able to retain them. However, having too many governmental regulations that place restrictions and controls on charities' operations may diminish the intrinsic motivation of Board members to serve (Hyndman & McDonnell, 2009). As legal and social expectations on Boards increase over time, Board members may be wary of taking on extra responsibilities, resulting in low Board retention rates (Hough, McGregor-Lowndes & Ryan, 2005).

### BOARD MEETINGS

Board meetings are important as they bring Board members together as a collective body; Board attendance at meetings can therefore be seen as the most tangible moments of Board service (BoardSource, 2015). Brudney and Murray (1998) noted that low attendance and participation in Board meetings are an indication of governance problems. It is necessary that Board members meet often enough to ensure that they are fulfilling their fiduciary responsibilities (BoardSource, 2015).

However, Brown (2005) revealed that the frequency of Board meetings is not associated with any measure of Board performance. Therefore, it might be the case that the productivity of Board meetings is more important than frequency of these meetings. Board meetings should be carefully planned to allow for in-depth discussions, so that information is available for the Board to make effective decisions (Connelly, 2004).

## BOARD TRAINING

Ideally, charities should provide orientation and training for Board members to ensure that they are equipped with the relevant skills to lead the organisation. This entails both orientations that provide guidance for new members, and ongoing training that responds to the needs of Board members and the changing dynamics of organisational needs and environmental pressures (Brown, 2005). According to Abzug and Simonoff (2004), because charities operate in different industries, different skill sets and training are necessary for Board members to negotiate the diverse institutional environment.

## 6.2 Work (What) in Non-profit Board Governance

Board responsibilities refers to the work carried out by non-profit's Board members. The three main areas of research studies include Board roles and responsibilities, Board indemnity and Board remuneration. These are important areas for charities' Board members, as they need to have a clear understanding of what their role involve.

### BOARD ROLES AND RESPONSIBILITIES

A charity's Board is responsible for both the internal and external functions of the charity. Therefore, Board members need to understand their roles and responsibilities in order to guide the organisation effectively. Board Chairs play an important role in communicating and reinforcing the expectations required of Board members (BoardSource, 2015). Ingram (2009) suggested 10 responsibilities for Board members in charities:

- a. **Determine and articulate the charity's mission, vision, and core values**
- b. **Recruit and select the Chief Executive**
- c. **Support and assess the performance of the Chief Executive**
- d. **Ensure that the charity engages in planning for its future**
- e. **Determine and monitor the set of programmes that the charity will deliver to implement its strategies and accomplish its goals**
- f. **Ensure that the charity has financial and other resources adequate to implement its plans**
- g. **Ensure the effective management and use of the charities' financial aid and other resources**
- h. **Enhance the charity's credibility and public image**
- i. **Ensure the charity's integrity and accountability**
- j. **Assess and develop the Board's own effectiveness**

### BOARD INDEMNITY

Indemnification is a legal term which means "to pay the costs of or to reimburse another person for costs incurred" (Rosenbaum, n.d.). Directors and officers of non-profit organisations are subject to different legislations in determining their rights to indemnification. Determining such rights can be a confusing and difficult process (Rosenbaum, n.d.). In general, non-profits purchase significantly lower insurance limits than for-profit enterprises, even though non-profits face the same types of operating risks as their for-profit counterparts (Rosenbaum, n.d.).

This means that non-profit organisations are at risk of not being in a position to fully indemnify their directors, which may present a problem since Board members of charities are volunteers. It is recommended that charities purchase directors' liability insurance, to ensure that Board members can cover against lawsuits (The Centre for Community Organisations, 2009). As Board members hold legal liability, it is important for them to have access to indemnity insurance. Without this, some potential Board members may not be willing to join charities.

### BOARD REMUNERATION

Wise (2001) revealed that payment of remuneration would significantly increase the willingness of potential trustees to join charities. Of those already serving as trustees, 33% indicated that they would give higher priority to their duties if they were paid (Wise, 2001). On the other hand, Ostrower (2007) found that there was no indication that compensation or remuneration promotes higher levels of Board engagement. Boards that were compensated were not more or less likely to actively engage in financial oversight, setting policy, planning, monitoring programs, or evaluating their chief executives (Ostrower, 2007). In other words, Board members are indifferent to remuneration.

## 6.3 Culture (How) in Non-profit Board Governance

Culture refers to how the work is carried by non-profit's board members, and it can further classified into Board dynamics and leadership. The research topics covered in this section include Board renewal, Board tenure, the role of Sub-Committees and the relationship between Board and Management.

### BOARD RENEWAL AND TENURE

According to BoardSource (2015), on average, Board members in non-profits in the United States can serve a maximum of 6 consecutive years. The study supported term limits for Board members, because term limits are essential for revitalising Boards. Having regular turnover encourages the Board to pay attention to its composition, helps avoid stagnation, and provides an efficient method for removing unproductive members (BoardSource, 2015).

However, Olson (2000) provided an alternative viewpoint, that long-tenured Boards are likely to be more committed to their organisations. The longer the term limit for Board members, the greater their sense of responsibility; Board members will do more work as their term limit increases (Olson, 2000).

While different studies offer opposing viewpoints for an acceptable term limit for Board members, Hyndman and McDonnell (2009) suggested that the Board should have procedures in place to review its own performance and ensure its continuing renewal.

### SUB-COMMITTEES

More than 90% of non-profits in the United States have created permanent and temporary committees to help Board members with their work, and these entities act as part of the governance system of their respective organisations (Renz, 2007). Such committees can be comprised entirely of Board members, but Renz (2007) found that it was increasingly common for non-Board members with unique expertise or knowledge to be invited onto such committees.

For Boards with elaborate committee systems, the following are the most common categories (Renz, 2007):

- **Executive Committee** - the authority to act on behalf of the Board between meetings
- **Nominating Committees** - responsible for recruiting candidates for Board and Committee membership
- **Fundraising Committees** - to work with staff and Board to organise and implement fundraising activities
- **Finance Committees** - responsible for planning, monitoring, and overseeing the organisation's use of financial resources
- **Personnel Committees** - responsible for planning, monitoring, and overseeing the organisation's use of human resources
- **Programme Committees** - to oversee programmes for delivering quality service to clients

Finally, for committees to work well, there has to be sufficient participation from Board members. If not, committees can become ineffective and frustrating for staff members to support (BoardSource, 2015).

### RELATIONSHIP BETWEEN BOARD AND MANAGEMENT

It is necessary to ensure a good relationship exists between Board and Management, because non-profit Boards and chief executives bring complementary skillsets to the governance partnership that are greater than the sum of their parts (BoardSource, 2015). Mutual trust and respect between the two are crucial underpinnings for a constructive partnership.

Cornforth (2001) reiterated this point. In his paper, Board effectiveness was defined as Board performance. The focus of the paper was to uncover factors that influenced Board performance. Board effectiveness in non-profits, in terms of Board performance, was found to be significantly correlated with whether the Board and Management shares a common vision of how the organisation should go about achieving its goals (Cornforth, 2001). In addition, Board effectiveness was also found to be significantly correlated to whether the Board and Management periodically review how they are working together (Cornforth, 2001). Findings from this paper thus suggested that Boards and Management should take time out to review how they work together, in order to ensure improved Board performance.



## 7 LITERATURE REVIEW: CHARITY GOVERNANCE PRACTICE

In this part of the booklet, literature review of the remaining eight sections of Singapore's Code of Governance for Charities and IPCs is provided. The sections covered are conflict of interest, strategic planning, human resources and volunteer management, disclosure and transparency, financial management and internal controls, fundraising, and public image.

### 7.1 Conflict of Interest

Charities' Board and Management have a duty to act in the interest of the organisation. Conflict of interest arises when a person has a private or personal interest that influences the objective exercise of his or her duties. Such conflicts can corrode trust; this is important because trust is the lifeblood of most charities (MacDonald, McDonald & Norman, 2002). In fact, charities face a higher risk of suffering public relations and credibility problems as a result of these conflicts (Liegel, Bates & Irland, 2012).

Therefore, conflict of interest should be properly handled and managed. Charities need to have a conflict of interest policy, which clearly outlines the organisation's expectations for such circumstances, including the necessary declaration and disclosure of potential or real conflict, and avoidance in the decision-making processes (Renz, 2007). To encourage declaration and disclosure of conflicts of interest, charities can have a whistle-blowing policy in place for employees to confidentially report unethical behaviours (Harris, Petrovits & Yetman, 2015).

### 7.2 Strategic Planning

A charity's mission and vision should be as clearly defined as possible, so that it can stay focused, and align itself with its charitable purposes (Sawhill & Williamson, 2001). This includes the ability to adapt to changing social needs and the ability to continue to serve the community, which can determine the survival and success of the charities (McDonald, 2007).

The Board can be a provider of resources to help shape the strategic direction of the charity (Hillman & Dalziel, 2003). Board members can also make strategic contributions to the charities through governance interactions and support (Ingleby & Van der Walt, 2001).

### 7.3 Programme Management

In order for charities to function effectively, Herman and Renz (2004) suggested that each charity should continually seek to improve its own practices, such that its practices are consistent with its values, mission, as well as stakeholders' expectations. Hall and Kennedy (2008) built on this point, by reiterating that successful program outcomes are determined by clarity of mission. To them, the programmes and activities carried out by any charity should not divert resources away from its central mission; clarity of mission will make it easier for charities to develop strategic plans that relate to their missions (Hall & Kennedy, 2008).

## 7.4 Human Resource and Volunteer Management

Several studies identify the importance of staff training for non-profit organisations. Hwang and Powell (2009) concluded that there is a positive correlation between staff training and organisational rationalisation. They define organisational rationalisation as the “integration of formalised roles and rules” for non-profit organisations, and found that non-profits whose staff and leaders participate in professional training are associated with higher levels of organisational rationalisation (Hwang & Powell, 2009).

With regards to staff remuneration, charities tend to have lesser paid professional and managerial staff, relying more on unpaid volunteers and part-timers (Burke, 2012). Because of this lack of remuneration, turnover rates for volunteers are understandably high.

Therefore, the adoption of volunteer management practices is important to the operations of charities, as it helps them enhance their volunteer management capacity and their ability to retain volunteers (Hager & Brudney, 2004). Support and job recognition is a stronger predictor for job satisfaction and intention to stay on as volunteers, so charities should try to foster an ideal volunteer environment in order to retain volunteers (Alfes, Antunes & Shantz, 2017).

## 7.5 Disclosure and Transparency

According to the stakeholder theory, organisations have a responsibility to honour all stakeholders equitably and ethically (Dhanani & Connolly, 2012). Therefore, disclosure of relevant information and programmes is key to promoting a more sustainable environment for non-profit organisations, because it creates trust and ensures that donors can make informed giving decisions (Gandia, 2011). Disclosing relevant information means a charity is accountable to its stakeholders. This increases legitimacy for the charity and reduces the risk of sanctions (Rehuel, Van Caneghem & Verbruggen, 2014).

In this light, Gandia (2011) identified a positive correlation between the amount of information available on a non-profit’s website, and the donations that non-profits received. Szper and Prakash (2011) came to similar conclusions in their study, revealing that donor giving is not associated with non-profit ratings. Rather, donors are more concerned with being provided relevant information about the charity that they are donating to.

## 7.6 Financial Management and Internal Controls

A charity’s characteristic of seeking to serve the public good entitles it to solicit funds from various benefactors, such as the public at large, the government, as well as international donors (Barr, Fafchamps & Owens, 2005). However, given that charities’ missions and visions tend to remain constant and are not subject to radical change, it may be difficult for them to secure financial support over long periods of time (Frumkin & Kim, 2001). This happens as donors experience “compassion fatigue” because demand for charitable resources “marches on and on” (Frumkin & Kim, 2001).

As such, Board members require financial information, in order to more adequately assess their organisation’s risk profile, identify potential areas of vulnerability, as well as develop strategies to ensure future funding streams (Ryan & Irvine, 2012).

To ensure sustainable financial health for charities, Ryan and Irvine (2012) suggested adequate financial management, in the form of calculating financial ratios for internal evaluation. This provides Management with valuable information about an organisation’s financial health and sustainability.

A good example of how financial sustainability can be quantified is seen in the 2015 Australian Charities Report, which uses asset years and asset growth to illustrate the financial sustainability of charities. Based on the intersection of asset years and asset growth, nine segments are identified, serving as indicators of a charity’s financial sustainability (Cortis, Young, Powell, Reeve, Simnett, Ho & Raima, 2016).

Figure 7: Sustainability Framework

<b>ASSET GROWTH</b>	<b>Growing</b> (> 10%)	<b>3. Building Assets</b>	<b>5. Growing</b>	<b>9. Banking Surplus</b>
	<b>Steady</b> (0 - 10%)	<b>2. Asset Poor</b>	<b>5. Steady</b>	<b>8. Asset Rich</b>
	<b>Shrinking</b> (< 0%)	<b>1. At Risk?</b>	<b>4. Shrinking</b>	<b>7. Using Assets</b>
		<b>Low</b> (< 6 months)	<b>Medium</b> (6 - 18 months)	<b>Higher</b> (> 18 months)
		<b>ASSET YEARS</b>		

**Notes:**

1. The framework was obtained from Cortis, Young, Powell, Reeve, Simnett, Ho & Raima (2016).
2. Asset years is calculated by dividing net assets with total expenses. It represents how long a charity can theoretically operate if it does not receive further income.
3. Asset growth is calculated by dividing net income with net assets. It represents the rate at which charities are growing or using up their net assets.

## 7.7 Fundraising

While having revenues in excess of expenses is necessary for organisational survival, merely having a surplus does not tell a donor anything about how efficient a charity’s fundraising practices are (Gordon, Knock & Neely, 2009). Given that charities deal with public donations, there is a need to mitigate the under-reporting of fundraising expenses, so resources are not wasted.

A 2002 survey done in the United Kingdom showed that 44% of the general public felt that charities should spend less than 10% of their income on fundraising expenses (Aldrich, 2009). According to Yetman and Yetman (2012), tighter governance mechanisms are needed to improve the accuracy of reported fundraising expenses.

Studies by Brooks (2004), Aldrich (2009), as well as Song and Yi (2011) all touched on the importance of having fundraising ratios. In general, there are two types of fundraising ratios. The first measures the proportion of total costs devoted to core services instead of fundraising (Brooks, 2004). Aldrich (2009) offered a similar model that the most obvious method of calculating fundraising ratio is to measure the ratio of fundraising expenses to total income or expenditure.

The second measures donations per fundraising dollar - in other words, a charity’s effectiveness in targeting and retaining donors (Brooks, 2004). For this second approach, Song and Yi (2011) summed it up succinctly: non-profits that are efficient in fundraising simply spend less to raise more. Having fundraising ratios allow charities to assess their own fundraising effectiveness, productivity and growth, allowing them to develop more efficient fundraising practices (Aldrich, 2009).

Besides fundraising efficiency, ethical fundraising is also crucial for charities, to ensure that they remain credible to the public. If fundraising is not executed ethically, the image of charities can potentially be tarnished. This was exemplified by a number of major scandals that rocked the non-profit world in the 1990s, including the conviction and imprisonment of the United Way of America for embezzlement, as well as the jailing of the Head of the Foundation for New Era Philanthropy for perpetuating an investment fraud (Keating & Frumkin, 2003). Therefore, non-profit accountability, openness, and sound financial reporting are important for charities to take note of when they undertake fundraising activities.



## 7.8 Public Image

Several studies have found a strong correlation between a charity's public image and its financial performance or donation income (Bennett & Sargeant, 2005; Bennett & Gabriel, 2003; Sarstedt & Schloderer, 2010). Having a good public image can generate "halo effects", encouraging improved public donations (Bennett & Sargeant, 2005). Therefore, it is important for charities to focus on adopting marketing tools like branding, as this will help build trust and facilitate donor choice (Stride & Lee, 2007).

For all charities, especially financially limited ones, technology offers them the opportunity to reach multiple groups of donors without enormous financial burdens (Kang & Norton, 2004). With the use of social media, charities can also forge mutual ties with public donors, creating a "community" of sorts (Lovejoy, Waters & Saxton, 2012). This way, charities are better equipped and able to receive donations from a wider audience (Miller, 2011).

However, if social media platforms are not managed properly, there can be negative consequences. Briones, Kuch, Liu and Jin (2011) pointed out that a lack of human resources for social media implementation ultimately leads to these tools not being applied to the best of their potential. Non-profit organisations that do not effectively use technology run the risk of damaging the organisation's reputation and weakening its social networks (Hackler & Saxton, 2007). According to Miller (2011), the lack of updates on websites can turn off potential supporters.

## BOX STORY 1: INTERVIEW WITH PROFESSOR CHRIS CORNFORTH



Dr Chris Cornforth is Emeritus Professor of Organisational Governance and Management at the Open University Business School, UK. Professor Cornforth's research focuses on the governance and leadership of third sector organisations, so as to improve the understanding of Board behaviour and their relations with the Management.

Thus, this interview provides academic insights into recommended practices for Boards in charitable organisations. The interview with Professor Cornforth was conducted by co-author Ms Lillian Tay.

***Q: Could you recommend some good Management and Board practices for small charities to manage and govern effectively?***

A: It's often more difficult in small organisations because the Board will often be acting as the Management committee as well. So, they're managing and governing, and I think they probably do need help in terms of trying to distinguish between managing and governing. Local training and support would be valuable for them to identify the difference.

***Q: What are your views on the main causes of tension between the Board and Management? What should be done to avoid this?***

A: One of the tensions is when Board gets involved in an area where Management thinks they shouldn't be involved. There is also tension when the Management thinks that the Board is too distant. It is important to talk about the blurred line between what entails governance and what entails management. During Board recruitment, expectations should be set for incoming Board members. The Management should be involved in such discussions as well.

***Q: From your article, 'Nonprofit Governance Research: Limitations of the Focus on Boards and Suggestions for New Directions' (2012), you argued that good charity governance should encompass a shift from an overemphasis on the Board to a focus on other stakeholders. Can you share with us the primary responsibilities of the Board and the responsibilities of other stakeholders?***

A: Most academic research tends to focus primarily on Board members of an organisation. Although the Board has the ultimate responsibility to govern. In reality, many functions of governance are often carried out by the Management. In certain organizations, governance structures are more complicated. They may include subsidiaries, Sub-Committees, or other bodies that are involved in governance. Thus, governance might be taking place in more than one level within the organisation.

An important responsibility of the Board is to set the values and direction of the organisation. The Board should oversee the organization while the management's role is to make sure that it's acting in the best interest of its beneficiaries. The Board should also ensure that the organisation has appropriate policies in place.

***Q: What are your views on a 10-year term limit for Board members?***

A: On the whole, it is a good idea to have a term limit for Board members. There's a term called 'founder syndrome'. It refers to the organisation that has developed and changed but the founder remains with the organization. Founder syndrome may be a hindrance to charity governance.

***Q: Should Board trainings be made compulsory?***

A: The training should be available to Board members. Those who need Board training, should be encouraged to take it. It's important for organisations to have some sort of broad induction process because knowing legal responsibilities is not enough. Board members need to know about their organisation, what it does, and its particular requirements.

***Q: Should Board members of charities be remunerated and if yes, how could it be justified?***

A: A lot of organisations have already argued that remuneration for Board members of charities would change the values, the ethos of the organisation and might affect people's perceptions of the charity. I would support not remunerating Board members.

***Q: Should charities provide indemnity insurance for Board members? Should Board liability be shared with the Sub-Committees?***

A: It would be good to have indemnity assurance, but there is a need to balance risks and costs. As opposed to larger organisations where the liabilities are large, the cost in comparison with the risk, is probably prohibitive for smaller organisations.

Once a charity reaches a certain size, it becomes necessary to have an audit committee and a remuneration committee. There is a danger that Sub-Committees end up doing things which the Board is not fully aware of. Therefore, charities should be careful not to have too many Sub-Committees. In my opinion, the legal responsibility and liability should remain with the Board, not shared with Sub-Committees.



## 8 CONCLUSION

This booklet provided an overview of the development of charity governance in Singapore, as well as in-depth discussions on the requirements found in Singapore's Code of Governance for Charities and IPCs. A brief introduction of the charity governance frameworks in Hong Kong, Australia and the United Kingdom was also provided, for a better understanding of charity governance frameworks in other Commonwealth countries. Lastly, literature reviews of non-profit Board governance and charity governance practices were presented, to gain a better understanding of research findings on these areas.

There is limited research on charity governance in Singapore. Only two studies have been carried out so far. They are the study on Disclosure and Governance Practices of Charities in Singapore (2013) and the Board Leadership Survey (2016).

As a result, CSDA embarked on one qualitative study and one quantitative study, to provide a better understanding on the state of governance in Singapore. The qualitative study (Charity Governance in Singapore: Insights from Focus Group Discussions) is presented in Booklet 2. It explores how Boards and Management of charities implement charity governance in Singapore, and the challenges they face. The quantitative study (Disclosure of Board and Management Matters: An Exploratory Study on Charity Governance in Singapore) is presented in Booklet 3. It explores the state of disclosure on Board and governance practices by charities in Singapore.



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# NOTES

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## ABOUT THE REPORT

This report is an outcome of a three-year collaboration between the Chartered Institute of Management Accountants (CIMA) and the Centre for Social Development Asia (CSDA). The first year's research in 2015 covered the financial characteristics of Institutions of a Public Character (IPCs). The second year's research in 2016 highlighted the fundraising practices of Health, and Social and Welfare IPCs in Singapore.

This year's research focuses on charity governance. There are three booklets in this series. The first booklet provides an overview as well as the development of charity governance. The second booklet is a qualitative research on how charities implement the Singapore's Code of Governance for Charities and IPCs, and the challenges they face. The third booklet is an exploratory quantitative study on the disclosure of Board and governance practices of IPCs in Health, and Social and Welfare sectors. The findings from these exploratory studies will hopefully be useful to stakeholders in the social service sector.

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