

Principles of governance

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Introduction

In this information sheet the term 'trustee' is used to describe both governing body members of non-charitable voluntary organisations and trustees of charities. The term 'charity trustee' is used when it is necessary to differentiate charity governing body members from non-charitable ones. The term 'board' is used to describe the different types of governing bodies found in charities and voluntary organisations.

What is 'governance'?

'Governance' is the general term used to describe the legal, supervisory and moral responsibilities arising from trusteeship. The aim of governance is to ensure:

The systems and processes concerned with ensuring the overall direction, supervision and accountability of the organisation.

Chris Cornforth

- The organisation complies with legal and regulatory requirements
- The organisation is run within the objects, powers and procedures set out in its governing document
- A strategic plan is created by the trustees to ensure the organisation's survival and growth
- Operational procedures are developed to deliver the organisation's objects
- The trustees exercise their duty of care by pursuing sound business practices in running the organisation
- The trustees act prudently by ensuring the organisation's continuing solvency, making best use of its assets and managing risks.

All trustees have governance responsibilities, and a leading writer in the field has described governance as:

'The systems and processes concerned with ensuring the overall direction, supervision and accountability of the organisation.' – Chris Cornforth

So, beyond compliance with the law and high-level strategic activities, governance also embraces more practical day-to-day issues in the way that the trustees work with their chief officer, staff and other stakeholders to deliver the organisation's objects.

It is about taking responsibility for the running of an organisation and doing everything within the law to ensure its success. This requires a multi-disciplinary approach and that is why it is so important for trustees to have a clear understanding of what governance is – and what it is not.

A distinction must be drawn between the concepts of 'governance' and 'management':

- **Governance** is the term used for the matters which trustees must deal with themselves, as opposed to those that they can delegate to staff and others. It is about controlling the organisation and taking overall responsibility for it.
- **Management** is the day-to-day management of operational matters that do not need to be carried out by the trustees and can be delegated to staff or volunteers. It is about running the organisation, but the control over the organisation still remains with the trustees.

So governance is not necessarily about doing, it is about ensuring things are done. This is usually achieved by delegating authority to the chief officer and staff.

Further guidance on this can be found in our information sheet: Working With the Chief Officer and Senior Staff

Approaches to governance

The public has come to expect openness, integrity and accountability in all sectors, and this has been addressed by the development of explicit governance codes and standards by which the conduct of public, private and voluntary organisations can be measured.

An early example of this was the findings of the **Committee on Standards in Public Life** chaired by Lord Nolan. The resulting 'Nolan Principles' came to be adopted by their organisations.

The seven principles are:

1. Organisational Purpose
2. Leadership
3. Integrity
4. Decision Making, Risk and Control
5. Board Effectiveness
6. Diversity
7. Openness and Accountability

In more recent years there has been a concerted effort to analyse and set standards of practice within the voluntary sector in order to help with decision-making, accountability and the work of the board.

This has gone hand in hand with an increasing appreciation by trustees of their duties and responsibilities.

External pressures have also driven this process, including:

- A push by the Charity Commission to raise awareness of trustee responsibilities
- Increased monitoring requirements by funders
- A more interactive involvement with stakeholders
- Detailed reporting obligations under public service delivery contracts



Whilst it is easy to analyse concrete elements of voluntary sector activity such as relevant legal obligations, it is far more difficult to codify the intangible responsibilities involved in running a modern voluntary organisation. There have been many descriptions and theories of governance, but it is sensible to focus on those that have the widest application.

As impetus grew it was realised that an agreed sector standard was required and a group of infrastructure associations, including the Charity Commission, came together with the aim of developing a sector wide code.

This resulted in **Good Governance – a Code for the Voluntary and Community Sector** ('the Code') being published in 2005, with updated editions and linked versions of the **Code** being released. The latest version, The Charity Governance Code was updated in 2023 with new recommendations on **Equality, Diversity, and Inclusion (EDI)** for boards.

The 2023 update to the Charity Governance Code places greater emphasis on Equality, Diversity, and Inclusion (EDI), encouraging boards to reflect the communities they serve and to take steps to identify and reduce barriers to participation.

The Code also now includes specific references to the role of trustees in setting a positive organisational culture and overseeing safeguarding.

The Charity Governance Code (2017)

The charity governance code

'A charity is best placed to achieve its ambitions and aims if it has effective governance and the right leadership structures. Skilled and capable trustees will help a charity attract resources and put them to best use. Good governance enables and supports a charity's compliance with relevant legislation and regulation. It also promotes attitudes and a culture where everything works towards fulfilling the charity's vision.'

The Code has been specially written to meet the needs of charity, voluntary and community sector organisations, and the Charity Commission supports the Code, encouraging all charities to use it.

There are two versions of the Code, one for smaller charities and one for charities with an income of over £1 million. It is the aim of the Code to help charities and their trustees develop high standards of governance.

Good governance in charities is fundamental to their success.

It enables and supports a charity's compliance with the law and relevant regulations. It also promotes a culture where everything works towards fulfilling the charity's vision.

[Charity Governance Code](#)

The Code is deliberately aspirational. It contains a set of seven key principles which ensure that the highest possible standards of governance are set and those principles have been designed to be universal and applicable to all voluntary, community and not-for-profit organisations. Each principle is accompanied by a rationale, key outcomes and recommended practice.

The seven principles and their key outcomes are set out below

1. Organisational purpose

- The board is clear about the charity's aims and ensures that these are being delivered effectively and sustainably.

2. Leadership

- Every charity is headed by an effective board that provides strategic leadership in line with the charity's aims and values.

3. Integrity

- The board acts with integrity, adopting values and creating a culture which helps achieve the organisation's charitable purposes. The board is aware of the importance of the public's confidence and trust in charities and trustees undertake their duties accordingly.

4. Decision making, risk and control

- The board makes sure that its decision-making processes are informed, rigorous and timely, and that effective delegation, control and risk assessment and management systems are set up and monitored.

5. Board effectiveness

- The board works as an effective team, using the appropriate balance of skills, experience, backgrounds and knowledge to make informed decisions.
- The board should ensure that safeguarding responsibilities are fully understood, embedded into the organisation's culture and regularly reviewed. Creating an environment where concerns can be raised safely is a core leadership duty.

6. Diversity

- The board's approach to diversity supports its effectiveness, leadership and decision-making.

7. Openness and accountability

- The board leads the organisation in being open and accountable.
- The charity is open in its work, unless there is good reason for it not to be.
- The charity is seen to have legitimacy in representing its beneficiaries and stakeholders.

The main principles of the Code, and its detail, can be used to help trustees better understand their role, develop it, be confident that they are doing a good job and help identify areas for further development.

The Code is not a regulatory requirement but those organisations that comply with it can make a clear statement about their commitment to high standards of governance by referring to it in their Annual Report and other relevant published material.

CC3: the essential trustee

The Charity Governance Code assumes that trustees will already be familiar with the Charity Commission's publication, [The Essential Trustee \(CC3\)](#). This guidance explains the key duties of all trustees of charities in England and Wales, and what trustees need to do to carry out these duties competently.

The Essential Trustee:

- Gives a summary of trustees' duties
- Explains who can legally be a trustee
- Explains the key duties of trustees in more detail
- Explains when trustees can be liable and how to reduce the risk
- Provides more detail about charity structures and the roles of charity officers

Fit to govern: a ten-point checklist



This very useful 10-point checklist helps to break down the various high level elements of governance into more concrete activities.

1. Values, vision and policy

- The organisation regularly reassesses the need that it was set up to address.
- The values of the organisation are clearly understood and stated.
- There is a clear vision and sense of purpose.
- There is a statement of mission or aims, which is well known.
- The mission is fully aligned to the objects set out in the governing document.
- The board has defined policies to guide the organisation's activities.

2. Priorities and strategy

- The board has agreed the major priorities for the work of the organisation.
- The board has agreed a long-term strategy to achieve its priorities.
- The board regularly reviews the external environment for changes that may affect the strategy.
- The organisation has realistic objectives and plans to put the strategy into action.
- The authority given to staff to implement plans is clearly defined.

3. Monitoring and standards

- The board has agreed standards for judging the value of the organisation's work.
- The standards are used systematically to monitor the progress of the organisation.
- The systems for monitoring performance provide reliable, valid and timely information.
- The organisational structure is fit for its purpose and adds value to the organisation.
- There is an agreed code of conduct for board members, which is monitored by the board.

4. System and governance

- There is a clear structure for governing the organisation.
- The role of the board, sub-committees and working groups are clearly defined.
- The roles of the chair, vice-chairs and treasurer have been clearly defined.
- The board, sub-committees and working groups demonstrably add value to the organisation.
- Board meetings are effective when measured against standards set by the board.

- There is a budget for the full costs of the board and sub-committee meetings, which is regularly reviewed.

5. Capacity to govern

- The board contains a suitable balance of skills and experience to carry out its role effectively.
- The chair and other honorary officers have appropriate skills and experience to carry out their roles effectively.
- There is a board member recruitment, development and training strategy.
- There is a budget for board member training and development.
- The organisation provides all reasonable practical support to enable board members to carry out their roles.
- There are agreed standards for the performance of the board and its members.
- There is a system for appraising the performance of the board, and its members.

6. Accountability

- The board is clear who the beneficiaries of the organisation are.
- The board has a clear understanding of which other stakeholders there are.
- The organisation accounts systematically to all of its stakeholders.
- The organisation communicates effectively with all its stakeholders.
- The board can account clearly for how the organisation contributes to the greater good of society.

7. Partnership with the chief executive

- There are suitable processes to ensure an effective partnership between the board and the chief executive officer (CEO).
- The role of the chair in linking the board to the CEO has been clearly defined.
- The role of the CEO is clearly defined.
- The boundaries between the role of the board and that of the CEO are clear and are reviewed periodically.
- The board establishes clear limits to the authority of staff, subcommittees and working groups.
- The CEO is provided with effective support and supervision.
- The performance of the CEO is appraised each year.

8. Stakeholder participation

- Stakeholders are involved in defining the standards for judging the organisation's work.
- There are effective processes to ensure that the users of the organisation's services have a real voice in decisions about the services. The views of the stakeholders are regularly gathered and considered by the board.
- Where appropriate, there are clear systems for the election or appointment of key stakeholders as trustees.

9. Financial health

- The organisation is solvent.

- There are sufficient reserves.
- There is an effective system for financial management and accounting.
- There is effective financial reporting to the board as a whole.
- The board as a whole is competent in taking financial decisions.
- The assets are well managed.
- There is an effective relationship between the board and the organisation's auditors.
- The effectiveness of the auditors is reviewed regularly.
- There is adequate insurance, which is reviewed annually.

10. Legality

- The board is properly informed as to its legal responsibilities.
- The organisation meets all its legal obligations.
- Board members are aware of their own legal responsibilities.
- The board has access to appropriate legal and professional advice.



You may also find it a useful exercise to complete WCVA's governance health check, which is a self-assessment tool designed to help trustee boards work towards adhering to the principles of good governance. It should also help boards of any size demonstrate their good governance practices to regulators, funders, beneficiaries and stakeholders.

Boards operating in Wales should also be familiar with the Welsh Government's Third Sector Partnership Framework, which sets expectations around collaboration, good governance and demonstrating impact in line with the Well-being of Future Generations (Wales) Act 2015.

Trustees should be aware of their new duties under the Economic Crime and Corporate Transparency Act 2023. This includes obligations around director and PSC identity verification (for charitable companies), improved transparency over financial transactions and greater scrutiny of company registers. Boards should ensure the charity's records are up to date and that due diligence is conducted when appointing new trustees.

Further information

Governance health check

WCVA (Wales Council for Voluntary Action)

<https://wcva.cymru/wp-content/uploads/2020/01/WCVA-Governance-Health-Check.pdf>

Faith and hope don't run charities (trustees do)

WCVA (Wales Council for Voluntary Action)

<https://wcva.cymru/wp-content/uploads/2020/01/WCVA-Faith-and-Hope-Dont-Run-Charities.pdf>

Charity Commission – Publication Scheme

Charity Commission

<https://www.gov.uk/government/organisations/charity-commission/about/publication-scheme>

ICSA: The Governance Institute

ICSA

<https://www.icsa.org.uk/>

Disclaimer



Third Sector Support Wales is a network of support organisations for the whole of the third sector in Wales.

It consists of the 19 local and regional support bodies across Wales, the County Voluntary Councils (CVCs) and the national support body, Wales Council for Voluntary Action (WCVA).

For further information contact

<https://thirdsectorsupport.wales/contact/>

The information provided in this sheet is intended for guidance only. It is not a substitute for professional advice and we cannot accept any responsibility for loss occasioned as a result of any person acting or refraining from acting upon it.