

Select Committee on Charities: Call for Evidence

The Chartered Institute of Public Finance and
Accountancy

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CIPFA, the Chartered Institute of Public Finance and Accountancy, is the professional body for people in public finance. Our 14,000 members work throughout the public services, in national audit agencies, in major accountancy firms, and in other bodies where public money needs to be effectively and efficiently managed.

As the world's only professional accountancy body to specialise in public services, CIPFA's portfolio of qualifications are the foundation for a career in public finance. They include the benchmark professional qualification for public sector accountants as well as a postgraduate diploma for people already working in leadership positions. They are taught by our in-house CIPFA Education and Training Centre as well as other places of learning around the world.

We also champion high performance in public services, translating our experience and insight into clear advice and practical services. They include information and guidance, courses and conferences, property and asset management solutions, consultancy and interim people for a range of public sector clients.

Globally, CIPFA shows the way in public finance by standing up for sound public financial management and good governance. We work with donors, partner governments, accountancy bodies and the public sector around the world to advance public finance and support better public services.

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CIPFA's submission to the Select Committee on Charities: Call for Evidence

1 Introduction

- 1.1** CIPFA welcomes the opportunity to contribute to this call for evidence, which covers a wide range of topics.
- 1.2** Whilst CIPFA has interests in many of these topics, our response focuses on the lessons which the charitable sector in England and Wales can learn from other sectors [Question 10]. Our response focuses on CIPFA's work and experiences in the area of governance in the public sector.

2 CIPFA's success in standing up for good governance in public services

- 2.1** CIPFA has a particularly strong tradition in championing effective governance. We have carried out significant work in leading a debate and influencing practice on governance arrangements for the public services, through the development of frameworks and guidance which we believe is relevant to the charitable sector. We draw on that experience in responding to the Committee's question.
- 2.2** CIPFA believes good governance plays a crucial role in the success of organisations – whether they are part of the public, private or third sector. It encourages better informed and longer-term decision making as well as the efficient use of resources. It strengthens accountability for the stewardship of those resources. Good governance is characterised by robust scrutiny which places important pressures on improving performance and tackling corruption. Good governance can improve organisational leadership, management and oversight, resulting in better outcomes.

3 Parallels, challenges and pressure on governance arrangements in the public and charitable sectors

- 3.1** As with public sector, the governance arrangements of charities have become more keenly observed and subject to increased scrutiny. All charities need robust governance arrangements which are not only sound, but are seen to be sound.
- 3.2** Similar to public sector bodies, the individuals who are responsible for the mission, vision and stewardship of the charity come from a range of backgrounds. As a diverse group united by the charity's mission, their knowledge, experience and opinion of what constitutes good governance is likely to vary. Therefore, encouraging and engaging boards to review and improve their governance arrangements can be difficult and is often neglected.
- 3.3** Charities also need to be well governed to navigate the increasingly changing and complex sector they operate in. Similar to public services, charities have been required to adapt the way they operate to survive in a difficult funding environment. More charities are now seeking alternative sources of income, working collaboratively with other organisations and making difficult decisions regarding the provision of their services, as the gap between funding required and funding available widens. This has placed greater pressure on board's ability to effectively manage risk, ensure transparency and exercise control – highlighting the crucial need for good governance.
- 3.4** One key area where the governance arrangements in the charitable sector differ to the public sector is in the area of oversight. The charitable sector is unique as the oversight of the governance arrangements of the organisation's board lie with the board members themselves. It is commonly the trustees themselves who recruit fellow board members, supervise their own conduct and appraise their own performance. Oversight is less clear as there is no equivalent to the sponsoring or government department that the boards of public bodies are accountable to. This makes the need for charity boards to regularly evaluate and improve their governance arrangements vital.

4 CIPFA's approach to good governance in the public sector

- 4.1** We believe that it is important to promote a local self-regulatory approach to governance. However, it is important for this to take place within a consistent and carefully developed overarching framework.
- 4.2** Our most recent generic project in the area of governance is the development and promotion of the International Framework: Good Governance in the Public Sector which was drawn up in association with the International Federation of Accountants (IFAC). A summary of the Framework is included as an appendix to this response. The International Framework is intended to encourage better service delivery and improved accountability by establishing a benchmark for aspects of good governance in the public sector.
- 4.3** The International Framework was developed after a review of relevant current governance literature from across the globe, and builds on this literature, particularly IFAC's and CIPFA's earlier work on governance, including Governance in the Public Sector: A Governing Body Perspective (IFAC, 2001) and Good Governance Standard for Public Service Organisations (CIPFA/OPM, 2004). It sets out seven core, high-level principles characterising good governance in the public sector. They bring together a number of interrelated concepts. The International Framework provides guidance on implementing the principles by providing an explanation of the underlying rationale, together with supporting commentary, for the key elements of each principle and the supporting sub-principles. The International Framework positions the attainment of sustainable economic, societal, and environmental outcomes as a key focus of governance processes and structures in the public sector. The Framework also considers sustainability and the links between governance and public financial management in order to encourage a recognition of the need to focus on the long term.
- 4.4** Since the publication of the International Framework, CIPFA has been working with the Society of Local Authority Chief Executives and Senior Managers (SOLACE) and other organisations associated with local government together with local government practitioners to update Delivering Good Governance in Local Government: Framework, which sets the standard for governance in local government across the UK. In developing the new Framework, the core principles and sub principles from the International Framework have been adapted for the local government context and translated into a series of expected behaviours and actions which demonstrate good governance in practice. A new edition together with guidance notes was published in April this year.
- 4.5** The local government framework is intended to assist authorities individually in reviewing and accounting for their own unique approach. The overall aim is to ensure that resources are directed in accordance with agreed policy and according to priorities; that there is sound and inclusive decision making and that there is clear accountability for the use of those resources in order to achieve desired outcomes for service users and communities.
- 4.6** Local authorities test their governance structures and arrangements against the framework, and report publicly on the extent to which they are living up to the framework and their planned actions for the future on an annual basis. The preparation and publication of an Annual Governance Statement in accordance with Delivering Good Governance in Local Government: Framework (2016) fulfils the statutory requirement in England, Scotland, Northern Ireland and Wales for a local authority to conduct a review at least once in each financial year of the effectiveness of its system of internal control and to include a statement reporting on the review with its Statement of Accounts.

5 Recommendations to improve governance in the charitable sector

- 5.1** CIPFA believe greater guidance is needed to enable trustees to improve the governance of their charity. Although the International Framework is aimed at public rather than third sector organisations, we believe that the key principles are relevant and could be integrated into a framework for good governance for charities and not-for-profit organisations.
- 5.2** The framework would help trustees by clearly defining the principles that should underpin good governance. It would recognise the unique characteristics of the sector and be applicable to all charitable organisations. Codes which already exist could be referred to in order to shape a more overarching governance framework.
- 5.3** As with the International Framework, charities would be encouraged to test, report and make changes to their governance arrangements against the framework. The framework would help trustees to be better equipped and support them in their role to effectively evaluate the arrangements of their own charity board.
- 5.4** CIPFA also recommends a more structured approach for charities to report on their governance arrangements is developed. This should be done in partnership with the creation of a framework for good governance. The requirement for organisations to report against a code or framework of governance on an annual basis is not new. It is done in both the private and public sectors, with the requirements for UK Local Authorities described in 4.6. However, there is no such requirement for charities. Current disclosure requirements around governance are basic, even for the largest charities. Whilst the requirement to report against a framework cannot guarantee good governance, it can help by providing a benchmark for aspects of good governance as well as an effective stimulus for trustees to improve their practice.

Appendix One

International Framework: Good Governance in the Public Sector:

Executive Summary

[*Accessible at:* <http://www.cipfa.org/policy-and-guidance/standards/international-framework-good-governance-in-the-public-sector>]



**INTERNATIONAL FRAMEWORK:
GOOD GOVERNANCE IN THE PUBLIC SECTOR
EXECUTIVE SUMMARY**



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International Framework: Good Governance in the Public Sector

Governance comprises the arrangements put in place to ensure that the intended outcomes for stakeholders are defined and achieved. The fundamental function of good governance in the public sector is to ensure that entities achieve their intended outcomes while acting in the public interest at all times.

Purpose of the Framework

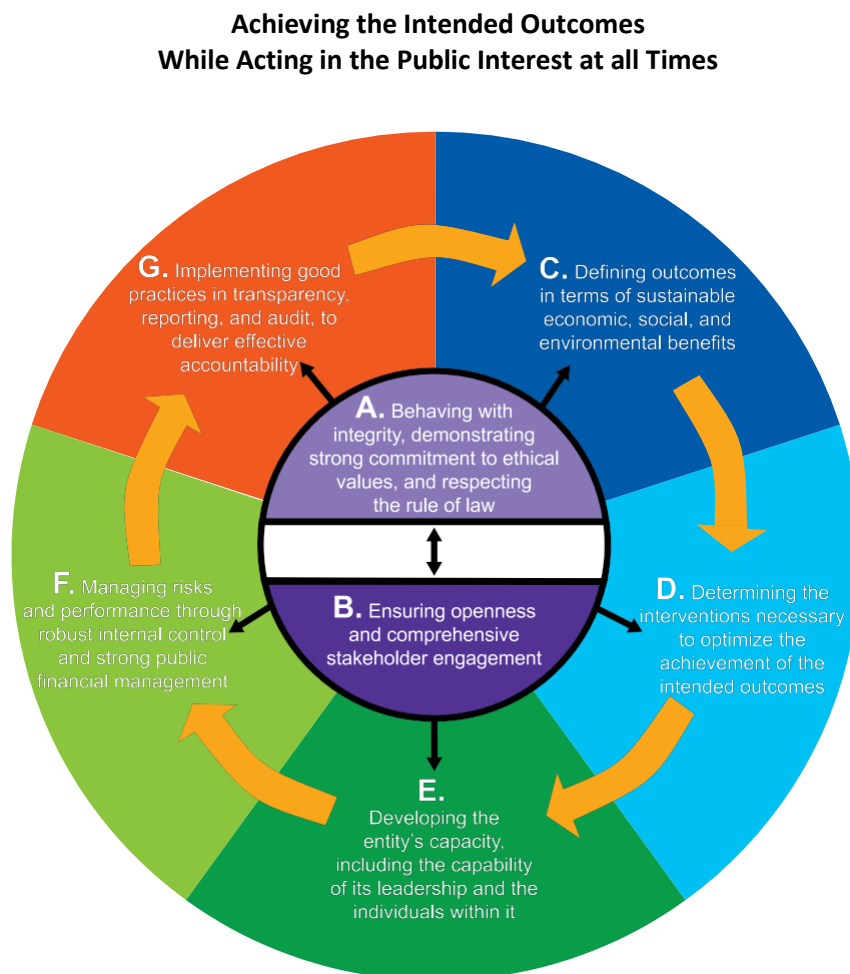
The aim of *Good Governance in the Public Sector* (the Framework) is to encourage better service delivery and improved accountability by establishing a benchmark for aspects of good governance in the public sector. It is intended to apply to all entities that comprise the public sector.

The Framework is not intended to replace national and sectoral governance codes. Instead, it is anticipated that those who develop and set governance codes for the public sector will refer to the Framework in updating and reviewing their own codes. Where codes and frameworks do not exist, the Framework will provide a powerful stimulus for positive action.

The real challenge for public sector entities, however, remains in the implementation of such codes and frameworks, as it is often their application that fails in practice. The supplement to the Framework provides more detailed explanatory material for each of the principles—a series of examples, evaluation questions, and references to other sources of information. The aim is to assist public sector entities in interpreting the principles in a way that is appropriate to their structures, taking account of the legislative and constitutional arrangements that underpin them.

Principles for Good Governance in the Public Sector

The diagram below illustrates how the various principles for good governance in the public sector relate to each other. Principles A and B permeate implementation of principles C to G. The diagram also illustrates that good governance is dynamic, and that an entity as a whole should be committed to improving governance on a continuing basis through a process of evaluation and review.



The core, high-level principles characterizing good governance in the public sector set out above bring together a number of interrelated concepts. Principles C to G are linked to each other via the “plan-do-check-act” cycle.¹

¹ The “Plan-Do-Check-Act Cycle,” also called the Deming Cycle, is an iterative management process organizations typically use for the control and continuous improvement of processes and products. For more information, see the International Organization for Standardization’s website www.iso.org/iso/home.html

Implementing the Principles

To deliver good governance in the public sector, both governing bodies and individuals working for public sector entities must try to achieve their entity's objectives while acting in the public interest at all times, consistent with the requirements of legislation and government policies, avoiding self-interest and, if necessary, overriding a perceived organizational interest. Acting in the public interest implies primary consideration of the benefits for society, which should result in positive outcomes for service users and other stakeholders. It therefore requires:

<p>A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law</p>	<p>Public sector entities are accountable not only for how much they spend, but also for how they use the resources under their stewardship. This includes accountability for outputs, both positive and negative, and for the outcomes they have achieved. Public sector entities are accountable to legislative bodies for the exercise of legitimate authority in society. This makes it essential that each entity as a whole can demonstrate the appropriateness of all of its actions and has mechanisms in place to encourage and enforce adherence to ethical values and to respect the rule of law.</p>
<p>B. Ensuring openness and comprehensive stakeholder engagement</p>	<p>As public sector entities are established and run for the public good, their governing bodies should ensure openness in their activities. Clear, trusted channels of communication and consultation should be used to engage effectively with all groups of stakeholders, such as individual citizens and service users, as well as institutional stakeholders.</p>

In addition to the overarching requirements for acting in the public interest in principles A and B, achieving good governance in the public sector also requires effective arrangements for:

<p>C. Defining outcomes in terms of sustainable economic, social, and environmental benefits</p>	<p>The long-term nature and impact of many of the public sector's responsibilities mean that it should define and plan outcomes and that these should be sustainable. The governing body should ensure that its decisions further the entity's purpose, contribute to intended benefits and outcomes, and remain within the limits of authority and resources. Input from all groups of stakeholders, including citizens, service users, and institutional stakeholders, is vital to the success of this process and in balancing competing demands when determining priorities for the finite resources available.</p>
<p>D. Determining the interventions necessary to optimize the achievement of the intended outcomes</p>	<p>The public sector achieves its intended outcomes by providing a mixture of legal, regulatory, and practical interventions. Determining the right mix of interventions is a critically important strategic choice that governing bodies of public sector entities have to make to ensure they achieve their intended outcomes. Public sector entities need robust decision-making mechanisms to ensure that their defined outcomes can be achieved in a way that provides the best trade-off between the various types of resource inputs while still enabling effective and efficient operations. Decisions made need to be reviewed continually to ensure that achievement of outcomes is optimized.</p>
<p>E. Developing the entity's capacity, including the capability of its leadership and the individuals within it</p>	<p>Public sector entities need appropriate structures and leadership, as well as people with the right skills, appropriate qualifications and mindset, to operate efficiently and effectively and achieve their intended outcomes within the specified periods. The governing body must ensure that it has both the capacity to fulfill its own mandate and to make certain that there are policies in place to guarantee that an entity's management has the operational capacity for the entity as a whole. Because both individuals and the environment in which an entity operates will change over time, there will be a continuous need to develop the entity's capacity as well as the skills and experience of the leadership of individual staff members.</p>
<p>F. Managing risks and performance through robust internal control and strong public financial management</p>	<p>The governing bodies of public sector entities need to ensure that the entities they oversee have implemented—and can sustain—an effective performance management system that facilitates effective and efficient delivery of planned services. Risk management and internal control are important and integral parts of a performance management system and crucial to the achievement of outcomes. They consist of an ongoing process designed to identify and address significant risks involved in achieving an entity's outcomes.</p> <p>A strong system of financial management is essential for the implementation of public sector policies and the achievement of intended outcomes, as it will enforce financial discipline, strategic allocation of resources, efficient service delivery, and accountability.</p>
<p>G. Implementing good practices in transparency, reporting, and audit to deliver effective accountability</p>	<p>Accountability is about ensuring that those making decisions and delivering services are answerable for them, although the range and strength of different accountability relationships varies for different types of governing bodies. Effective accountability is concerned not only with reporting on actions completed, but also ensuring that stakeholders are able to understand and respond as the entity plans and carries out its activities in a transparent manner. Both external and internal audit contribute to effective accountability.</p>

The *International Framework: Good Governance in the Public Sector* was developed jointly by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the International Federation of Accountants® (IFAC®). The full Framework is available on the CIPFA and IFAC websites, www.cipfa.org and www.ifac.org.

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