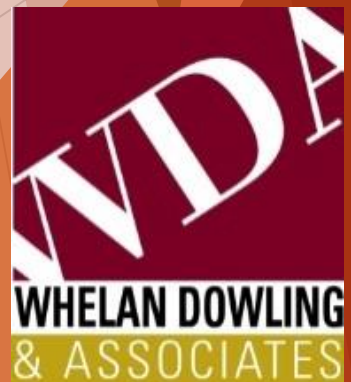


Corporate Governance & Regulatory Expectations

John Donnellan ACA

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- What is corporate governance?
- Why is good corporate governance important for charities?
- The Charities Governance Code
- Key principles of good corporate governance
- How to implement good corporate governance in your charity

**Transparency,
Transparency,
Transparency**



What is corporate governance?

- ▶ Corporate governance is the system of rules, policies, and procedures that govern a charity.
- ▶ It is about how a charity is run and managed.
- ▶ Good corporate governance ensures that a charity is:
 - ▶ Accountable to its stakeholders
 - ▶ Transparent in its operations
 - ▶ Effective in achieving its charitable purposes



Definition of Corporate Governance ?

- **“ICSA”** Corporate governance is the system of rules, practices and processes by which a company is directed and controlled. Corporate Governance refers to the way in which companies are governed and to what purpose. It identifies who has power and accountability, and who makes decisions. It is, in essence, a toolkit that enables management and the board to deal more effectively with the challenges of running a company.
- The definition of corporate governance most widely used is "the system by which companies are directed and controlled" (Cadbury Committee, 1992). More specifically it is the framework by which the various stakeholder interests are balanced, or, as the IFC states, "the relationships among the management, Board of Directors, controlling shareholders, minority shareholders and other stakeholders".

Summary of Good Corporate Governance

- **Clear organisational structure**
- **Documented roles and responsibilities**
- **Strong and experienced board**
- **Diverse Skill set required**
- **Strong internal audit function**
- **Strong Risk Management & Compliance Functions**
- **Encourages debate and challenge**
- **Good Quality - Agendas, Minutes, Board Packs**
- **Strategically Focused Board**
- **Reviewing risk and ensuring its mitigation**
- **Business strategy would be fully integrated with its risk**



Why is good corporate governance important for charities?

- Good corporate governance is important for charities because it helps to:
 - Build trust and confidence with donors
 - Attract and retain good staff
 - Manage risks effectively
 - Make the best use of resources
 - Ensure the long-term sustainability of the charity

The Charities Governance Code

- ▶ The Charities Governance Code is a set of principles that all charities in Ireland should follow.
- ▶ The Code sets out the standards of good corporate governance that charities should aspire to.
- ▶ The Code covers six key areas:
 - ▶ Advancing charitable purpose
 - ▶ Behaving with integrity
 - ▶ Leading people
 - ▶ Exercising control
 - ▶ Working effectively
 - ▶ Ensuring financial responsibility

Bad Corporate Governance Leads To...

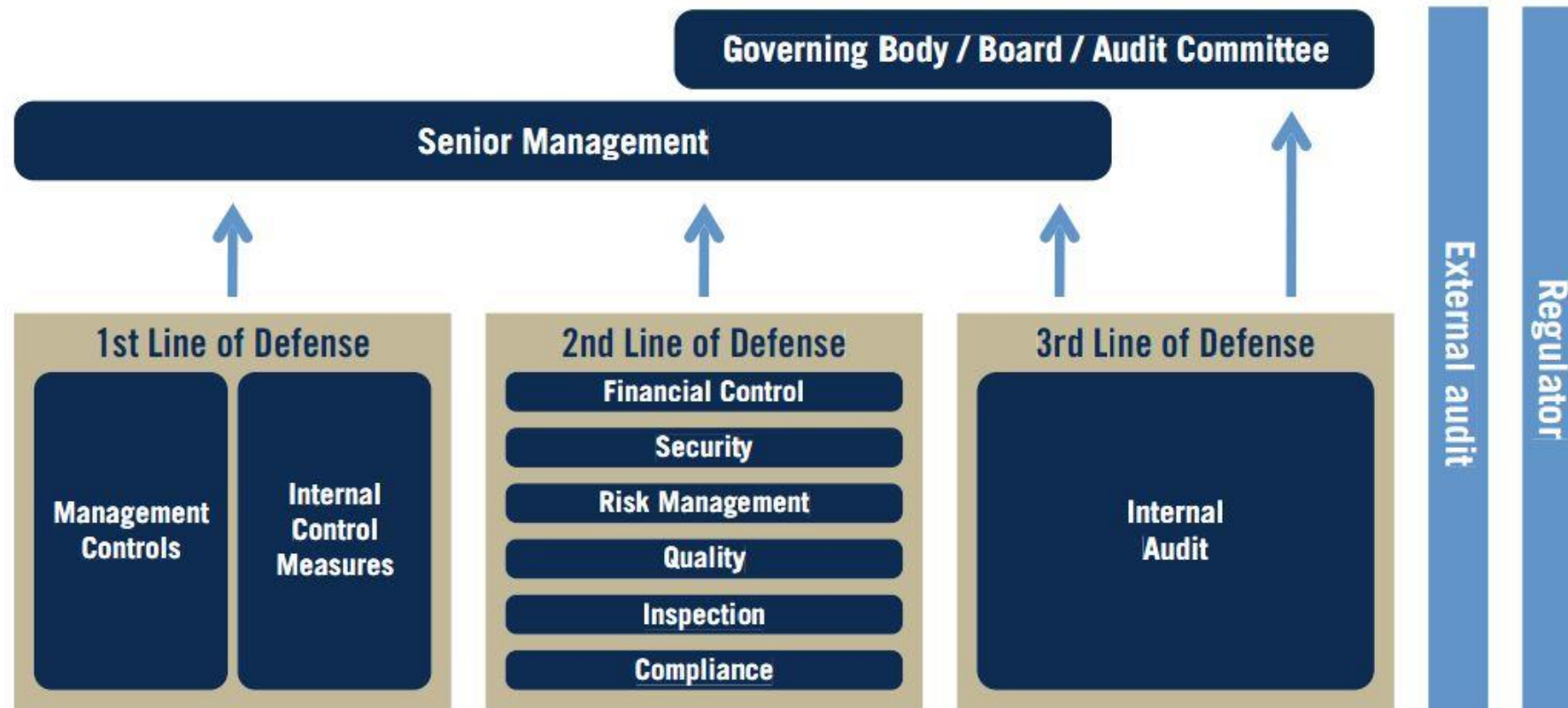


Rehab



GRC Framework

The Three Lines of Defense Model



GRC Framework



Board of Directors



Risk Culture - Tone For The Top



Governance Risk - What Kind of Board are You ?

Working Board	Managing Board	Governing Board	Ratifying Board	Failing Board
No CEO or Acting CEO	Board assumes CEO needs help running org	Competent CEO and experienced staff that knows more than board	Hire a good CEO and stay out of his/her way	High board turnover
Small CU	Board involved in minutiae, manager of CEO	Clear division between Ops and Governance	Organization OK but board in decline	Financial soundness issues
Board doing job of CEO	Board assigns tasks to CEO	Focused on board work, concerned with values	Board approves what CEO brings	Strife and distrust among board and staff
Focus on day-to-day operations	Board hands on and proud of it	Operates on future/strategic level	Out of touch, complacent, delegating Gov.	Looking to the past, way behind staff
Short time horizon	Focus on administration & Ops	Delegates Ops to CEO	Stale policies, little accountability	Not strategic, crippled by in-fighting
Primary role is operations	Primary role is making decisions	Primary role is setting policy and general direction	Primary role is supporting CEO, rubber stamping	Primary role of board is keeping perks



Governance Risk - Are You Operationally Based or Strategically Focused?

Governance vs. Management



Governance

Governance of nonprofit organizations covers the oversight for organizations, large-scale planning, and overall direction of the nonprofit.



Management:

Nonprofit management is what covers the day-to-day operations of the organization. Essentially, the executive director and team members take care of the regular activities that put into operation the vision determined by the board of directors.

Preparation For Board Meetings Reduces Governance Risk Limit Meetings to Under 2 Hrs !!

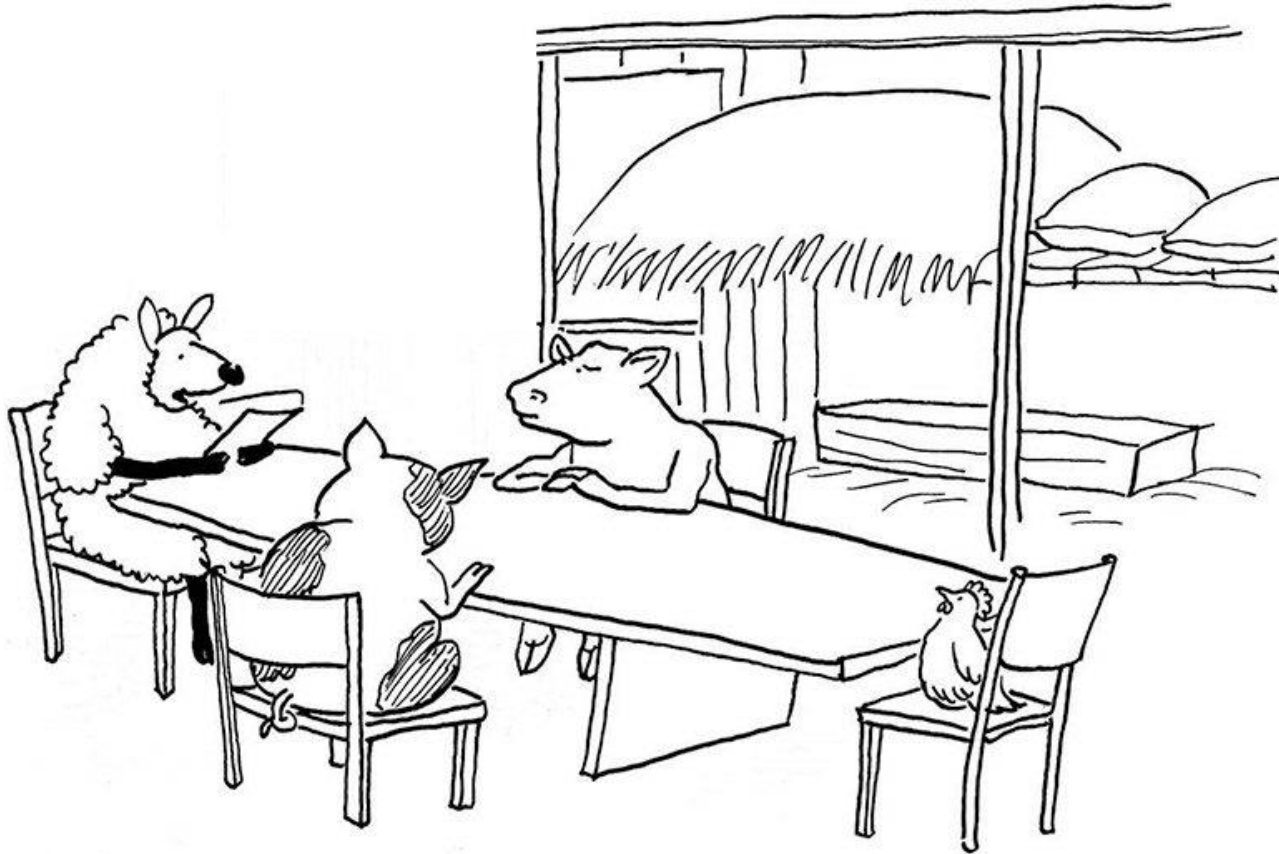
**“Give me six hours
to chop down
a tree and I will
spend the first
four sharpening
the axe.”**

—Abraham Lincoln



red flare
GOVERNANCE RISK COMPLIANCE

Minutes & Agenda



“The cow mooed, the pig oinked, the chicken clucked, I baaed and then we adjourned.”

Features of a Good Board Agenda

- ▶ Advances the strategy
- ▶ Most important/decision items first
- ▶ The ‘ask’ for each item is clear: decide or consider
 - ▶ Decision Register
- ▶ Items grouped logically
- ▶ Thematic Agenda’s That Change
- ▶ Sub Discussion Points
- ▶ Good time allocation
- ▶ Conflicts of interest
- ▶ Minimal AOB
- ▶ Consistency Across Committees
- ▶ Minutes Structure Reflects Agenda



“OK, all those in favour of delegating decision-making, shrug your shoulders.”

Discussion & Challenge

Good Board Papers

- ▶ Clarity of purpose - what is this for?
- ▶ What is the 'ask'?
- ▶ Good summary up front
- ▶ (Only) relevant information presented
- ▶ Options and risks evaluated
- ▶ Provided & Read in Advance
- ▶ Comments Summary
- ▶ Potentially a Rating System
 - ▶ Red A Must, Amber a Maybe & Green for Information

Key principles of good corporate governance

- **Some of the key principles of good corporate governance include:**
 - Clarity of purpose
 - Independence of trustees
 - Accountability
 - Transparency
 - Effectiveness
 - Efficiency
 - Risk management
 - Internal control

How to implement good corporate governance in your charity

- There are a number of things that charities can do to implement good corporate governance, including:
 - Developing a governance framework
 - Appointing a diverse and experienced board of trustees
 - Establishing clear roles and responsibilities
 - Putting in place effective risk management and internal control systems
 - Regularly reviewing and updating governance policies and procedures
 - Seeking external support and guidance if needed





Challenges of implementing good corporate governance

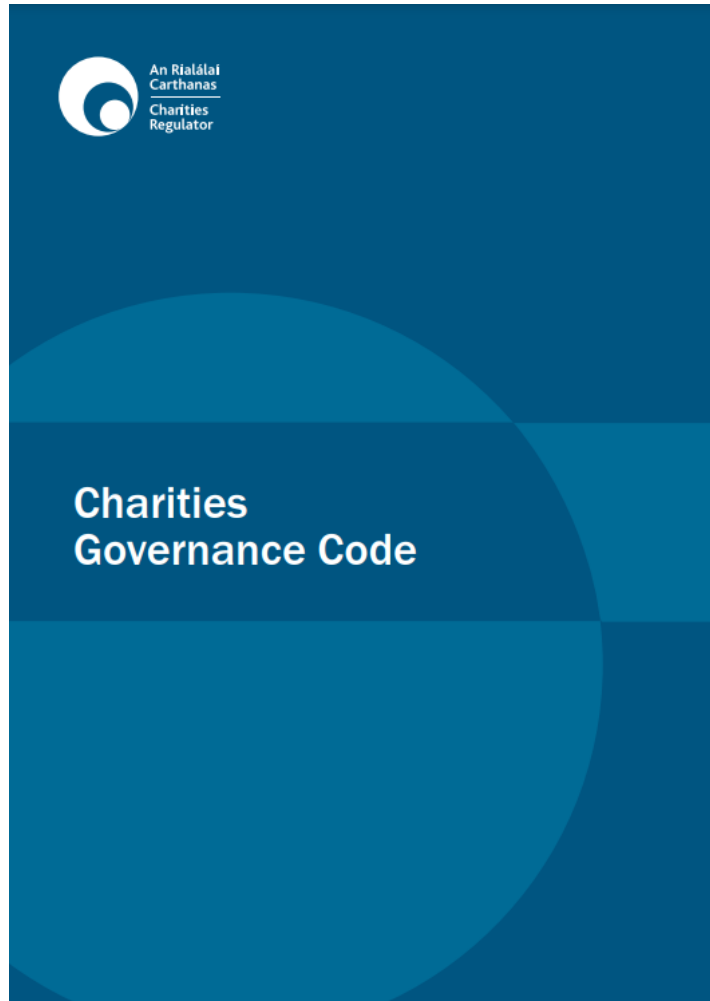
- There are also a number of challenges to implementing good corporate governance, including:
 - Lack of awareness of the importance of good corporate governance
 - Lack of resources
 - Lack of expertise
 - Changing regulatory requirements

Overcoming the challenges



- Raising awareness of the importance of good corporate governance
- Securing funding for governance **training** and support
- Recruiting trustees with governance expertise
- Seeking external support and guidance
- Keeping up-to-date with regulatory changes

What Does the Regulator Think?





An Rialáil
Carthanas
Charities
Regulator

Charities
Governance Code
2022 Review



Charities Governance Code 2022 Review

Declarations of Compliance

Per Annual Reports Submitted	2021 No. of Charities	2021 %	2022 No. of Charities	2022 %	Increase/ (Decrease)
Declared themselves to be in full compliance	4,245	69%	4,706	73%	+4%
Declared themselves to be partially compliant	912	15%	746	12%	-3%
Declared themselves to be non-compliant	967	16%	481	7%	-9%
Preferred not to complete the compliance declaration – note 1	26	0%	504	8%	+8%
Submitted Charities Governance Code compliance declaration	6,150		6,437		

Declarations of Compliance

- ▶ In 2023 the focus of the Compliance Monitoring Programme is being changed to follow up with charities that have declared that they are not in compliance, or who prefer not to state that they are in compliance, with the Charities Governance Code.
- ▶ **The Charities Governance Code has been in existence for a number of years, and all charities are now expected to be in compliance with the Code.**

Reasons for Non-Compliance

Reason for non-compliance	Had not yet started implementing the Code			Not in full compliance with the Code		
	2021	2022	Increase/ (Decrease)	2021	2022	Increase/ (Decrease)
Charity is winding up	9%	7%	-2%	2%	2%	0%
Insufficient resources	22%	29%	+7%	19%	23%	+4%
Insufficient understanding of the Charities Governance Code	26%	25%	-1%	10%	6%	-4%
New charity still in the process of establishing structures	11%	12%	+1%	8%	10%	+2%
Other	32%	26%*	-6%	61%	59%**	-3%

Reasons for Non-Compliance

- ▶ The following Charities Governance Code standards were identified as the standards with which registered charities making Charities Governance Code declarations were **least compliant overall**:
- ▶ **Standard 4.5** - Identify any risks your charity might face and how to manage these;
- ▶ **Standard 5.5** - Consider introducing term limits for your charity trustees, with a suggested maximum of nine years in total;
- ▶ **Standard 5.9** - From time to time, review how your board operates and make any necessary improvements.

Final Recommendations



Recommendations for Improvement

- ▶ Governance Risk
- ▶ Effective Governance, Professional management and competent staff
- ▶ All must manage risks and delivery service for members
- ▶ Areas for focus
- ▶ Governance, Risk Management, Compliance, business model i.e. “Strategy”
- ▶ Strengthen risk management and compliance framework - CR noted failures to adequately resource these key functions
- ▶ Inadequate risk management and compliance reporting to BOD
- ▶ Ensure effective oversight of risk management, compliance and internal audit
- ▶ Board must respond to reports of the above functions
- ▶ Follow up on issues identified
- ▶ Review the performance of these functions
- ▶ Develop an Annual Corporate Governance Plan
- ▶ Review Board Papers and Management information

Recommendations for Improvement

- ▶ Overall Supervisory Expectations of CRA (Supplemented by CBI Findings)
- ▶ Ultimate responsibility rests with the board - Governance, Risk Management and Operational Capabilities
- ▶ Legislative and regulatory obligations require adequate resources and systems in place
- ▶ Essential this is supported by strong leadership and oversight of key functions
- ▶ Risk management framework enables CLG's to identify, manage and mitigate risks - supporting a sustainable business model
- ▶ Current challenging operating environment highlights the importance of sound governance and risk management practices within a clearly articulated framework

Questions??



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- ▶ Thank you for your time!