



Refinement of Code of Governance for Charities and Institutions of a Public Character (IPCs)

Table of Contents

Introduction	2
About the Code of Governance	4
1. Determination of Size of Charity / IPC	5
2. Refinement to Tiered Guidelines	6
2.1 For Registered Charities	6
2.2 For IPCs.....	7
3. Removal of 'Not Applicable' option under the Governance Evaluation Checklist (GEC)	7
4. Refinements to Code Guidelines	8
4.1 Board Governance	8
4.2 Human Resource & Volunteer Management	10
4.3 Financial Management & Internal Controls.....	11
4.4 Disclosure & Transparency	12
Glossary.....	17

Introduction

The Ministry of Culture, Community and Youth (MCCY), Charities Unit, on behalf of the Charity Council, invites the public to give feedback on the proposed refinements to the Code of Governance for Charities and IPCs.

Background

The Code serves as a best practices guide and all charities are strongly encouraged to apply the principles and practices of governance and management. The Code also helps charities to be more effective, transparent and accountable to their stakeholders.

The Code was introduced by the Charity Council in November 2007 and it undergone its first refinement in 2010. In August 2015, the Charity Council embarked on the second refinement of the Code to help charities apply the Code more effectively. The refinement is necessary as good governance is becoming an increasing focus for charities worldwide and there is growing emphasis for charities to adopt greater transparency and accountability measures to enable informed giving decisions. Governance developments in other jurisdictions, feedback from stakeholders and the changing charity landscape were considered in the refinement of the Code.

For this refinement process, a Sub-Committee was formed which oversee three workgroups that comprised of representatives from charities / IPCs, professional bodies, academia, auditors and grantmakers. They proposed changes based on feedback encountered and their experiences on the ground.

Stakeholders' Feedback

During the months of May and June, the Charity Council organised four dialogue sessions to seek feedback from selected charities in the various sectors (i.e. Arts & Heritage, Community, Education, Health, Religious, Social Welfare, Sports, and Others) regarding the proposed refinements to the Code principles. The feedback from the dialogue sessions was duly noted and refinements were made where necessary. The attendees of the dialogue sessions include Board members and Executive management staff from the charities. They are largely supportive of the refinement process as they acknowledge that good governance is a continuous work in progress.

Period of Consultation

The period of consultation is from 20 September 2016 to 18 October 2016.

Feedback Channel

Interested members of the public can submit their comments by 2359 hours on 18 October 2016 via the following channels:

September 20, 2016

Email to: charity_council_sec@mccy.gov.sg

Fax to: 6837 8090; or

Post to:

Charities Unit (Outreach)

140 Hill Street, Level 2

Singapore 179369

Subject: "Consultation on proposed refinement to the Code of Governance"

We regret that we will not be able to individually acknowledge or address every comment we receive. However, a summary of key comments and responses received will be consolidated and published following the close of the consultation exercise. We will not disclose the identity of person(s) providing the feedback, to maintain the confidentiality of feedback received.

About the Code of Governance

Governance in the charity sector refers to the framework and processes concerned with managing the overall direction, effectiveness, supervision and accountability of an organisation.

Charities, as community organisations working for public benefit, are accountable to the public and other stakeholders. All charities are strongly encouraged to apply the principles and practices of governance and management listed in this Code of Governance.

For Charities

Governance is important because it affects how a charity is run and the services that the organisation provides. The Board of a charity is responsible for putting in place the principles and practices of good governance in the organisation. The Code also helps charities to be more effective, transparent and accountable to their stakeholders. Charities should read this Code in conjunction with the Charities Act and Regulations.

For The Public

Members of the public donate and volunteer services to charities. This Code aims to help the public understand what are the fundamental good governance practices and also to aid the public to make an informed decision on which charity to support.

The objectives of the Code of Governance are to:

- **Make charities more effective** by sharing recommended practices on how effective charities are governed and managed;
- **Provide guidance to Board members** to help them carry out their duties as fiduciaries (representatives entrusted to act in the interests of the charity);
- **Boost public confidence** in the charity sector by setting the standards of good governance for charities to aspire towards.

Note: All proposed changes are indicated in blue.

1. Determination of Size of Charity / IPC

Charity Size is proposed to be determined by “Gross Annual Receipts¹ or Total Expenditure², whichever is higher, in each of its two immediate preceding financial years.

Rational for Refinement:

- Alignment with basis for audit thresholds per legislative requirements – the Charities (Accounts and Annual Report) Regulations 2011.
- Charities with high expenditure should also be subject to more stringent governance standards.
- Encourage charities with either high gross annual receipts or high expenditure to uphold good governance practices set out in the Code.

¹ Gross annual receipts include all income, grants, donations, sponsorships and all other receipts of any kind.

² Total expenditure would encompass all costs of generating funds, costs of charitable activities, governance costs and other expenditures as reflected in the unrestricted funds, restricted income funds and endowment funds

2. Refinement to Tiered Guidelines

1. The refined Code guidelines are applicable depending on the IPC status and size of the charity.
2. [The reporting requirements of this Code will be applicable for charities'/IPCs' financial years beginning on or after 1st January 2018³.](#)
3. Charities that have gross annual receipts or total expenditure, whichever is higher, [of less than \\$50,000 are excluded from the submission of the Governance Evaluation Checklist \(GEC\)](#). However, these charities are still strongly encouraged to refer to the Code and apply the principles.

2.1 For Registered Charities

CHARITY SIZE	TIERED GUIDELINES TO COMPLY		WHAT CHANGED
	CURRENT	NEW	
Charities with gross annual receipts or total expenditure of less than \$50,000	Basic I	Exempted from GEC submission	<ul style="list-style-type: none"> - In view of their resource and operational constraints, charities in this tier will be exempted from submitting the Governance Evaluation Checklist (GEC). - They are still strongly encouraged to refer to the Code and apply the principles.
Charities with gross annual receipts or total expenditure from \$50,000 to less than \$500,000	Basic II	Basic	<ul style="list-style-type: none"> - New tier for non-IPC charities
Charities with gross annual receipts or total expenditure from \$500,000 to less than \$10 million	Basic II	Intermediate	<ul style="list-style-type: none"> - “Basic II” is renamed to “Intermediate” which will include the guidelines of the former Basic II tier as well as selected guidelines in the former Enhanced tier
Large Charities with gross annual receipts or total expenditure of \$10 million or more	Enhanced	Enhanced	<ul style="list-style-type: none"> - No change in tiers for large charities

³ The 1st batch of charities that would need to report the refined GEC will be for those with FY ending 31 Dec 2018. The refined GEC would be due in Jun 2019.

2.2 For IPCs

IPC SIZE	TIERED GUIDELINES TO COMPLY		WHAT CHANGED
	CURRENT	NEW	
IPCs with gross annual receipts or total expenditure of <u>less than \$500,000</u>	Basic II	Intermediate	<ul style="list-style-type: none"> - “Basic II” is renamed to “Intermediate” which will include the guidelines of the former Basic II tier as well as selected guidelines in the former Enhanced tier - IPCs with annual income or expenditure between \$200,000 and \$500,000 will be subject to the new Intermediate Tier instead of the current Enhanced tier
IPCs with gross annual receipts or total expenditure from <u>\$500,000 to less than \$10 million</u>	Enhanced	Enhanced	<ul style="list-style-type: none"> - Only IPCs with annual income or expenditure of \$500,000 and up to \$10 million are subject to the new Enhanced tier
Large IPCs with gross annual receipts or total expenditure of <u>\$10 million or more</u>	Advanced	Advanced	<ul style="list-style-type: none"> - No change in tiers for large IPCs

3. Removal of ‘Not Applicable’ option under the Governance Evaluation Checklist (GEC)

Current Guideline	Proposed Changes	Rationale for Refinement
<p>Options of the current GEC are:</p> <ul style="list-style-type: none"> <input type="checkbox"/> Complied <input type="checkbox"/> Not Complied (provide reasons for non-compliance) <input type="checkbox"/> Not Applicable 	<p>Removal of the ‘Not Applicable’ option in the Governance Evaluation Checklist, GEC.</p> <p>The revised options will be:</p> <ul style="list-style-type: none"> <input type="checkbox"/> Complied <input type="checkbox"/> Not complied (provide reasons for non-compliance) 	<ul style="list-style-type: none"> • Rephrasing and rewording of each GEC item has been done to reduce ambiguity and each item would either be a “complied” or “not complied” item. • The Code still operates on a ‘comply or explain’ principle. Hence, if a charity is not able to comply with any guideline, the charity needs to provide justifications.

4. Refinements to Code Guidelines

4.1 Board Governance

General Principle

The charity is run by a group of individuals called the Board. Members of the Board are people elected or appointed based on the rules of the charity's governing instrument.

The Board is responsible to comply with its governing instrument and all relevant laws and regulations. The Board makes sure the charity is run well and responsibly, so that the charity would continue to be effective, credible and sustainable.

Code ID / Tier	Current Guidelines	Proposed Guidelines	Rationale for Refinement
1.1.6 Basic	<p>Treasurer</p> <p>There should be a maximum limit of four consecutive years for Board members holding the Treasurer position (or equivalent appointment like a Finance Committee Chairman).</p> <p>Re-appointment to the Treasurer position (or equivalent) can be considered after a lapse of at least one year.</p>	<p>Treasurer</p> <p>1.1.7 There should be a maximum limit of four consecutive years for Board members holding the Treasurer position (or equivalent appointment like a Finance Committee Chairman or a person on the Board responsible for overseeing the finances of the Charity).</p> <p>Should the Charity not have an appointed Board member, it will be taken that the Chairman oversees the finances.</p> <p>Re-appointment to the Treasurer position (or equivalent) can be considered after a lapse of at least two years.</p>	<ul style="list-style-type: none"> It is necessary to have an appointed Board member accountable for the finances of the charity. An Audit Committee provides oversight – different function from that of a Treasurer. Extension to two years lapse from one year is to ensure a clean break – this reduces the risk for any potential continued influence. Should a Chairman assume the role of the Treasurer, he/she will also be required to abide by the term limit of the Treasurer (i.e. four consecutive years).

Code ID / Tier	Current Guidelines	Proposed Guidelines	Rationale for Refinement
NEW Basic	NIL	<p>Re-nomination and Reappointment of Board members</p> <p>1.1.8 All board members should be required to submit themselves for re-nomination and reappointment, at least once every 3 years.</p>	<ul style="list-style-type: none"> Re-nomination and reappointment encourages the charity and its members to evaluate the board members and examine their skills, characteristics and contribution. It is a process for reflection and evaluation, as individuals and as a board.
NEW Enhanced	NIL	<p>Term Limit for Board Members</p> <p>1.1.9 There should be a maximum term limit of ten consecutive years for at least two-third of the Board members to ensure steady renewal of the Board.</p> <p>Re-appointment can be considered after a lapse of at least two years.</p> <p>[Note: The original proposal was for all board members to have a maximum term limit of 10 consecutive years. However, having considered the preliminary feedback received from some charities at the dialogue sessions, the above alternative option is introduced to allow some flexibility.]</p>	<ul style="list-style-type: none"> The intent of this Code principle is to encourage steady renewal of the Board. Charities are also encouraged to have succession planning in place. Having new Board members enables the introduction of fresh ideas and insights, as well as the transfer of skills and knowledge from the members' previous charities. Some charities feedback during the dialogue sessions that while the transition process might be operationally disruptive in the short term, setting a term limit and having steady renewal is a step in the right direction which will yield longer term benefits.

4.2 Human Resource & Volunteer Management

General Principle

Human resources are important assets of the charity. The charity should have policies in place for the staff and volunteers who run its operations and programmes.

Code ID / Tier	Current Guidelines	Proposed Guidelines	Rationale for Refinement
NEW Basic	NIL	<p>Definition of Volunteers</p> <p>Volunteers: Persons who willingly give up time to serve a charity, without expectation of any remuneration. For volunteers who are involved in the day-to-day operations of the charity, they should also abide by the best practices set out in the Code applicable to 'staff'.</p>	<ul style="list-style-type: none"> The Code has sections and principles that are targeted for volunteers of the charity; hence a definition for volunteers was developed for greater clarity.
NEW Basic	NIL	<p>Code of Conduct</p> <p>5.4 The Board should approve documented Code of Conduct for board members, staff and volunteers (if any).</p>	<ul style="list-style-type: none"> The intent of this Code principle is to safeguard the interest of the charity and its beneficiaries. The Code of Conduct should outline the proper ethical and moral practices to guide the operations of the charity and its people. The charities can customise the Code of Conduct accordingly for the different stakeholders in the organisation.

4.3 Financial Management & Internal Controls

General Principle

The charity should have sound financial management and comply with applicable laws and regulations, so as to ensure that its resources are used legitimately and can be accounted for.

Code ID / Tier	Current Guidelines	Proposed Guidelines	Rationale for Refinement
6.1.1 Basic	<p>Loans & Donations Policy</p> <p>There should be a policy to seek the Board's approval for any loan made by the charity or donations to external parties.</p>	<p>Loans, Donations, Grants, Financial Assistance Policy</p> <p>6.1.1 There should be a policy to seek the Board's approval for any loans, donations, grants or financial assistance made by the charity for purposes outside the scope of its approved programmes.</p>	<ul style="list-style-type: none"> The intent of the refinement of the existing guideline is to broaden the coverage to include other forms of monetary support such as grants and financial assistance. The Board's approval has to be sought for any monetary support which is used for purposes outside of the charity's approved programmes. Such other purposes must still be in alignment with the charity's objects.
NEW Intermediate	NIL	<p>Risk Management</p> <p>6.1.4 The Board should ensure that there is a process to identify, regularly monitor and review the charity's key risks. This process should cover mitigating measures and controls for all key risks.</p>	<ul style="list-style-type: none"> Charities need to manage a varied spectrum of uncertainties. Hence, it is important that charities put in place a process to manage key risks to enable sustainability and effectiveness.

4.4 Disclosure & Transparency

General Principle

The charity should be transparent and accountable in its operations. The charity should provide information about its mission, structure, programmes, activities and finances, as well as be responsive to requests for information.

Code ID / Tier	Current Guidelines	Proposed Guidelines	Rationale for Refinement
NEW Basic	NIL	<p>Disclosure of Board members' Information</p> <p>8.2 The charity should disclose the information of its Board members, specifically – name, board appointment and date of appointment to the board, in its annual report. Where the current holder of any of the relevant offices has prior to his current term held any of the relevant offices in the charity, he should disclose the date of his first appointment in each of the relevant offices⁴.</p>	<ul style="list-style-type: none"> This is currently a legislative requirement for charities with gross annual receipts or total expenditure of \$500,000 and above. Such disclosure will enhance the charity's degree of transparency and enable charity stakeholders to be better informed about the tenure of the key appointment holders. The intent in including this requirement in the Code is to encourage charities in the Basic tier to work towards complying with the requirement.

⁴ Relevant Offices:

- in relation to a society registered under the Societies Act (Cap. 311), means the President, the Treasurer or the Secretary of the society, or their equivalents; or
- in relation to a company, means a member of the board of directors of the company.

Code ID / Tier	Current Guidelines	Proposed Guidelines	Rationale for Refinement
<p>NEW Basic</p>	<p>NIL</p>	<p>Disclosure on Board meetings and attendance</p> <p>8.3 The charity discloses the number of Board meetings in the year, and the attendance of each Board member, on a named basis, in its annual report.</p>	<ul style="list-style-type: none"> Board meetings are important sessions where key decisions are made. Hence, this principle serves to encourage commitment by Board members to regularly attend board meetings and provide their views and inputs. Charities could leverage on technology (e.g. tele-conferencing) to enable attendance at board meetings.

Code ID / Tier	Current Guidelines	Proposed Guidelines	Rationale for Refinement
8.2	<p>Board Remuneration</p> <p>Enhanced Tier</p> <p>Generally, Board members should not receive remuneration for their Board services.</p> <p>Where the charity’s governing instrument expressly permits remuneration of Board members for their Board services, the charity should disclose in its annual report the exact remuneration and benefits received by each individual Board member.</p> <p>If no Board member receives remuneration for their Board services, the charity discloses this fact in its annual report.</p>	<p>Board Remuneration</p> <p>Basic Tier</p> <p>8.4 Generally, Board members should not receive remuneration for their Board services.</p> <p>Where the charity’s governing instrument expressly permits remuneration of Board members for their Board services, the charity should disclose in its annual report the exact remuneration and benefits received by each individual Board member.</p> <p>If no Board member receives remuneration for their Board services, the charity discloses this fact in its annual report.</p>	<ul style="list-style-type: none"> • Currently, this guideline only applies to charities with gross annual receipts above \$10million and IPCs with gross annual receipts above \$200,000. • Given that the disclosure of remuneration has been practiced by many charities, such disclosures are becoming a norm and expected by the public. Hence, it is proposed to apply this guideline to charities/IPCs in the new Basic Tier (i.e. charities with gross annual receipts above \$50,000, and all IPCs). • Charities are also public interest entities and receive tax exemption on their income. Therefore, there is a greater need for transparency and accountability to the public.

Code ID / Tier	Current Guidelines	Proposed Guidelines	Rationale for Refinement
8.3	<p>Remuneration of 3 highest paid staff</p> <p>Enhanced Tier</p> <p>The charity should disclose in its annual report the annual remuneration of its three highest paid staff who each receives remuneration exceeding \$100,000, in bands of \$100,000.</p> <p>If none of its top three highest paid staff receives more than \$100,000 in annual remuneration each, the charity should disclose this fact.</p>	<p>Remuneration of 3 highest paid staff</p> <p>Basic Tier</p> <p>8.5 For transparency, the charity should disclose in its annual report the total annual remuneration, including any remuneration received in its subsidiary(ies), of each of its three highest paid staff, who each receives remuneration exceeding \$100,000, in bands of \$100,000.</p> <p>The charity should also disclose if any of the three highest paid staff serves on the board of the charity.</p> <p>If no staff receives more than \$100,000 in annual remuneration each, the charity should disclose this fact.</p>	<ul style="list-style-type: none"> Charities are public interest entities and receive tax exemption on their income. Therefore, there is a greater need for transparency and accountability to the public for all charities to whom the Code applies.
NEW Enhanced	NIL	<p>Whistle Blowing Policy</p> <p>8.6 The charity should set in place a whistle-blowing policy and disclose the existence of such policy in its Annual Report.</p>	<ul style="list-style-type: none"> Enables employees/outside parties to report without fear of adverse consequences and allows the organisation to take appropriate actions.

Code ID / Tier	Current Guidelines	Proposed Guidelines	Rationale for Refinement
<p>NEW Enhanced</p>	<p>NIL</p>	<p>Remuneration of employees who are close members of the family of CEO/ED/Board members</p> <p>8.7 For transparency, the charity should disclose the number of paid staff who are close members of the family⁵ of the CEO, Executive Director (or equivalent) or Board Members, and whose remuneration exceeds S\$50,000 during the year.</p> <p>Disclosure of the staff's remuneration should be in bands of S\$100,000, with the disclosure of the related CEO, Executive Director (or equivalent) or Board Members on a named basis.</p>	<ul style="list-style-type: none"> • The intent of this guideline is to enhance transparency and accountability in the sector. • Such disclosure will enhance the charity's degree of transparency and enable charity stakeholders to be better informed about the number of related staff to the CEO/Board, as well as their scale of remuneration. • To ensure potential conflict of interest between board members and paid staff are duly addressed, especially in situations such as the following: <ul style="list-style-type: none"> - Board member who is in the HR/Remuneration Committee and has a family member who is working in the charity as a paid staff; or - Board member who is in the Audit Committee and has a family member who handles financial matters.

⁵ The application of this principle is aligned with the Accounting Standards (i.e. FRS / CAS):

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the charity. In most cases, they would include:

- That person's children and spouse;
- Children of that person's spouse; and
- Dependants of that person or that person's spouse.

Glossary

In the Code, arranged in alphabetical order, we refer to:

- a) **Board**
The governing body responsible for overseeing and managing a charity. It is also sometimes known as council or management committee.
- b) **Charities**
All registered charities and Institutions of a Public Character (IPCs).
- c) **Close members of the family [NEW]**
Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the charity. In most cases, they would include:
- That person's children and spouse;
 - Children of that person's spouse; and
 - Dependants of that person or that person's spouse.
- d) **Conflict of Interest**
A situation where a Board member, staff, or other person with an existing or potential financial or other material interest that might impair his or her independence or objectivity in the discharge of responsibilities and duties to the charity.
- e) **Executive Head**
The most senior staff member in charge of the charity's staff personnel. There is a range of job titles that charities use for this position (e.g. Executive Director, Chief Executive Officer).
- f) **Fiduciary**
A person standing in a special relationship or trust, confidence, or responsibility to another. Board members and staff having the general control and management of the administration of a charity are fiduciaries with respect to the charity they serve and, as such, their responsibilities to the charity are termed fiduciary duties or fiduciary responsibilities.
- g) **Governing Instrument**
The charity's main constitutional document or instrument. It may be its Constitution, Charter, Memorandum and Articles of Association, Trust Deed or any rules or regulations governing the purposes and administration of the charity.
- h) **Relevant Offices [NEW]**
- (a) in relation to a society registered under the Societies Act (Cap. 311), means the President, the Treasurer or the Secretary of the society, or their equivalents; or
 - (b) in relation to a company, means a member of the board of directors of the company.
- i) **Reserves**
The part of the charity's income funds that is freely available for its operating purposes. "Reserves" excludes endowment funds and restricted funds. An endowment fund is a capital fund that is held on trust to be retained for the benefit of the charity. Restricted funds are donated funds to be used only for specific

purposes according to the donor's expressed wishes or the terms of an appeal.

j) **Reserves Policy**

A policy that states the level of reserves held and why they are held. For material funds that have been designated for a certain use, the reserves policy statement should state the amount and purpose of the fund, as well as the likely timing of that expenditure (if set aside for future use).

k) **Staff**

Paid or unpaid individuals who are involved in the day-to-day operations of the charity, e.g. an Executive Director or Administrative personnel.

l) **Stakeholders**

The charity's members, beneficiaries, donors, grantmakers, regulators, partners etc.

m) **Third party fundraiser**

Any person or organisation that solicits or procures money or property for the benefit of a charity or IPC. It excludes service providers who are paid a fixed fee in return for services rendered in the fundraising event, such as event companies.

n) **Volunteers [NEW]**

Persons who willingly give up time to serve a charity, without expectation of any remuneration. For volunteers who are involved in the day-to-day operations of the charity, they should also abide by the best practices set out in the Code applicable to 'staff'.