

Charity Update

KEY CHANGES TO THE CODE OF GOVERNANCE

A. *Introduction*

The Code of Governance (the “**Code**”) was first introduced by the Charity Council in 2007. Since then, the Code has since been further refined to strengthen the governance practices of charities in Singapore, and enable these organisations to be more effective, transparent and accountable to their stakeholders.

Following a recent four-week public consultation process and dialogue sessions with 183 charities and Institutions of Public Character (“**IPCs**”), the Charity Council has recently released a revised Code which will take effect from 1 January 2018.

B. *Key Changes to the Code of Governance*

The revised Code sets out tiered guidelines and recommended practices on how charities and IPCs should be governed and managed, depending on the size of the organisation. In summary, the five key changes are as follows:

(i) Determining charity size and applicable guidelines

Under the revised Code, a charity will be categorised based on its Gross Annual Receipts¹ or Total Expenditure², whichever is higher, in the two immediate preceding financial years. Prior to this change, the size of a charity was solely determined by its Gross Annual Receipts. The guidelines applicable to each category are accordingly divided into the following tiers: Basic, Intermediate, Enhanced and Advanced. For example, charities with Gross Annual Receipts or Total Expenditure from S\$50,000 to less than S\$500,000 will have to comply with the Basic Tier guidelines, which is a new tier for non-IPC charities.

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

² Total Expenditure includes 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.

(ii) Governance Evaluation Checklist (“GEC”)

The second change relates to the removal of the “*Not Applicable*” response in the GEC, a self-evaluation questionnaire used by charities and IPCs to assess their compliance with the Code on an annual basis. This would mean that charities may no longer opt out of responding to certain questions in the GEC. On the other hand, the revised Code will simplify the compliance requirement for small charities by waiving the GEC requirement for charities with Gross Annual Receipts or Total Expenditure of less than S\$50,000.

(iii) Changes to board governance

In the past, the Code merely suggested that the Board consider establishing term limits for its Board members. Going forward, all Board members should be required to submit themselves for re-nomination and reappointment at least once every three years. The re-appointment of the Treasurer should only be considered after a lapse of at least two years, which is an increase from one year in the previous version of the Code. Further, Enhanced and Advanced Tier charities should also disclose the reasons for retaining Board members who have served on the Board for more than 10 consecutive years in their annual reports.

(iv) Increased disclosure requirements

The revised Code has also increased the charities’ disclosure requirements. For example, charities should make available to its stakeholders information regarding its Board members (specifically their respective names, board appointments and dates of appointment), the number of board meetings in the year and attendance of each Board member on a named basis, in its annual report.

For transparency, larger charities under the Enhanced and Advanced Tiers should also disclose the number of staff whose remuneration exceeds S\$50,000 annually, and who are close members of the family of the Executive Head or Board members. Additionally, the charity should disclose whether it has a whistle-blowing policy in place, whereby any person may, in confidence, raise concerns about possible wrong-doings or improprieties in financial or other matters within the charity.

(v) Introducing risk management measures

The Charity Council has also introduced new risk management measures for charities. With the exception of Basic Tier charities, the Board should implement risk management processes to

identify, mitigate, monitor and review the charity's key risk areas. These measures are aimed at further improving the charities' internal operational controls to maintain accountability and ensure that resources are used legitimately.

C. Complying with the Code

In light of the refinements to the Code, all charities and IPCs are advised to re-examine their finances to determine the applicable guidelines they should comply with.

The revised Code operates on a principle of "comply or explain". This means that charities that are unable to comply, will have to explain the reasons and circumstances for their non-compliance. Where appropriate, they will also need to indicate how they intend to adopt the Code in future, or explain why they have chosen not to comply.

Although the more stringent guidelines on transparency and disclosure may inevitably result in increased compliance costs for charities, we believe that these changes will certainly bring about greater long term benefits. By setting the standards and principles of good governance, the Code aims to preserve the integrity and transparency of charities, and increase public confidence in charities. This would not only benefit these organisations, but also their beneficiaries and various stakeholders in the long run.

As such, it is imperative that all charities understand these changes and take the appropriate actions to comply with the Code. Charities are therefore strongly encouraged to review and refine their existing policies and by-laws so as to adopt the Code in the best interest of their organisations.

Should you have any queries as to how this update may affect your organisation or require further information, please do not hesitate to email us.



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This article is intended to highlight the salient issues relating to the updated Code of Governance for Charities in Singapore, and it is not intended to be comprehensive nor should it be construed as legal advice. This article is updated as at 5 October 2017. The authors of this article would like to express their appreciation to Justin Lee, a practice trainee at Gateway Law Corporation, for his assistance and contribution to this article.