

# THE SCOTTISH GOVERNANCE CODE FOR THE THIRD SECTOR

Governance Diagnostic Tool for  
Trustees and Governing Bodies of  
Scottish Charities

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# Scottish Governance Code for the Third Sector

The Scottish Governance Code for the Third Sector is a statement of Best Practice that has been developed by the Scotland's Third Sector Governance Forum.

The Code is a tool to support continuous improvement and to strengthen the effectiveness of governance across the Third Sector.

The Code sets out five core principles encouraging third sector organisations to look at, and improve, their governance. All five principles are of equal importance.

The Code has been provided by the Scotland's Third Sector Governance Forum on a creative commons license which enables anyone to share and adapt the material so long as they credit the source and share on the same basis.

The Code is supported by practical resources which can be found on this website.

<https://governancecode.scot/using-the-code/>



*The Governance Diagnostic Tool has been developed by Margaret Lynch Consulting Ltd and is available to all on the same use and share basis as the Scottish Governance Code for the Third Sector.*



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# 5 Core Principles of Good Governance

## Organisational Purpose

A well-run board is clear about the purpose and values of the organisation and how it will achieve its aims.

## Leadership

A well-run board is clear about its role and responsibilities and provides strategic direction in line with the organisation's purpose, vision and values.

## Board Behaviour

A well-run board, both collectively and individually, embraces and demonstrates mutual respect, integrity, openness and accountability.

## Control

A well-run board will develop and implement appropriate controls to direct and oversee progress and performance of the organisation.

## Effectiveness

A well-run board understands its role, powers and duties and works collectively and proactively, to achieve its organisational purpose.

# How to use the diagnostic tool

There is a separate diagnostic tool for each of the 5 core principles of good governance: -

- Organisational Purpose
- Leadership
- Board Behaviour
- Control
- Effectiveness

The diagnostic tool is best completed by all the trustees individually and then followed by a group discussion to bring the results together. The Board can delegate this task to a group of trustees who can then report their findings to the Board. This process can be led by an external facilitator or by the Chair of the Board.

Trustees can tick those statements which most closely match the current situation in the Board and charity.

The statements are in rank order as follows: -

1. Below and acceptable standard
2. Minimal level of acceptable practice, standards, knowledge or behaviour
3. Acceptable practice standard, knowledge or behaviour
4. Good Practice standard, knowledge or behaviour
5. Exceptional practice standard, knowledge or behaviour

## Scoring

Each Core Principle is broken into constituent parts - and the ranks given in each section can be aggregated and then divided by the number of statements in the section.

A RAG (Red, Amber, Green) system can then be used to identify areas

requiring urgent or immediate attention.

A plan of action can be devised ensuring that the “Most Significant Areas of Risk” are addressed in order of priority.

The diagnostic enables Boards to do 3 things: -

- Identify the degree to which they are currently applying the Scottish Governance Code for the Third Sector
- Identify key areas of weakness in Governance around the 5 core principles
- Identify gaps in good practice, behaviour, knowledge or conduct within each of the 5 core principles.

The Board is then able to identify areas for improvement which it can set as performance objectives for itself.

# Organisational Purpose - Diagnostic Tool

Which of these statements most closely represents the Board's

## Clarity of Purpose?

1. All Board members have been issued with a copy of the Governing Document (Constitution).
2. All Board members have received an Induction which covered the organisation's Mission, Values and Purpose as stated in the Governing Document.
3. There has been a Board level discussion to ensure that there all Board Members have the same understanding of the organisation's Mission, Values and Purpose as stated in the Governing Document.
4. The Governing Document has been reviewed by the Board to ensure that the decisions that the Board has made/will make are in alignment with the provisions of the Governing Document.
5. There is a template for Board Decision-Making Papers which includes a checkpoint to demonstrate that the decision being requested aligns with the Organisation's Purpose, Mission, Values and Purpose and that the Governing Document specifies that the Board have the powers to take the decision proposed.

## Promotion of Organisational Values

1. The Chief Executive prepares a report for the Board which reports on how the organisation is ensuring that values driven approaches are evident in all its operations.
2. The Board receives information via staff and stakeholder surveys which

evidence that values driven approaches are operationalised.

3. The Board requires the Chief Executive to report on the ways in which the organisation mainstreams values as work practices.
4. The Board has put in place a range of ways of measuring that there is transparency and accountability across key organisational performance indicators demonstrating adherence to the organisations core values.
5. The Board has an Internal Audit function which enables Board Members to verify that there is adherence to organisational policies and procedures, values and desired conduct, incident reporting to the Board, especially in relation to compliance.

## Clarity around how aims will be achieved

1. The Chief Executive prepares an Annual Report for the Board which provides information on the organisation's impact, outputs and outcomes.
2. The Board reviews the Annual report which provides information on the organisation's impact, outputs and outcomes (including financial performance).
3. The Board ensures that the organisation publishes clear and accessible information and statistics on the organisation's impact, outputs and outcomes.
4. The Board drives organisational performance by setting clear targets for the organisation's impact, outputs and outcomes.
5. The Board compares organisational performance by obtaining information which enables it to benchmark the organisation's impact, outputs and outcomes against other similar organisations.

# Leadership - Diagnostic Tool

Which of these statements  
most closely matches Boards

## Clarity around roles and responsibilities

1. Board members are briefed by the Chair/Chief Executive on joining the Board.
2. There is an induction on joining the board and Board members are provided with the Governing Document, Strategic Plan, Budget and copies of key policy documents.
3. Board members have had training in the General and Specific Duties of Charity Trustees. (Charity Trustee and Investment Act 2005) and OSCRs Guidance on Notifiable Events, GDPR regulations and other compliance areas relevant to the organisation.
4. There is an annual performance review of all Board members which covers adherence to positive behaviour and conduct, attendance and participation at Board meetings and identifies areas for development and training needs.
5. The Board reviews its capabilities in relation to skills/knowledge and experience and where necessary recruits Board members to fill gaps.

## Provision of Strategic Direction and Scrutiny of Performance

1. The Board induction covers the difference between Governance and Operations, Strategic Direction and Scrutiny.

2. There is a Memorandum of Reserved and Delegated powers which clearly delineates the decisions which are properly taken by the Board and those financial and operational decisions to be taken by the Chief Executive.
3. The Board Annual Performance Review process checks that there is a common understanding of the line between Governance and Operations, Strategic Direction and Scrutiny.
4. There are Terms of Reference for all Board sub-committees which sets out membership, span of decision-making, reporting requirements.
5. There is an Internal Audit plan which ensures that Board and Operational decision-making is subject to scrutiny to ensure compliance with the Memorandum of Reserved and Delegated Powers.

## Alignment with Organisational Purpose, Vision and Values

1. The Board seldom challenges decisions proposed by the Chief Executive as they are confident in their ability to lead the organisation and wish to support them.
2. Decision-making by the Board involves the assessment of alignment to organisational purpose, appropriate risk management, options assessment, robust evidence including feedback from key stakeholders and, where appropriate, advice from professional advisers on compliance.

3. Review of the Risk Register and Performance Reports on Operations and Financial Performance are reported on and/or considered by the Board at every board meeting.
4. There is a Register of Board Decisions which enables the Board to monitor the implementation of Board Decisions.
5. The Board agrees an Annual Plan to ensure that over a 12-month period there is adequate time allotted for Board review and decision making on governance, equalities and diversity issues, and for Board scrutiny of operational performance and compliance.

# Board Behaviour - Diagnostic Tool

Which of these statements most closely matches the Board's efforts to ensure

## The Board is well run

1. Board members are not aware of where or how information about the organisation's governance arrangements are publicised.
2. The Annual Report and Website contain information about how the organisation is governed.
3. There is a Complaints Policy and procedures in place for ensuring the timely resolution of complaints, the reporting on incidents and outcomes of complaints made by employees, service users, key stakeholders and members of the public.
4. The Board ensures that employees, service users, key stakeholders and members of the public are aware of the organisations policies and procedures relating to the Code of Conduct, Conflicts of Interest, Mainstreaming of Equalities and Diversity, Safeguarding of Vulnerable Adults and Children, Whistleblowing and GDPR.
5. There is an internal audit function which reports to the board around incidents and outcomes, and adherence to the organisations policies and procedures relating to the Code of Conduct, Conflicts of Interest, Mainstreaming of Equalities and Diversity, Safeguarding of Vulnerable Adults and Children, Whistleblowing and GDPR.

## Board Members individually and collectively operate with mutual respect and integrity

1. There is a Code of Conduct for Board Members and role descriptors for Trustees and for Officers of the Board which clearly sets out expected standards of behaviour and conduct.
2. There is a Board Register of Interests which is annually updated, Individual Board members understand their responsibility to update their Register of Interests as relevant changes to their personal/work circumstances arise.
3. There is a Conflict of Interests policy and clear procedures for managing Conflicts of Interest.
4. The Board has discussed and recorded areas where Conflicts of Interest could or might arise and Board members are very clear about what needs to be reported as a Conflict of Interest and how Conflicts of Interest will be managed.
5. Board Members know what to do in the event of unacceptable behaviour or conduct being exhibited by another Board Member. There is a mechanism for removing Board Members who are in breach of the Boards' Code of Conduct.

## The Board is open and accountable

1. Board meetings are dominated by one or two individuals.
2. There is evidence of some conflict on the board between different factions.
3. Board meetings are open, and everyone can contribute their thoughts. Generally, people feel that it is good to get different opinions on the table before taking a decision.

4. Minutes of Board Meetings and Board Papers are available to all members unless there are business sensitive or personnel issues under discussion.
5. At least once a year the Board will seek the views of employees, members, service users, and other key stakeholders.

# Board Control - Diagnostic Tool

Which of these statements most closely matches the Board's ability to

## Develop and Implement Controls

1. Once a year, prior to the AGM, the Board meets with the Auditor to approve the Annual Accounts and the Board re-appoints the Auditor.
2. Every 3 years the Board reviews the appointment of the Auditor - and ensures that a new Auditor is appointed at least every 5 years.
3. There is a Compliance Register which makes clear all the areas where the organisation has a legal duty to act/ or is required by law to operate in a certain manner.
4. There is a Risk Register which is regularly reviewed and Updated. The Board reviews "Most Significant Risks" at each Board meeting and the Board decides whether risks will be accepted, mitigated, transferred or refused.
5. There is an Internal Audit function which reviews the Terms of Reference for all Board Sub-Committees, the Memorandum of Reserved and Delegated Powers, Financial Delegation of Authorities, Risk Management, Safeguarding, Whistleblowing, Complaints, Mainstreaming of Equalities and Diversity Policies and Procedures for adherence and effectiveness.

## Provide Direction

1. Every 3 years the Board approves a Strategic Plan with Performance Targets following a stakeholder engagement exercise.
2. Board members have opportunities to scan the horizon and identify

changes in the current financial and operating environment and to identify trends likely to impact on the future financial and operational environment of the organisation or the context of its service users/beneficiaries

3. Every year an Operational Plan is approved which sets out clear operational and financial performance targets. Progress against these targets is reported to the Board at every meeting.
4. The Board has ensured that there is a performance management framework in place to ensure adequate oversight and control of all operational areas whether tasks are delegated to employees, volunteers or external contractors.
5. The Board reviews partnership arrangements and assesses whether services and functions are best delivered in-house, by external contractors, in partnership with or by merging with other organisations

## Provide Scrutiny and Performance Review

1. The Chief Executive/Finance Officer explain the Annual Accounts and Management Accounts to the Board and work with the Auditor to ensure effective financial and operational controls are in place.
2. The Board relies on one or two members who can understand and interrogate the Annual Accounts and Management Accounts; they are able to put questions to the Chief Executive/Finance Officer around the content of the Annual Accounts and Management Accounts and to ensure effective financial and operational controls are in place.
3. All Board members have had training and support around understanding the Annual Accounts and Management Accounts; they

are able to put questions to the Chief Executive/ Finance Officer around the content of the Annual Accounts and Management Accounts and have access to a meeting with the Auditor to ask for their assessment of the financial and operational controls in place

4. Board members are conversant with the Annual Accounts and Management Accounts, they can spot mistakes and to identify areas of concern around the financial and operational performance of the organisation.
5. There is a register/handbook of governance, financial and operational policies and procedures with set dates for review. Board Members set aside time to review the financial and operational controls in place and to recommend areas for improvement.

# Effectiveness - Diagnostic Tool

Which of these statements most closely matches the Board's

## Understanding of role, powers and duties

1. Board members rely on the Chief Executive or Finance Officer to let them know if a decision is ultra vires, or if the Governing Document specifies that the Board do have the power to make the decision.
2. Board members are always concerned to ensure that there is compliance with the law.
3. All Board members have a copy of the Governing Document and have covered in a thorough induction process the role of the Board, Trustee duties and responsibilities and the limits of the powers of the Board.
4. Board members are conversant with the powers and limits the powers of the board, the organisation's purpose and the key areas of compliance relevant to the organisation.
5. Where there is a dispute about the Role, Duties and Powers of the Board, external professional advice is sought by the Chair and reported in full to the Board.

## Collective Working

1. Some Board members will seek to reverse board decisions that they did not support; and/or there is a concern that board discussions are dominated by one or two individuals or factions on the board.

2. The general atmosphere at board meetings is healthy with all members of the Board participating in discussions and decisions.
3. All Board members understand that they are working collectively to deliver good governance and that this requires listening to others, especially staff, members, service users and other beneficiaries.
4. Board members can point to instances where ineffectiveness or poor performance on the Board has been tackled at a collective and individual level.
5. Board members can identify occasions where difficult, controversial discussions have been had, and where everyone participated in the decision-making process - and afterwards everyone came together to uphold the Boards decision.

## Achieving Organisational Purpose

1. The same group of core trustees have been in place for the last 10 years or more.
2. There is a fixed term of office for trustees. New trustees are recruited by the Chair and/or the Chief Executive.
3. The Board is transparent about the methods of recruitment, the skills/knowledge and experience it requires and it looks beyond the "usual" networks to recruit new trustees.
4. The Board reflects the diversity of the local community/ the population of Scotland and strenuous efforts are made to ensure diversity on the Board.
5. The Board has a range of ways of involving key stakeholders in the design, implementation, monitoring and evaluation of new services/ functions or programmes.

# Governance Diagnostic Scoring Sheet

Core Principle	Element	Score	RAG Status
Organisational Purpose	<i>Clarity of Purpose?</i>		
	<i>Promotion of Organisational Values</i>		
	<i>Clarity around how aims will be achieved</i>		
Leadership	<i>Clarity around roles and responsibilities</i>		
	<i>Provision of Strategic Direction and Scrutiny of Performance</i>		
	<i>Alignment with Organisational Purpose, Vision and Values</i>		
Board Behaviour	<i>The Board is well run</i>		
	<i>Board Members individually and collectively operate with mutual respect and integrity</i>		
	<i>The Board is open and accountable</i>		
Board Control	<i>Develop and Implement Controls</i>		
	<i>Provide Direction</i>		
	<i>Provide Scrutiny and Performance Review</i>		
Effectiveness	<i>Understanding of role, powers and duties</i>		
	<i>Collective Working</i>		
	<i>Achieving Organisational Purpose</i>		
<b>Scoring Guide for RAG Status</b> <i>1 - Red - Requires Urgent Action</i> <i>2- 3 Amber - Should be included in a Board Governance Improvement Plan</i> <i>4 - 5 Green - No further action required</i>			

