



Chartered
Governance
Institute
UK & Ireland



Principles of Good Practice for not-for-profit organisations undergoing board performance reviews

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Comments, questions and observations

If you have any feedback on the content of this guidance note, or additional questions that you'd like to discuss, please contact the Chartered Governance Institute UK & Ireland: 020 7580 4741 | enquiries@cgi.org.uk

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Foreword

These Principles of Good Practice are designed to support not-for-profit bodies, including charitable, sports and educational organisations, which are undertaking board performance reviews. Also known as board evaluations, or external reviews of governance, board performance reviews can be carried out internally or by an external reviewer, and should investigate a board's skills, expertise, composition and activity in order to set out specific recommendations.

These Principles outline the processes and scope of undertaking external reviews, as well as how organisations should disclose information about internal and external reviews. They are not prescriptive, but are intended to ensure that organisations achieve the maximum benefit from a board performance review and to give assurance to stakeholders.

Board performance reviews allow organisations to assess the effectiveness and impact of their governance. They are not merely an occasion to evaluate past performance, but also to look ahead and to serve as a springboard for further development. They function as an important tool for continuous improvement, not as a post-mortem of instances where things have gone awry. Reviews can be general or tailored to look at particular issues in more depth, and are particularly important at times of major governance or organisational change or growth. They should assess the board's culture and behaviours, build an understanding of its strengths and weaknesses, and identify any challenges which may be impacting its decision-making. Ultimately, an assessment and understanding of all of these factors, followed by appropriate action, will enable boards to perform better.

The impact of any board performance review depends as much – if not more – on the commitment of the board as it does on the ability of the reviewer. In the case of external reviews, the board appoints the reviewer, agrees on the terms of the review, and decides how to respond to the findings. The role of the board reviewer is to identify and highlight any issues that the board should consider; and the role of the board is to take appropriate action to address them in the interests of its own improvement and to advance the organisation's purposes.

These Principles of Good Practice are inspired by CGIUKI's Principles of Good Practice for listed companies, and the accompanying guidance on reporting. The Department for Business, Energy & Industrial Strategy (BEIS), as it then was, invited CGIUKI to identify ways to improve the quality and effectiveness of board performance reviews. Whilst the corporate and not-for-profit sectors differ in their requirements and resources, CGIUKI identified a lack of guidance about board performance reviews for not-for-profits, and a need for more support in this area.

These Principles, having been developed with the input of several organisations both providing and procuring reviews in the not-for-profit space, are designed to address this need and are intended for those working in organisations which are procuring, undergoing and reporting on board performance reviews, whether internal or external. For providers of external board reviews, CGIUKI has produced a 'Code of Practice for board reviewers: Not-for-profit organisations'.

CGIUKI offers a training service for those undertaking, or wishing to undertake board performance reviews, and training for those engaging reviewers or undertaking internal reviews. CGIUKI is the only chartered body to offer a formal accreditation process for those providing board performance reviews. Organisations which gain accreditation have undergone full scrutiny and are included on CGIUKI's list of accredited providers.

Frequency of internal and external reviews

1. Different types and sizes of not-for-profit organisations may wish or be required to undertake internal and external reviews at different frequencies.
 - The Charity Governance Code recommends that large charities (including, for example, academy trusts) carry out an external review every three years.
 - The Code for Sports Governance requires funded organisations falling under 'Tier 3' to undergo external reviews 'at least every four years', or at the request of UK Sport or Sport England. Organisations should hold internal reviews annually, as well as annual appraisals of individual Directors and of the Chief Executive Officer.
 - The Department for Education requires further education and sixth-form college corporations, together with other charitable education institutions designated as part of the FE sector, to have an annual governance self-assessment and a three-yearly external review.
 - The Academy Trust Governance Code states that internal reviews should happen annually, with external reviews every three years or more frequently as required, and that the Board includes an explanation of how it is evaluated in the governance statement.
 - For maintained schools, guidance from the Department for Education states that there is 'no prescribed timescale' for external reviews but that 'it is good practice for boards to undertake reviews at regular intervals', particularly before the board undertakes any significant change.

Selecting an external reviewer

2. The organisation should not delegate the decision on the appointment of an external board reviewer to a single board member or employee. The senior leadership team and in some cases, the nomination committee or a specific working group (where these exist), are often involved in choosing a reviewer, and this is then approved by the board. Once a reviewer has been appointed, it is often the Company Secretary, Head of Governance, Chair, or Chief Executive Officer who then holds the relationship with them.
3. The organisation should avoid the appointment of reviewers with which it, or a member of its board, has relationships that might create a conflict of interest. If there is a potential conflict of interest, this should be fully disclosed with an explanation of why the organisation believes the reviewer to be independent. Any potentially conflicted board member should declare that to the board and recuse themselves from the appointment process.
4. The organisation or the person leading the appointment process should not normally have a relationship with the same reviewer for more than eight years or two full reviews, whichever is shorter. There can be benefits to some familiarity, in that it allows a reviewer to chart what progress has been made over time. However, there are also drawbacks, and an organisation should not be discouraged from seeking out a fresh pair of eyes sooner.
5. When choosing a reviewer, organisations should carefully consider the reviewer's experience and track record, their reputation and references and the extent of their knowledge of the organisation's operating environment. It is also important to consider how comprehensive the reviewer's methodology is, to what degree they tailor their

approach to the organisation, and the quality and clarity of their reports and any follow-up. These factors need to be weighed up with cost, resource and timeline considerations. There may also be rare instances where the supply of quality reviewers for a particular type of organisation is limited. Organisations should be empowered to cast a wide net when procuring a reviewer; external reviewers can and do successfully undertake reviews across a wide variety of organisational types, structures and sizes.

Scope and process of an external review

6. The organisation and the external reviewer should agree terms of engagement before the review commences. These must specify the objectives and scope of the review, and the process to be followed. The organisation should not subsequently seek to amend the terms of engagement without the agreement of the reviewer. In deciding on the scope, the reviewer and the organisation must follow any relevant requirements or guidance. A review should be comprehensive in its evaluation of the board and can be tailored to look at particular areas of concern in depth. Dependent on the needs of the organisation, a review will cover:
 - the board's knowledge, skills, experience and decision-making capability
 - its culture and behaviours, including the quality of its discussions and its preparedness for handling disagreements
 - its composition and diversity, including diversity of thought
 - the organisation's compliance with the relevant governance code or standard
 - the clarity of the board's leadership in attaining the organisation's objectives, strategic goals and values
 - succession, induction and development plans
 - how the board works together as a unit, the tone set by the chair and chief executive, and the effectiveness of the governance professional
 - key board relationships, particularly the relations between executive and non-executive members of the board, the board and its committees, the board and the senior management team
 - the quality of the papers, presentations and general information provided to the board on the organisation and its performance.
7. The organisation should provide the reviewer with direct access to the board as part of the review process. It should also provide access to board papers, board committees, management and other internal and external stakeholders where this is considered appropriate to meet the agreed objectives of the review. Careful consideration should be given to the sensitivity of information shared, particularly with regard to safeguarding.
8. The organisation should provide the reviewer with an opportunity to present their findings directly to the full board and discuss outcomes and future actions with them.
9. The organisation should identify a contact with whom the reviewer can discuss in confidence any concerns they have about the way the process is being managed.

Reporting on internal and external reviews

10. Not-for-profit organisations may be required to report or disclose certain information about internal and external board performance reviews (for example, by funders or regulators), or they may choose to do so in the interest of stakeholder transparency. The information needs of an organisation's stakeholders will vary according to the size and type of organisation. Where organisations report on the process and outcomes of board reviews, they should ensure that disclosures are proportional, concise and relevant to the needs of their stakeholders. Organisations should also consider where to publish such information, for example, in an annual report, as part of a governance statement, on a website, or in disclosures directly to a regulator or funder.
11. When disclosing information about a board performance review, the organisation should state whether it has followed these Principles of Good Practice. Where the review has been externally facilitated, it should also state whether the reviewer has independent accreditation or complies with the Code of Practice for reviewers in the not-for-profit sectors.
12. Where an external reviewer has been used, the organisation should provide the reviewer with an opportunity to comment on any description of the process followed and the findings, and confirm any opinions attributed to the reviewer where these are included in disclosures or reporting.

How the board review has been conducted

13. Reporting should briefly summarise the objective and scope of the review. This may include details such as: whether it was a general review of all aspects of the board's effectiveness or whether it additionally focused on particular factors (for example, board composition and dynamics, or the quality of the information the board receives); whether the effectiveness of all or some board committees were evaluated; and whether subsidiary boards or particular board members were evaluated, including through appraisals or skills audits.
14. Reporting could briefly identify the different processes that were used to carry out the review. These might include, for example, face to face interviews, observing board or committee meetings (where an external reviewer has been engaged), reviewing board and committee papers or procedures, and questionnaires.
15. Ideally, reporting should also identify whose views were sought as part of the review.
16. Reporting should identify who in the organisation oversaw and undertook the review or, where the review was externally facilitated, who within the organisation was responsible for providing the external reviewer with the necessary access and support, and who was the board member identified as the reviewer's escalation point.

Externally facilitated reviews

17. It is good practice, particularly for larger organisations, for reporting to include a brief description of the process by which an external reviewer was selected (for example, whether a formal tender process was followed and/or shortlisted candidates were interviewed). This identifies who in the organisation was involved in taking the decision, and whether the reviewer has other connections with the organisation or with the person leading the appointment process.
18. Where appropriate, reporting should also state the length of time for which the reviewer has undertaken reviews for the organisation, and whether the reviewer

provides any other services. Where the reviewer has already completed two or more reviews for the organisation, or where other services are provided, reporting should explain how independence and objectivity are safeguarded.

The outcomes and actions taken

19. Some findings of a board performance review, and some actions to be taken as a result, may relate to issues that raise sensitivities for the organisation, which it might understandably be reluctant to disclose publicly. However, it can be beneficial to demonstrate a robust review process and a willingness to continually improve in order to build credibility amongst stakeholders. Organisations will need to balance these considerations in deciding what to disclose about the results of their board performance review.
20. Disclosures (for example in an annual report, on a website or in a governance statement) could identify the key aspects of the board's performance which need to be improved which have emerged in the review's findings. Wherever possible, specific actions should be identified and a timetable for completing them given.
21. Organisations may choose to highlight particular areas of strategic importance, but they should avoid only including positive outcomes and should avoid overly generic, vague language.
22. One area which may deserve particular attention is that of board composition. Organisations can choose to summarise the review's findings as to whether the board has the necessary mix of skills, knowledge and expertise, and as to its diversity. Reports can also indicate any changes needed, any specific actions to take and a timeline for these.
23. Where organisations have previously identified actions which they intend to take as a result of previous reviews, they could report on whether those actions have been implemented, and if not, explain why not.

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