

A GUIDE FOR CHARITIES AND  
INSTITUTIONS OF A PUBLIC CHARACTER

**BOARD POLICY &  
PROCEDURES FOR  
DISCRETIONARY  
PURPOSE  
PROGRAMMES**

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*The Institute of  
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## Contents

Introduction.....	2
Purposes.....	2
Scope.....	3
How to use the guide? .....	3
What are discretionary purpose programmes? .....	4
Discretionary purpose programme policy .....	5
What is a discretionary purpose programme policy? .....	5
Why is a discretionary purpose programme policy important?.....	5
Who are the key stakeholders?.....	5
Risk appetite and ethical values.....	6
What are the key components of a discretionary purpose programme policy? .....	9
1. Policy Objectives .....	9
2. Policy Scope.....	10
3. Roles and Responsibilities .....	10
4. Risk Appetite and Ethical Values .....	11
5. Discretionary Purpose Programme Management Process .....	12
6. Communication and Training .....	15
7. Monitor and Review .....	15
8. Documentation .....	16
Guidance on developing a discretionary policy.....	17
What are the attributes of a robust policy?.....	17
A sample policy for small charities .....	18
Five key considerations to responsible Board approval of discretionary purpose programmes .....	22
Conclusion .....	23
Glossary .....	24
Appendix 1 - An illustration of roles and responsibilities .....	25
Appendix 2 - An illustration of a discretionary purpose programme management process .....	26
Appendix 3- Examples of assessment criteria .....	30

### Disclaimer

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# Introduction

## Purposes

Charities and Institutions of a Public Character (hereinafter referred as “charities”) are registered in pursuit of their charitable purposes or missions. According to the Commissioner of Charities, the ambit of core charitable purposes covers the relief of poverty; advancement of education; advancement of religion; promotion of health; advancement of animal welfare; advancement of citizenship or community development; advancement of environmental protection or improvement; advancement of arts, heritage or science; advancement of sport, where the sport promotes health through physical skill and exertion; and relief of those in need by reason of youth, age, ill-health, disability, financial hardship or other disadvantages.<sup>1</sup>

To achieve their charitable purposes, charities require resources. Typically, funds are raised from a variety of sources (e.g. donations, gifts and grants) to support their operations and programmes. In reality, charities operate and exist in a resource-constrained environment. Against this background, the Code of Governance for Charities and Institutions of a Public Character (“Code”) sets in place best practices and guidelines that charities should spend resources on charitable activities to further their purposes. However, when resources are spent on non-core charitable purposes (hereinafter referred to as “discretionary purposes”) or programmes, there should be a documented policy to seek Board’s approval.<sup>2</sup> As a best practice of good governance and transparency, charities are also encouraged to disclose that they have this documented policy. The Office of the Commissioner of Charities (COC) had also issued a Guidance for Charities Engaging in Business Activities for charities’ reference.

So, what should constitute a sound documented policy in relation to discretionary purpose activities or programmes? In essence, it must provide a clear direction to the Board on the right things to consider for discretionary purpose programmes; and to do the right things to achieve its charitable intents or purposes.

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<sup>1</sup> Office of the Commissioner of Charities. Charity Portal, About Charities and IPCs. [www.charities.gov.sg](http://www.charities.gov.sg).

<sup>2</sup> Charity Council. April 2017. Code of Governance for Charities and Institutions of a Public Character. According to para. 6.1.1., “charities should spend its resources on ways to further its charitable purposes. There should be a documented policy to seek Board’s approval for instances where the charity provides loans, donations, grants or financial assistance which are not part of its core charitable programmes.”

## Scope

In alignment with the requirements of paragraph 6.1.1 of the Code, this guide focuses on the discretionary purpose programmes policy for the Board.

A policy provides the direction and intent of the charity in relation to the management of discretionary purpose programmes. It provides the framework for a charity to drive the non-core charitable purpose activities to further advance the charity's core purpose.

The scope of this guide includes:

- What are discretionary purpose programmes?
- Why is it important to have a documented policy on discretionary purpose programmes?
- What are the key components of a discretionary purpose programme policy and why they are important?
- What are the key considerations when developing each key component of the discretionary purpose programme policy?
- What are the attributes of a good policy?

This policy is primarily for governing board members and it is also applicable to key management, including the Policy Owner, and staff involved in charitable purposes of a discretionary nature. While the "how to" develop a policy is important, this guide embeds ethical values as an integral part of the policy. Board members, in approving discretionary purpose programmes, must not only know what are the right things to do, but to do the right things in the right ways.

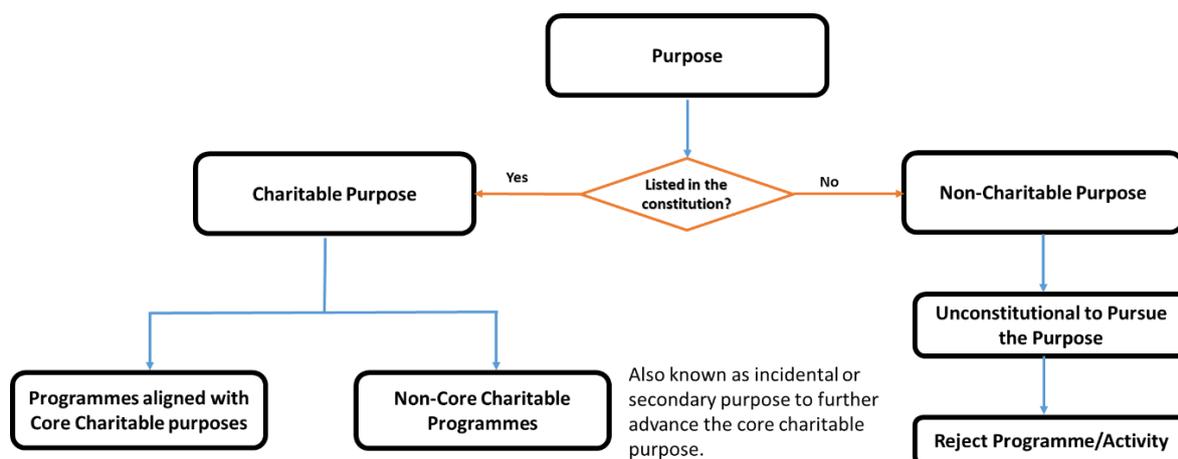
## How to use the guide?

This guide provides an understanding of the key considerations in the development of a Board policy for the Governing Board on discretionary purpose programmes in relation to loans, donations and grants. It is not meant to cover all discretionary purposes in practice. While the key components of a policy and a sample policy are provided as an illustration, users should adapt and exercise judgement and discretion based on a risk-based approach in the use of this guide; and in the specific contexts of their charities.

## What are discretionary purpose programmes?

In Singapore, a charity’s constitution must be approved by the Office of the Commissioner of Charities. A fundamental component of a constitution is the charitable purposes. Typically, charitable purposes comprise (a) core purposes; and (b) non-core charitable or discretionary purposes. Non-core purpose or discretionary purpose is also commonly referred to as incidental purpose. Charities are not allowed to pursue programmes or activities that are not articulated in its constitution (see Diagram 1).

**Diagram 1:** Nature of charitable purposes



In essence, though the purposes are non-core in nature, they are recognised in the charity’s constitution and deemed appropriate to advance the core charitable purposes of the charity. For example, a charity’s core purpose according to its constitution is the relief of poverty. Inter alia, the constitution may provide for non-core charitable programmes of providing financial assistance, donations or grants to institutions to conduct poverty-related research to facilitate in its strategy planning to further its core purpose. Unlike programmes or activities for core purposes, the Code requires an additional safeguard for non-core charitable purposes initiatives. That is, the Board must approve these initiatives.

# Discretionary purpose programme policy

## What is a discretionary purpose programme policy?

A policy articulates the Board's direction and intent in relation to non-core charitable purpose programmes.<sup>3</sup> It must support the charity's mission and be aligned with sound ethical values. A policy comprises directive statements that provide a set of guiding principles to help with discretionary purpose programme decision-making.<sup>4</sup> It articulates how the discretionary purpose programme management process should be managed, from the application stage to closure. Last, but not least, the policy should be viewed from and applied with a risk-based lens to ensure the design and operational effectiveness of the discretionary purpose programme management process.

## Why is a discretionary purpose programme policy important?

A formal policy provides clarity and transparency on the discretionary purpose programme management process as well as the framework to enhance its effectiveness. It keeps the Board, employees and other stakeholders on the same wavelength and awareness of the charity's position and practices in relation to discretionary purpose programmes. The presence of a policy serves as a signal on the charity's commitment to the proper management of discretionary purpose programmes and its importance to sound governance. The end goal is for the Board, and the charity as a whole, to do the right things and to do the right things in the right manner.

## Who are the key stakeholders?

The Board sits at the apex of the charity's accountability structure. Unlike core charitable purpose programmes, the Code requires the Board's approval for discretionary purpose programmes. Charities are encouraged to appoint a Policy Owner and Designated Officer of appropriate seniority to take charge of the documented policy and procedures involving discretionary purpose programmes.

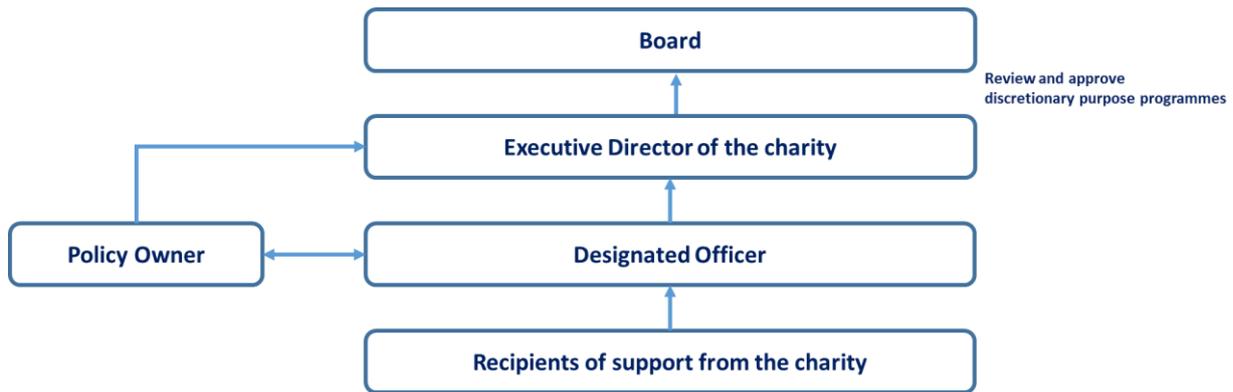
The key stakeholders involved are the Board, the Policy Owner, Designated Officer and recipients (see Diagram 2). A detailed description of the roles and responsibilities are presented in Appendix 1.

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<sup>3</sup> International Organization for Standardization (ISO). ISO 31000: 2009 - Risk Management: - Principles and Guidelines.

<sup>4</sup> Adapted from Victoria's Volunteering. What's the difference between policies and procedures? Procedures, unlike a policy, describe how each policy will be put into action in an organisation. <http://www.volunteer.vic.gov.au/manage-your-volunteers/policies-and-procedures/whats-the-difference-between-policies-and-procedures>.

**Diagram 2:** An example of a discretionary purpose programme management structure



## Risk appetite and ethical values

Charities do not exist in a risk-free environment. While risks may be omnipresent, it correspondingly calls for vigilance and prudent risk-taking by charities. As part of sound governance, the Board is encouraged to articulate its risk appetite to provide the context for prudent risk-taking decisions. The risk appetite defines the types and amount of risk, on a broad level, the charity is willing to accept in pursuit of value.<sup>5</sup>

In relation to discretionary purpose programmes, a charity faces a multitude of risks that typically fall into four risk categories - financial, compliance, technology and operational. The risk appetites<sup>6</sup> are usually expressed as high-level statements (see Table 1) for each risk category.

**Table 1:** Examples of risk appetite statements

Risk Category	Risk appetite statement
Financial	<ol style="list-style-type: none"> <li>Each year, the charity will not commit more than X% of its surplus reserve on discretionary purpose programmes.</li> <li>The charity is committed to serving our core purposes in a sustainable manner. We will not approve discretionary purpose programmes when our reserve amount, after considering existing and committed future initiatives, is less than \$Y.</li> <li>For the discretionary purpose programme, the charity has a low risk appetite for a potential programme deficit of over \$X.</li> <li>The outcome of programme shall be measured within 1 year of commencement of the project and a decision on the extension or</li> </ol>

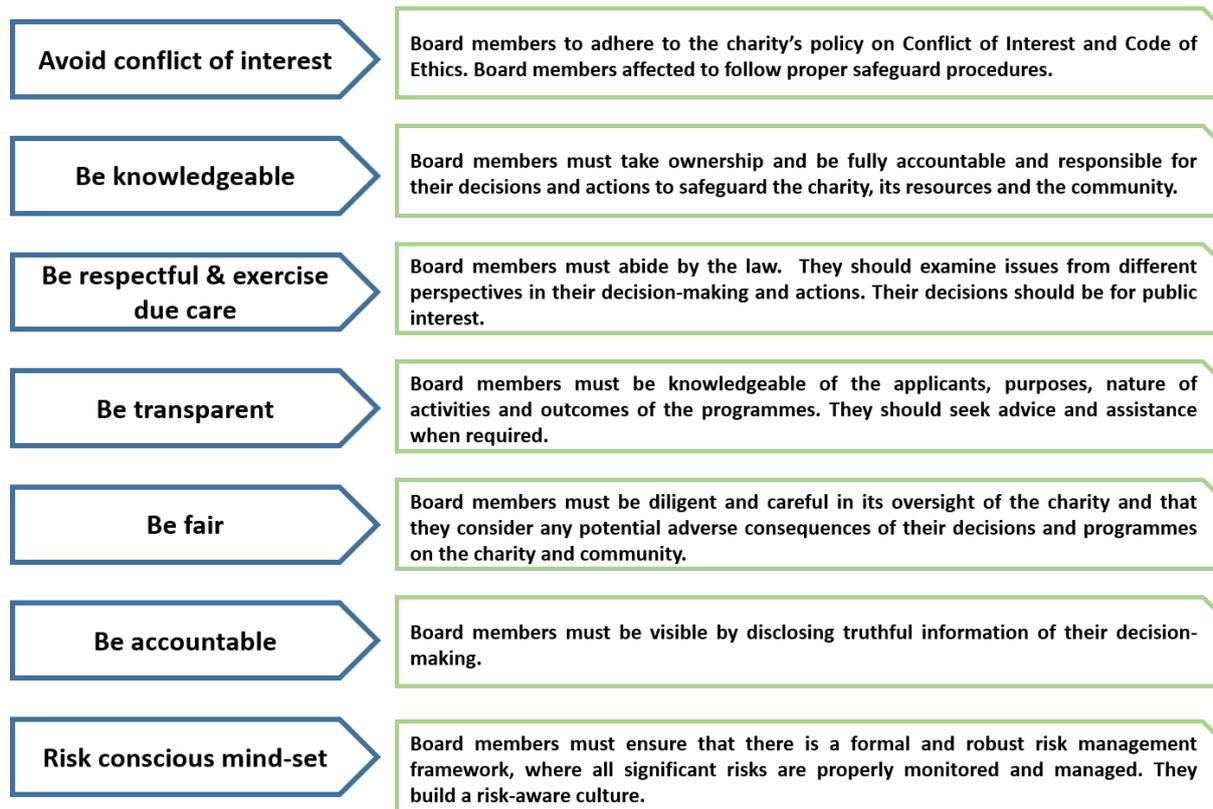
<sup>5</sup> Risk appetite as defined by Committee of Sponsoring Organizations of the Treadway Commission (COSO) Enterprise Risk Management – Integrating with Strategy and Performance.

<sup>6</sup> Adapted from Singapore Telecommunication Limited. Annual Report 2016. [http://info.singtel.com/annualreport/2016/files/Singtel\\_AR2016.pdf](http://info.singtel.com/annualreport/2016/files/Singtel_AR2016.pdf)

Risk Category	Risk appetite statement
	termination of the project will be effected within that time frame. Upon extension, the charity should conduct regular reviews of the programme outcomes.
Compliance	The charity has a low compliance risk appetite for all compliance activities, including compliance failures by recipients of its discretionary funds.
Technology	The charity has a medium risk appetite for technology. It is prepared to adopt new technologies to ensure its relevance and to achieve its charitable purposes in a cost-effective manner.
Operational	The charity has a low operational risk appetite related to fraud, safety, quality of the programme deliverables, programme continuity, as well as incidents which affect the charity's reputation to the donors, beneficiaries, regulators and community at large.

To be an effective Board, it is about doing the right things with the right ethical habits of mind. Having a proper discretionary purpose programme management framework provides the essential structure, process and people to manage discretionary purpose programmes. However, its operational effectiveness is not assured without a sound ethical foundation that is reinforced by a proper tone from the Board. Therefore, there must be adequate ethical safeguards (see Diagram 3) when making decisions on discretionary purpose programmes – from documentation, application, assessment and approval, payments, reporting, monitoring, review, remedial measures to the closure of the programmes.

**Diagram 3:** Key safeguards for the Board’s considerations on discretionary purpose programmes



Under the Code, all discretionary purpose programmes should be approved by the Board. The Board has a fiduciary duty and is responsible for the success of these programmes. It is about achieving success without significant harm (financial and non-financial) to the charity. Additionally, it is about embracing a quality mind-set of learning from adverse events when they occur, as references for continuous improvement. The Board must exercise due care and act in good faith at all times to protect the interests of the charity.

# What are the key components of a discretionary purpose programme policy?

The policy needs to be translated into execution across the fabric of the charity, reinforced by a risk-conscious and ethical mindset.

## 1. Policy Objectives

*What it aims to achieve and setting the tone?*

What to include?		
Define discretionary purpose programme	Importance of discretionary purpose programme	Objectives of the policy
<b>Illustration</b>		
<p>A discretionary purpose programme involving a voluntary payment is an incidental activity that can be carried out by a charity in furtherance of its charitable objectives. Being discretionary in nature, a proper management process is important to ensure the discretionary funds made will not significantly affect the charity’s core programmes. Also, the discretionary purpose programme should not lead to adverse financial and non-financial consequences to the charity, and not have a negative impact on the community. Therefore, managing a discretionary purpose programme is an essential part of sound governance.</p> <p>The policy articulates the charity’s direction and intent on the management of discretionary purpose programmes. It emphasises the Board’s commitment to the Code and highlights values it embraces (e.g. transparency, equity, accountability and respect) in its decisions and practices.</p> <p>The objectives of the policy are:</p> <ul style="list-style-type: none"> <li>• To emphasise the Board’s commitment to the proper management of discretionary purpose programmes.</li> <li>• To provide a formal direction and intent on discretionary purpose programmes to protect the interests of the charity.</li> <li>• To provide the framework on the structure, processes and resources (including people) to support and implement discretionary purpose programmes.</li> <li>• To develop and promote a sound ethical culture (e.g. of transparency, equity, accountability and respect) of doing the right things, and doing the right things in the right manner.</li> </ul>		

## 2. Policy Scope

*What is covered in the policy?*

What to include?
<b>Extent of policy coverage</b>
<p style="text-align: center;"><b>Illustration</b></p> <p>This policy covers discretionary purpose programmes. In essence, there are many stakeholders involved in the discretionary purpose programme management process. The policy's primary target is the Board and those involved in the discretionary purpose programme management process. These include the Management, Designated Officer, Policy Owner, and Head of Internal Audit, where applicable.</p> <p>The policy helps those involved in discretionary purpose programme management to better understand the importance of sound governance and practices over discretionary purpose programmes.</p>

## 3. Roles and Responsibilities

<b>Policy statement:</b> There should be a proper structure of accountability, and the roles and responsibilities of key stakeholders should be clearly articulated and communicated.	
<b>What to include?</b>	
<b>Discretionary purpose programme management structure</b>	<b>Roles and responsibilities</b>
<p style="text-align: center;"><b>Illustration</b></p> <p>The Board oversees all charitable purpose programmes. It is accountable to the relevant regulatory agencies and any other funding government agencies (e.g. Accounting and Corporate Regulatory Authority and the Commissioner of Charities).</p> <p>Under the Code, the Board is specifically required to establish a documented policy for the Board to approve all discretionary purpose programmes. The roles and responsibilities of the key stakeholders in the discretionary purpose programme management process must be clearly defined and properly communicated (see Appendix 1).</p>	

## 4. Risk Appetite and Ethical Values

<b>Policy statement:</b> Decisions on discretionary purpose programmes by the Board should be aligned with the charity's risk appetite, driven by its Code of Ethics and Conduct and Conflict of Interest Policy.	
<b>4(a) Risk appetite</b> <b>What to include?</b>	
<b>Risk appetite statements</b>	<b>Financial and non-financial risks</b>
<b>Illustration</b> The charity operates in an uncertain and resource-constraint environment. To support its decision-making, the charity has to articulate the types and amount of risk it is prepared to take. This is commonly expressed by way of risk appetite statements. They are high level statements (e.g. high, moderate or low) associated with the charity's risk categories (e.g. financial, compliance, technology and operational). Risk appetite statements provide guidance for management to develop risk tolerances <sup>7</sup> for the individual risks in the respective risk categories.  The charity's risk appetite is reviewed at least annually or as required, on a regular basis.	
<b>4(b) Ethical values</b> <b>What to include?</b>	
<b>Nature of ethical values</b>	<b>Commitment to accountability and transparency</b>
<b>Illustration</b> Board members hold significant power in the approval process over discretionary purpose programmes. At the same time, they have to perform their fiduciary duties with due care and act in good faith. Board members are expected to adhere to a high standard of ethical conduct when discharging their responsibilities. Some examples of ethical values include transparency, equity, accountability and respect for stakeholders (see Diagram 3).	
<b>4(c) Conflict of interest</b> <b>What to include?</b>	
<b>Board members' disclosure</b>	
<b>Illustration</b> Board members have a duty to act in the best interests of the charity. A potential roadblock is the conflict of interest. It exists when a member's personal or business interests interfere with the interests of the charity. When this happens, the member's objectivity may be impaired and may put the charity resources and reputation at risk. <sup>8</sup>  Board members should refrain from and avoid exposure to conflict of interest situations. When it is apparent, they should comply with the charity's policy on Conflict of Interest and take the appropriate safeguards. These include timely disclosure of any potential conflicts and refraining from partaking in discussions and decision-making involving the affected issues or cases.	

<sup>7</sup> Committee of Sponsoring Organizations of the Treadway Commission (COSO) Enterprise Risk Management – Integrating with Strategy and Performance, describes risk tolerance as the range of acceptable outcomes relating to achieving a business objective within the risk appetite.

<sup>8</sup> Singapore Post Limited. Policy on Directors' Conflicts of Interest. <https://www.singpost.com/sites/default/files/directors-conflict-interest-policy.pdf>

## 5. Discretionary Purpose Programme Management Process

<p><b>Policy statement:</b>  All non-core charitable programmes must be approved by the Board. The charity should establish a formal and robust process for Board's approval and to manage discretionary purpose programmes to ensure that they enhance the interests of the charity. See Appendix 2 for an illustration of a discretionary purpose programme management process.</p>		
<b>5(a) Assessment</b>		
<b>Purpose: To evaluate and approve programmes by the Board</b>		
<b>What to include?</b>		
<b>Charity's constitution</b>	<b>Assessment criteria</b>	<b>The outcome</b>
<b>Illustration</b>		
<p>The Board should have a sound basis or assessment criteria to support its decisions (see Appendix 3), which includes:</p> <ul style="list-style-type: none"> <li>• The reliability of information provided and the openness and cooperation rendered by the applicants to queries about the proposed programmes.</li> <li>• The extent of impact and alignment of the programmes on the charity's strategy and furtherance of its core purposes.</li> <li>• The types and amount of risk pursued are consistent with the charity's risk appetite.</li> <li>• The extent the programmes will not jeopardise existing and future core programmes.</li> <li>• The potential harm, including reputational consequences, of the programmes on the charity and/or community.</li> <li>• The applicants' governance practices, Board and management backgrounds.</li> <li>• The applicants' control environment and internal controls in place to manage the programmes.</li> <li>• The ability to deliver the outcomes, based on past testimonies, references and information gathered.</li> <li>• The willingness and capability to provide regular updates on the progress of the programmes; and reviews by the charity.</li> </ul>		
<b>5(b) Agreement and disbursement</b>		
<b>Purpose: To have a formal understanding with the recipients on the terms and conditions, including deliverables and programme outcomes, and the payment schedule and amount</b>		
<b>What to include?</b>		
<b>Agreement</b>	<b>Terms and conditions</b>	<b>Disbursement</b>
<b>Illustration</b>		
<p>Once the discretionary purpose programme has been properly approved by the Board, a formal agreement should be signed by the charity and the recipient. It must contain clear terms and conditions on the deliverables, outcomes, timelines, usages of funds and assets, reporting requirements, review and monitoring, and penalty clauses (e.g. clawback) when the terms and conditions are breached.</p> <p>There are several ways disbursement can be carried out:</p> <ol style="list-style-type: none"> <li>i. Lump sum payment <ol style="list-style-type: none"> <li>a. At the beginning</li> <li>b. At the end</li> </ol> </li> <li>ii. Reimbursement model based on claims</li> <li>iii. Disbursement at different stages of completion</li> </ol>		

The Designated Officer should evaluate all available options and conduct a cost-benefit analysis to select the best disbursement option in the interest of the charity.

### 5(c) Reporting by recipients to the charity's management and to the Board

**Purpose: Recipients to provide regular progress reports for review by management and compilation of periodic management reports to the Board.**

#### What to include?

##### Performance reporting

##### Management reporting

#### Illustration

To minimise the risk of non-performance by the recipients, the charity's Designated Officer should obtain sufficient assurance, through regular performance reports or proof of activities from the recipients. The aim is to ensure that the resources are properly utilised and the deliverables are in accordance with the terms and conditions of the agreement.<sup>9</sup>

The nature and contents of the progress reports may include financial and non-financial performance measures. Some examples are:

- i. Financial
  - (a) Details on the budgeted amount and actual expenditure.
  - (b) Expenditure by programme, category and vendor.
- ii. Non-financial
  - (a) Performance milestones: Actual deliverables and timelines achieved against those targets agreed in the agreement.
  - (b) Number of incidents of non-compliance with the terms and conditions in the agreement. For example, delays in the submissions of progress reports.

For programmes with issues (e.g. failures to adhere to the terms and conditions), management should investigate and review these cases, and take the appropriate remedial measures to safeguard the resources and reputation of the charity. The charity should also leverage its whistle-blowing hotlines as part of its reporting strategy on the recipients and staff involved in the discretionary purpose programme.

The management should provide the Board with periodic updates, including key information on matters in the recipients' progress reports and remedial measures for programmes with identified issues. The management report to the Board may include:

- i. Financial
  - (a) The consolidated amount of funds disbursed against the budgeted amount and residual budget available.
  - (b) The consolidated amount of funds disbursed by category and vendor.
  - (c) The amount of reserves available to support existing and future programmes.
- ii. Non-financial
  - (a) Number of applications received, approved, closed and the number of on-going programmes.
  - (b) The number of programmes with issues, their impact on the charity, causes of the issues and remedial measures taken or proposed to handle them.
  - (c) Assessment of the key risks in the discretionary purpose programme management process and the appropriate risk responses.

<sup>9</sup> Refer to the section on Monitor and Review.

5(d) Closure	
<b>Purpose: To ensure that programme closures are properly carried out and the outcomes are evaluated.</b>	
What to include?	
Evaluation	Recourse
<b>Illustration</b>	
<p>Closure of an approved programme is made (a) when the programme failed to abide by the terms and conditions of the agreement; or (b) upon completion of the deliverables in accordance with the agreement.</p> <p>All programmes should be evaluated on the extent in which they achieve their targeted outcomes. Some of the evaluation criteria include:</p> <ol style="list-style-type: none"> <li>i. Compliance with the terms and conditions of the agreement.</li> <li>ii. For programmes which achieved the outcomes, they can be further analysed as follows: <ol style="list-style-type: none"> <li>(a) the extent of budget and/or schedule over-run;</li> <li>(b) incidents of disputes or activities (e.g. abuse or misuse of funds and/or assets) which harmed the reputation of the charity; and</li> <li>(c) the degree of co-operation and assistance (e.g. providing timely responses to queries on the progress reports) rendered to the charity during the course of the programmes.</li> </ol> </li> </ol> <p>For programmes which are prematurely terminated and those which are completed but breached the terms and conditions of the agreement, the charity should pursue any remedial sanctions/recourses (such as clawback and penalty) in accordance with the agreement.</p> <p>Upon closure, any excess funds and/or assets belonging to the charity should be returned accordingly. Arrangements should be made to ensure that they are properly accounted for and reported to the Board. Lessons learnt should be documented to enhance the policy and management of future discretionary purpose programmes.</p>	

## 6. Communication and Training

<b>Policy statement:</b> The policy must be properly communicated and accessible to all key stakeholders; and those involved in the discretionary purpose programme management process are adequately trained and equipped.		
<b>What to include?</b>		
<b>Communication and access to the policy</b>	<b>Training and assistance</b>	<b>Avenue for clarification</b>
<b>Illustration</b>		
<p>Once approved by the Board, the latest discretionary purpose programme management policy should be properly communicated and made accessible to all interested parties in the charity's website.</p> <p>The charity supports the training of all the relevant parties involved in the discretionary purpose programme management process. These help them to stay abreast of developments, and to be properly equipped, to execute the policy and manage discretionary purpose programmes.</p> <p>Where doubts arise in the interpretation of the policy and management of discretionary purpose programmes, the Policy Owner or Designated Officer as well as the Board should be consulted as appropriate.</p>		

## 7. Monitor and Review

<b>Policy statement:</b> The charity should establish formal monitoring and review to ensure the effectiveness of the discretionary purpose programme management process, discretionary purpose programmes and that significant risks are adequately addressed.		
<b>What to include?</b>		
<b>Monitor</b>	<b>Review</b>	<b>Internal Audit</b>
<b>Illustration</b>		
<p>The Designated Officer monitors the effectiveness of the discretionary purpose programme process and the performance of the recipients (e.g. the status of the discretionary purpose programmes, usage of funds and the effectiveness of the programmes). The monitoring metrics must be clear and understood by the relevant staff and recipients. The monitoring methods include examining progress reports, regular meetings and site visits, where appropriate.</p> <p>The charity must exercise due diligence and scepticism to be on the lookout for early warning signs of non-performance by the recipients. Some examples of early warning indicators may include failure to meet performance targets, changes in laws affecting the programmes (e.g. changes in manpower regulations affecting the supply of professionals with the critical skills for the programmes), resignation of key management in the recipient organisations, and persistent delays in the progress reports. The results should be reported periodically to the Board.</p> <p>Management should conduct periodic reviews on the effectiveness of the discretionary purpose programmes and the relevance of the policy. For programmes with issues, management must gather information to evaluate the situation and take the appropriate corrective measures.</p>		

All significant risks affecting the charity must be assessed to determine the relevant remedial options. They are placed on the management’s risk radar to ensure that the risk levels align within its risk appetite.

Management should provide monitoring and review results for the Board’s oversight. When the charity has an internal audit function, the function should report to its Board on the effectiveness of the discretionary purpose programmes and the performance of the recipients.

The internal audit function, when available, helps to enhance the Board’s oversight by providing an independent, objective assurance that the discretionary purpose programme management process is effective, with significant risks adequately monitored and managed by the charity.

## 8. Documentation

### Policy statement:

The charity should ensure timely, secure and proper documentation and retention of the policy and all key documents in relation to the discretionary purpose programme management process and the discretionary purpose programmes. The documents should be accessible to the relevant stakeholders.

### What to include?

#### Storage & security

#### Access

#### Archiving/Retention

### Illustration

Documents comprise hard and electronic copies. Proper documentation of the policy, minutes of meetings and details on all programmes must be kept for regulatory, accountability, control, monitoring and review (including audit as appropriate) purposes. As part of sound governance, the Policy Owner or designated staff must ensure that the policy and the version control be documented, updated and accessible to the relevant stakeholders. Documents should be properly classified (e.g. not-restricted or confidential). To ensure the integrity of the documents, the control measures may include protection from editing, back-up of electronic copies, access controls and environmental controls to protect from moisture, fire, flooding and security of the databases.<sup>10</sup>

Current version of the policy should be readily available and accessible to the approved users. Users must be aware on how and where to access the policy, discretionary purpose programmes and related materials.

All documents must be properly retained in accordance with the relevant regulatory retention requirements. In relation to the policy, previous versions should be properly marked and only accessible by the Policy Owner and designated staff (e.g. Designated Officer).

<sup>10</sup>Adapted from UK Clinical Research Collaboration. *Standard Operating Procedure Document Control*. [http://c.ymcdn.com/sites/tmn.site-ym.com/resource/collection/AB6D74CF-ADCA-4A83-9788-A466A380CAD3/UKCRC\\_CTU\\_template\\_SOP\\_\\_Document\\_Control\\_v1.0.doc](http://c.ymcdn.com/sites/tmn.site-ym.com/resource/collection/AB6D74CF-ADCA-4A83-9788-A466A380CAD3/UKCRC_CTU_template_SOP__Document_Control_v1.0.doc); University of Oxford. *Standard Operating Procedure Document Control*. [https://www.admin.ox.ac.uk/media/global/wwwadminoxacuk/localsites/researchsupport/documents/ctrq/downloads/initialconcepttosubmission/SOPTemplate\\_Document\\_Control\\_V3.1.doc](https://www.admin.ox.ac.uk/media/global/wwwadminoxacuk/localsites/researchsupport/documents/ctrq/downloads/initialconcepttosubmission/SOPTemplate_Document_Control_V3.1.doc).

# Guidance on developing a discretionary policy

## What are the attributes of a robust policy?

A policy is an important governance document. Some attributes of an effective policy are:

- It is easily understood.
- It has clearly defined objectives and is aligned with the charity's goals and strategy.
- It is relevant to the changing charity contexts and objectives.
- The key stakeholders are appropriately consulted in its development and update.
- It is easily accessible, and clearly communicated to the relevant stakeholders.

The contents and details in the sample is for illustrative purpose only and may be adapted by charities to develop a discretionary purpose programme policy to suit their contexts and needs.

For the purpose of the guide, the policy statements are presented under six key themes:

- a) People (i.e. roles and responsibilities)
- b) Process (i.e. the discretionary purpose programme management process)
- c) Communication and Training
- d) Monitoring and Review
- e) Documentation
- f) Ethical Values (including risk appetite).

## A sample policy for small charities

### Purpose

The objective of this policy is to provide a formal direction and intent on the discretionary purpose programmes to protect the interests of the charity. Discretionary purpose or incidental programmes are recognised by the charity's constitution to further advance the interest of the charity. All discretionary purpose programmes must be approved by the Board. This policy provides a framework and guidance for adherence and consideration in the Board's decision on discretionary purpose programmes.

### Scope

This policy covers non-core charitable or discretionary purpose programme. The primary target audience is the Board and other key stakeholders involved (e.g. management, Designated Officer, Policy Owner and applicants) in the discretionary purpose programme management process.

### Roles and responsibilities

**Policy statement:**

**There should be a proper structure of accountability and the roles and responsibilities of key stakeholders clearly articulated and communicated.**

The Board oversees and approves all non-core charitable or discretionary purpose programmes. Under the Code, the Board is specifically required to establish a documented policy for the Board to approve all discretionary purpose programmes. Management, Designated Officer and the Policy Owner support the Board. The roles and responsibilities of the key stakeholders are clearly defined.

### Risk appetite and ethical values

**Policy statement:**

**Decisions on discretionary purpose programmes by the Board should aligned with the charity's risk appetite and adherence with its Code of Ethics and Conduct and Conflict of Interest Policy.**

The charity operates in an uncertain and resource-constrained environment. To support its decision-making, the charity has to articulate the type and amount of risks it is prepared to take in pursuit of its charitable purposes. These are expressed by way of the risk appetite statements for its key risk categories.

Risk category	Risk Appetite
<b>Financial</b>	<p>The charity has a low financial risk appetite when handling loans, donations and grants for discretionary charitable purposes. We will not approve discretionary purpose programmes when our aggregated reserve is below S\$X as stipulated in the Reserves policy.</p> <p>For the discretionary purpose programme, the charity has a low risk appetite for a potential programme deficit of over S\$X.</p>
<b>Compliance</b>	<p>The charity has a low compliance risk appetite for all compliance activities, including compliance failures by recipients of its discretionary funds.</p>
<b>Technology</b>	<p>The charity has a medium risk appetite for technology. It is prepared to adopt new technologies to ensure its relevance and to achieve its charitable purposes in a cost-effective manner.</p>
<b>Operations</b>	<p>The charity has a low operational risk appetite for fraud, safety, quality of the programme deliverables, programme continuity, as well as incidents which affect the charity's reputation to its donors, beneficiaries, regulators and community at large.</p>

The charity's risk appetite should be reviewed at least annually or as required on a regular basis. It is committed to maintaining sound ethical values in accordance with its code of ethics and conduct. Where there is a potential conflict of interest, all staff related to the discretionary purpose programmes must make full and timely disclosures, and refrain from partaking in discussions and decision-making on matters involving areas where conflict of interest can occur.

## Process

### Policy statement:

**All non-core charitable programmes must be approved by the Board. The charity should establish a formal and robust process for Board's approval and manage discretionary purpose programmes to ensure that they enhance the interests of the charity.**

The charity has established a formal process which includes assessment of applications, agreements and disbursements, reporting, monitoring and closure of the programmes. Appropriate sufficient factual information must be obtained to support the assessment of applications. The assessment criteria must be structured to protect the charity's short term and long term interests, and be aligned with the charity's risk appetite.

Agreements must include performance measures and indemnity to ensure that discretionary funds provided will be used in the agreed manner. The Designated Officer should evaluate all available disbursement options and select the best option in the interest of the charity.

The charity must review the performance and usage of grants in accordance to the agreement. For non-performing programmes, the charity should pursue remedial activity to recover assets. Upon closure/termination of the affected programme, excess funds and/or assets designated to the charity should be returned to/reclaimed by the charity.

### Communication and training

**Policy statement:**

**The policy must be properly communicated and made accessible to all key stakeholders. Those involved in the process are adequately trained and equipped.**

The policy must be accessible and appropriately communicated to all key stakeholders. New Board members and the relevant staff are properly briefed and trained, including the charity's Code of Ethics and Conduct, are provided to all the key stakeholders at least once a year.

### Monitor and review

**Policy statement:**

**The charity should establish formal monitoring and review to ensure the effectiveness of the discretionary purpose programme management process, discretionary purpose programmes and significant risks are adequately addressed.**

The charity monitors the status of the programmes, usage of funds and that the programmes are operating effectively and efficiently. Periodic reviews are carried out by internal auditors on the effectiveness of the discretionary purpose programmes. The Policy Owner reviews the policy for relevance and updates it annually.

### Documentation

**Policy statement:**

**The charity should ensure the proper documentation of the policy and all key documents in relation to the discretionary purpose programme management processes and discretionary purpose programmes. These documents must be accessible the relevant stakeholders.**

Proper documentation of the policy, minutes of meetings and details on all programmes must be kept for regulatory, accountability, control, monitoring and review (including audit as appropriate) purposes. All documents must be properly retained in accordance to the relevant regulatory retention requirements. In relation to the policy, previous versions should be properly marked and only accessible by the Policy Owner and Designated Officer.

# Five key considerations to responsible Board approval of discretionary purpose programmes

**Diagram 4**  
Key considerations in Board's Approval of Non-Core Purpose Programmes



Board members are mainly responsible for the overall management of the charity. In exercising their powers, they must act honestly with diligence and with reasonable care. In the discharge of their fiduciary duties in relation to the approval of discretionary purpose programmes, the five key considerations include:

- Core purpose centric – The discretionary purpose programmes must advance the charity's core purpose. It should not jeopardise the charity's core programmes, existing and future.
- Risk appetite compliance – The types and amount of risk the charity pursues in relation to discretionary purpose programmes must be aligned with its risk appetite.
- Information quality – Information on the applicants and the programmes is complete, reliable and timely.
- Robust processes – A robust discretionary purpose programme management process to ensure the recipient's programmes achieve the objectives on time using the allocated resources and there is no adverse reputational impact on the charity. Also, the recipient maintains a sound system of internal controls (including control environment or tone at the top) to ensure the effectiveness of the programmes. The risk-based approach underscores the process design and operations.
- Ethics driven – Board members' decisions on discretionary purpose programmes must be ethically driven and aligned with the charity's code of ethics and conduct (e.g. transparency, equitable to stakeholders, accountability and respect for the stakeholders). Also, where there is potential conflict of interest, the members' concerned must disclose and abide by the charity's policy and procedures on the management of conflict of interest.

## Conclusion

Board members should ensure that the charity is not distracted from its core charitable purposes. Discretionary purpose programmes, when considered, should not jeopardise its core programmes and expose the charity to unintended financial and non-financial consequences. A policy should not just prescribe directives on what and how to do in relation to the non-core charitable purpose programmes. It should embed a sound ethical foundation to ensure that the charity does the right things in the right ways. Hence, its decision should be prudent and re-enforced by the fundamental principles of doing what is in the best interests of the charity and protect the community in which it serves.

## Glossary

**Board<sup>11</sup>:** The governing body responsible for overseeing and managing a charity. It is also sometimes known as council or management committee.

**Charities<sup>11</sup>:** All registered charities and Institutions of a Public Character (IPCs).

**Conflict of Interest<sup>11</sup>:** 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.

**Fiduciary<sup>11</sup>:** 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.

**Reserves<sup>11</sup>:** 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.

**Staff<sup>11</sup>:** Paid or unpaid individuals who are involved in the day-to-day operations of the charity, e.g. Executive Director or Administrative personnel.

**Loans<sup>12</sup>:** A sum of money or an asset of the charity which is lent out.

**Donations<sup>12</sup>:** Donations can be in cash and in kind. In order for a gift of property to qualify as a donation, the ownership of the property must pass to the recipient. Cash donations include cash, cheques, drafts postal orders and any monetary instruments. Donations in kind will include donations or gifts other than cash.

**Grants<sup>12</sup>:** A grant is any voluntary payment in favour of a person or institution.

**Stakeholders:** The charity's Board, management, staff, beneficiaries, donors, recipients of funds/assistance, regulators, partners etc.

**Core charitable purpose:** The primary object or main reason for which the charity is established. The Office of the Commissioner of Charities recognises the following charitable purposes: relief of poverty; advancement of education; advancement of religion; or other purposes beneficial to the community<sup>13</sup>.

**Non-core charitable purpose or discretionary purpose:** It is also known as "incidental" purpose to advance the charity's core charitable purpose. It must be approved by the charity's constitution as incidental purpose. Incidental purpose programmes must be approved by the Board. Programmes which are neither core nor incidental are not allowed.

**Output:** The amount produced, as in a given period.

**Outcome:** The way something turns out; result; consequence.

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<sup>11</sup> Charity Council. April 2017. Code of Governance for Charities and Institutions of a Public Character.

<sup>12</sup> Commissioner of Charities' Office. Accounting Glossary for charities & IPCs.

<sup>13</sup> Commissioner of Charities' Office. About Charities and IPCs.

## Appendix 1 - An illustration of roles and responsibilities

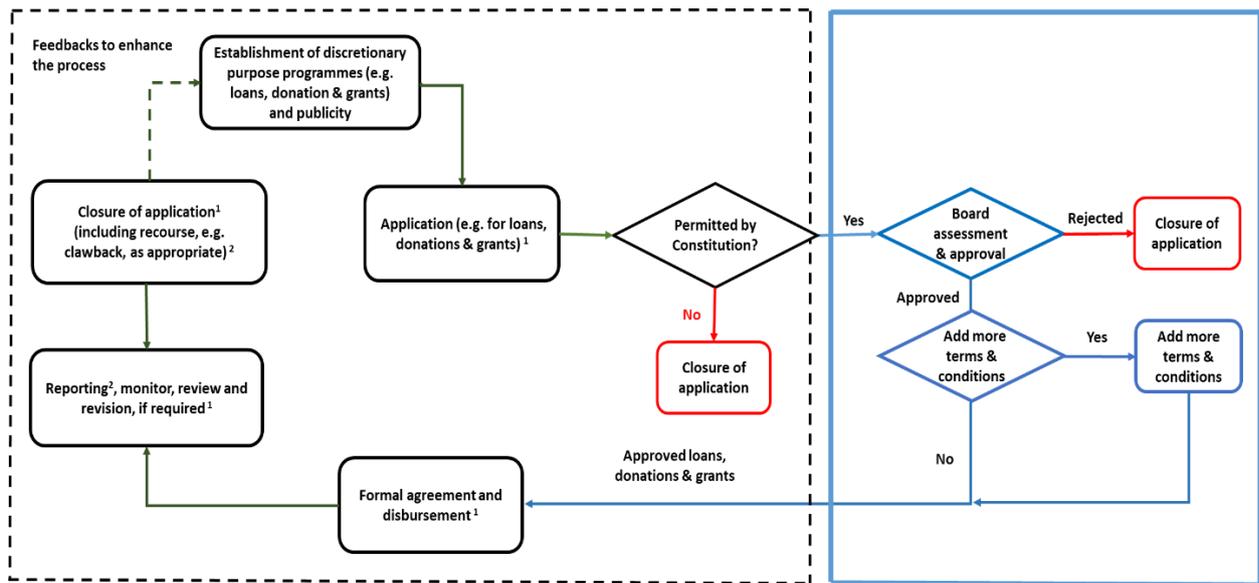
Role	Responsibilities
Board	<p>The Board is responsible for the overall governance of grants. It ensures the management establishes a sound grant management framework and processes, determines the level of funding for the charity annual grant programmes, and evaluates and approves discretionary grant applications.</p>
Policy Owner	<p>The Policy Owner is accountable to the Executive Director or equivalent. He/she is responsible for ensuring that the policy is implemented and being followed. For efficiency, the Policy Owner may assist the Executive Director or equivalent with discretionary purpose programme matters and/or oversees the Designated Officer.</p> <p>The Policy Owner keeps abreast with discretionary purpose programme management process and programmes with periodic reports by the Designated Officer.</p> <p>The Policy Owner is also responsible for reviewing the policy on a yearly basis for relevance and updates.</p>
Designated Officer	<p>The Designated Officer is an officer of appropriate seniority who reports to the Policy Owner. The Designated Officer is in charge of and responsible for the administration of discretionary purpose programme management process in accordance with the policy.</p> <p>Some responsibilities include:</p> <ul style="list-style-type: none"> <li>a) coordinate with all key stakeholders;</li> <li>b) review applications, including ensuring that the information provided are relevant, accurate, complete and timely;</li> <li>c) assist in the preparation and signing of the agreements;</li> <li>d) arrange payments;</li> <li>e) monitor and review of all programmes for adherence to the agreement and performance and to take appropriate measures where required;</li> <li>f) ensure that all progress reports are timely and reliable;</li> <li>g) verify assertions made by recipients in their progress and final reports;</li> <li>h) communicate and consult management and the Policy Owner;</li> <li>i) recommend termination and/or closure of the programmes; and</li> <li>j) ensure proper documentation of the policy, discretionary purpose programme management process, programmes, discussions, correspondences and meetings.</li> </ul>
Head of Internal Audit	<p>The Head of Internal Audit provides an independent, objective assurance on the design and operational effectiveness of the discretionary purpose programme management process.</p>
Recipient	<p>The recipient of funds/resources (e.g. loan, donation or grant) in relation to the discretionary purpose programme.</p>

## Appendix 2 - An illustration of a discretionary purpose programme management process

The objectives of a discretionary purpose programme management process are:

- To ensure that the programmes and outcomes are appropriate to the charity.
- Decisions made by the Board are carried out with due diligence, integrity, transparency and respect for the key stakeholders, including the protection of the charity and community at large.
- There are clear roles and responsibilities for managing the programme. A programme management structure should be established and formalised.
- A programme management plan and policy are established to identify the required resources to be committed to the programme, governance policies and control processes, duration of the programme (sustainability of the programme to be addressed), key milestones and expected outcomes (evaluation of outcomes to be measured).
- The information provided in the application is accurate, relevant, complete and timely.
- The terms and conditions (including the deliverables, reporting, monitoring and review, recourse and cessation) are formalised and clearly understood by key stakeholders.
- There is proper, reliable and timely reporting by recipients of the progress and outcomes.
- There is adequate review and monitoring of the recipients to ensure that the desired outcomes are achieved. These include verifying the veracity of progress reports from the grantees and conducting periodic audits.
- Payments are made for the right amount, at the proper time and to the appropriate parties when the terms and conditions are adhered to and met.
- Post mortem review of programmes and programme closure are properly carried out to ensure that outstanding commitments are settled and excess funds re-allocated based on the programme terms.

**Diagram A:** An illustration of a discretion purpose programme management process



**Note:**

- 1. Administered by the Designated Officer (e.g. Loans, Donations & Grants)  
A senior executive will be assigned to be the Policy Owner
- 2. Report to the Board

The discretionary purpose programme management process begins with the establishment and promotion of the non-core charitable purpose programmes (see Diagram A). Applications received are reviewed by the Designated Officer. The proposed programmes which are aligned with the charity’s constitution are routed for the Board’s assessment and approval.

Formal assessment criteria such as the amount involved and the impact of the programmes are used for the evaluation and approval process. The Board may impose additional terms and conditions to further safeguard the charity. These may include the periodic reporting of project milestones, on-site review by the project overseer, recovery of funds expended and termination of the project for poor performance. Besides having a formal structure and process to evaluate and approve the proposed programmes, the Board must ensure that there are adequate ethical safeguard policies to ensure integrity, accountability, transparency and equity in the review. In addition, there must be no conflict of interest to negate the effectiveness of the Board’s approval process.

The recipients must sign an agreement before funds are disbursed. The recipients should submit regular reports to the charity which must be reviewed against agreed benchmarks. Upon completion, the programmes should be reviewed for their outcomes before closure. Where appropriate, the charity must seek recourse in accordance with the agreement for programmes which failed to achieve the terms and conditions. Lessons learnt would provide useful inputs to further enhance the process.

## What can go wrong?

An understanding of the discretionary purpose programme management process provides a useful context in the development of an appropriate policy. More importantly, the development of the policy through a risk-based lens ensures that the directives, processes and procedures are appropriate to the charity.

The consequences of doing the wrong things would depend on the circumstances. The consequences can be financial and/or non-financial in nature. Some examples of financial consequences include monetary losses and the shortfalls in funds to support future programmes. Non-financial consequences include sanctions from regulatory agencies, complaints from stakeholders, suspension of charitable activities, programme outcomes not being achieved and adverse reputational impact.

Below are some of the things that can go wrong in the various processes:

### (i) Receipt of Applications

- No accountability may result in a higher likelihood of errors, and even frauds.
- Applications are not processed.
- No guidance in applications leading to provision of irrelevant, inaccurate, incomplete or untimely information.

### (ii) Board's assessment and approval

- There is no formal evaluation criteria established leading to inconsistent decision-making and exposing the charity to adverse consequences.
- Where the evaluation criteria were established, they are incomplete and/or irrelevant leading to incorrect approval decisions.
- An approval made when there is a shortage of funds to support the discretionary activities.
- Failure to consider the impact of the discretionary activities on the charity's reputation as well as the extent in which they could jeopardise the core charitable programmes (existing and prospective).
- Board member(s) failed to adequately declare a conflict of interest situation leading to undeserving applications being approved at the expense of deserving ones.
- When in doubt, the Board members failed to verify with the appropriate source(s) on the credibility of the applicants and/or the veracity of the information provided.
- The deliverables and timelines, including the consequences were not clearly articulated leading to sub-optimal execution and delays.
- There are no formal terms and conditions articulated for approved programmes leading to ambiguity and disputes.

(iii) Programme in progress

- Incorrect amount disbursed for the programme.
- Disbursement made to the incorrect recipient.
- Payments made for items not permissible in the terms and conditions of the agreement.
- Payments made for items not received or required for the programme.
- There is no regular progress report from the recipient on the programme. When there is progress report made, the performance measures, deliverables and timelines are not clearly articulated.
- When in doubt, there is no proper verification by the charity on the reliability of the progress report.
- There is no check (including on-site visits) on the progress of each programme.
- Programme disruption leading to delay in completion.
- Budget overrun jeopardising the programme and other programmes, in particular, core charitable purpose programmes.
- Over-budgeting leading to inappropriate commitment of funds and affecting funding for deserving programmes.
- Fraudulent reporting by the recipients.
- No remedial measures taken against recipients who failed to meet the terms and conditions of the programmes. These measures may include curtailing of the funds provided, suspension of the programme, and in severe cases, the cessation of the programmes. Foremost in such measures is to minimise wastage of the charity's resources.
- No interim recourse taken to claim funds from recipients for non-performing programmes.

(iv) Closure of programme

- No review on the impact of the programme with reference to the terms of reference and agreed outcomes.
- No final recourse taken to claim funds from recipients for non-performing programmes.
- Excess funds remaining after the completion of the programmes were not refunded to charity in accordance with the agreement.
- Assets used in the programmes which belong to the charity were not transferred back to the charity upon completion of the programme.
- Adverse reputational damages to the charity arising from the failure of the programmes or unethical behaviour of the recipients.

## Appendix 3- Examples of assessment criteria<sup>14</sup>

Assessment criteria	What does it mean?	What to show/demonstrate?
1. Strategic alignment <sup>15</sup>	The programmes must be aligned with the charity's strategy and strategic objectives.	The programmes further enhance the charity's charitable purposes, effectiveness of its core programmes, and achievement of its objectives.
2. Community needs	There are needs of the programmes identified for the community.	Evidence-driven and credible research on the needs and support by the community, groups, businesses and government agencies to contribute and/or participate in programmes.
3. Extent of outreach to the community <sup>15</sup>	The target audiences are clearly identified and the number of community groups and/or the proportion of the community targeted by the programmes.	The programmes lead to an identifiable and measurable increase in the number of target audiences or community groups.
4. Capacity of the applicants <sup>16</sup>	Capacity of the applicants to deliver quality programmes, on time and within budget.	There is a comprehensive plan supported by relevant materials, realistic timelines, resources and capacity (e.g. knowledge and skills) to complete and deliver the programmes. In addition, the capacity includes having proper systems of internal controls to manage the programmes with proper oversight by those charged with governance.  Records of past programmes and references from past and existing charities and other parties who have been involved with the applicants. Interviews of applicants would provide further insights.
5. Outcome <sup>17</sup> of the programmes to the community <sup>15</sup>	The well-being accrues to the community from the programmes.	Evidence-driven and credible research on the outcomes and views from the community on the extent the programmes enhance its well-being. Government agencies to contribute and/or participate in the programmes.
6. Harm to the charity	The potential financial and non-financial harm of the programmes to the charity.	The Board's decisions consider the potential negative or adverse financial and non-financial consequences of the

<sup>14</sup> These examples are not meant to be exhaustive. Users should adapt, amend and enhance these examples to suit their specific needs.

<sup>15</sup> Adapted from Events Tasmania. Grant Assessment Criteria.

[http://www.eventstasmania.com/\\_data/assets/pdf\\_file/0009/59742/Events\\_Tasmania\\_Assessment\\_Criteria.pdf](http://www.eventstasmania.com/_data/assets/pdf_file/0009/59742/Events_Tasmania_Assessment_Criteria.pdf)

<sup>16</sup> Adapted from South Somerset District Council. Appendix C - Community Grants - Assessment Criteria

<https://www.southsomerset.gov.uk/media/88247/10c.pdf>

<sup>17</sup> Outcomes are the difference made by the outputs: better traffic flow, shorter travel times, and fewer accidents. Deborah Mills-Scofield. November 26, 2012. It's Not Just Semantics: Managing Outcomes Vs. Outputs. <https://hbr.org/2012/11/its-not-just-semantics-managing-outcomes>

Assessment criteria	What does it mean?	What to show/demonstrate?
	<p>Financial exposures include overrun of programme budget, the extent the allocation of funds for discretionary purposes would affect the charity's existing and future core programmes.</p> <p>Non-financial exposures include poor delivery of programmes leading to complaints, regulatory breaches, human injuries, damages to the environment, which affect the charity's brand equity.</p>	<p>programmes. More importantly, the decisions must be aligned with the charity's risk appetite.</p> <p>The charity performs adequate due diligence, including consulting the relevant stakeholders in its decision-making process.</p>
<p>Note: The above criteria and requirements provide guidance on the items to be considered in the application form for discretionary loans, donations and grants.</p>		

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