



SURVEY

Trustee Charity Finance Competency

2019

About Us



MHA is an association of progressive and respected accountancy and business advisory firms. As an independent member of [Baker Tilly International](#), a global advisory network, MHA offers clients unparalleled access to a broad range of in-country international specialists where overseas projects are on the horizon. Our Not for Profit teams work locally, nationally and globally.

National Reach



£140m
Combined Turnover



9
Member firms



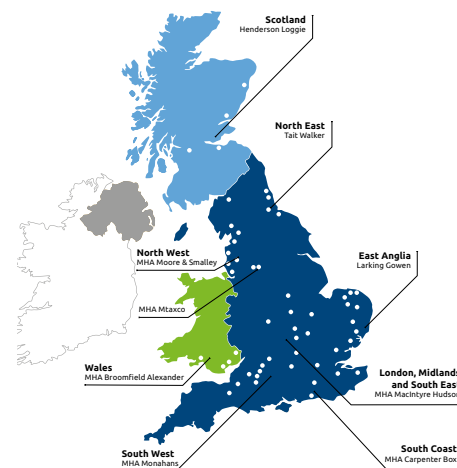
50+
Offices



1,600
Not for Profit clients



5th
Largest charity auditor



Global Reach

Baker Tilly International



US\$3.2bn
Combined revenues



147
Territories



126
Member firms

About Charity Finance Group

Charity Finance Group (CFG) is the charity that inspires a financially confident, dynamic and trustworthy charity sector. We do this by championing best practice, nurturing leadership and influencing policy makers. Over 1,450 UK charities turn to us to develop their finance management knowledge and skills. Collectively, these charities manage £22bn of funds – that represents around a third of the entire charity sector's income. To find out more about CFG and its work please visit www.cfg.org.uk



2,900
Finance professionals in membership



1,450
Members



Executive Summary

“We are in no doubt that trustees overwhelmingly are **motivated by good intentions** and want to undertake their role well”.

This is not just our conclusion but was one of the striking results in the major academic study commissioned by the Charity Commission entitled *Taken on Trust – The awareness and effectiveness of charity trustees in England and Wales*, which was published in November 2017. It was reported that 93% of trustees regard their role as important or very important to them.

In July 2017 the third version of the Charity Governance Code was issued. Its seven principles are underpinned by a “Foundation Principle”, which essentially indicates that all other principles of good governance are based on trustee having a sufficient commitment and an appropriate understanding of their role and responsibilities. Bearing this in mind, clearly trustees should do their best when serving their charities, and most seek to do so. But our survey results are consistent with last year in identifying standards that are often just satisfactory rather than excellent, and hence certainly require improvement.

Our survey points to mediocre standards in financial governance and a lack of real commitment to trustee competency and diversity. The latter is particularly concerning, as improved decision making and competency depends on a diversity of thought and voice amongst trustees. The inconsistencies in charities’ responses to some questions certainly suggests a widespread lack of self-awareness, and potentially unacceptable complacency.

We fully accept that this is not an easy message to either give or receive, as many trustees make a significant commitment to their volunteer role. But trustees need a reality check on their own performance, and it is encouraging that increasing numbers are undertaking formal assessments. Most would be truly shocked if they understood their performance is holding back their charities’ impact on beneficiaries. The *Taken on Trust* report stated that “... there might be something of a gap between trustee’s perception of and actual knowledge of their legal duties”. Our findings are consistent with this.

So, we would encourage all trustees to regularly and formally assess their competence and to take advantage of the widely available guidance and training that is provided by the Charity Finance Group, other sector groups, professional bodies and professional advisers – much of which is available either free of charge or at low cost. And if that training is not meeting the needs of your charities, do tell us and others what we can do, as together we can achieve the highest standards of competency and performance that beneficiaries deserve.

Sudhir Singh
Partner and Head of Not for Profit
MHA MacIntyre Hudson

Caron Bradshaw
Chief Executive
Charity Finance Group

March 2019

Introduction

This second MHA and Charity Finance Group trustee finance competency survey was undertaken during Autumn 2018.

The previous survey in 2017 concluded that improvements were needed in trustees' financial competency and commitment. With this survey, we wanted to consider if there had been any significant improvements in the last year.

This year there were over 200 respondents to the survey, covering charities with income ranging from under £1m to over £100m, so the findings are relevant to all charities.

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Financial Understanding & Competency

The foundation of financial governance is the board's understanding of strategic financial governance matters, the finance skills and knowledge of trustees and a breadth of competency across the board.

Key findings

57% of respondents surveyed said their organisations trustees understood financial governance matters at least "well"

61% of respondents think that their organisations trustees had the financial skills and knowledge to fulfil their responsibilities "well" or very well.

85% of trustees should have a better understanding of strategic financial governance matters

92% of respondents considered it important to have more than one trustee on the Board that is engaged with their charity finances.

Trustee understanding of strategic financial governance matters

Results indicate that in the last 12 months, there has been no change in the level of trustee understanding of strategic financial governance matters, with 57% of respondents saying that their organisations' trustees understood financial governance "well".

Levels of trustee finance skills and knowledge

There has been a marginal improvement in the financial skills and knowledge of the Board, with 61% of respondents saying that their Board members were able to fulfil their financial responsibilities "well" or "very well". This is an increase of 2% as compared to 59% in 2017.

But the need to have a better understanding of strategic financial governance matters is virtually unchanged from 2017.

"This is surely a call to arms for trustees to either gain the competency they need, or to improve their performance".

So whilst financial understanding and competency is considered to be reasonable, this falls well short of being outstanding across the board.

The 'quasi-treasurer'

As in 2017, almost all respondents consider it is important to have more than one person on the trustee board engaged with their charity's finances.

There remains an important role in this situation for the "treasurer"/ chair of finance position to play, in leading and helping the board focus on key financial governance issues, but all trustees should be involved in financial matters more, rather than the "treasurer" being engaged less.

Perhaps a whole trustee board of "quasi-treasurers" is a suitable aim, with all trustees having the skills, competency, engagement and understanding to contribute effectively to financial governance.



Trustee Training & Development

Trustee skills and competency can certainly be boosted by training and development. Hence our survey asked about charities' commitment to training.

Investment in training

In the past 12 months, there appears to be a significant decline in the numbers of charities making charity finance training available for trustees that need it, down to 56% compared to 81% in 2017. This is surprising given the availability of such training from a variety of sources.

The Taken on Trust report encouraged sector bodies and others to make training more available and to reflect the different needs of charities of varied sizes. A way to increase uptake on training must be found.

Compared to 2017, where 43% of organisations surveyed allocated a budget for trustee training, only 39% of organisations surveyed this time allocate a training budget. On an absolute level this seems rather low given the importance of good governance and the difference it can make to the effectiveness of charities.

However, respondents did point out that currently good training does not necessarily incur any cost. It is worth all charities considering the benefits of a small budget allocation in this critical area of all charities' operations – and then holding trustees accountable for using it.

Key findings

39% of organisations have an allocated budget for trustee finance training.

53% of respondents consider it positive to disclose expenditure on trustee training in financial statements.

56% of respondents surveyed said their organisations make finance training available to trustees.

Disclosure of expenditure

This ambivalence towards trustee training was also reflected in mixed views concerning the benefits of disclosing expenditure on trustee training in the financial statements, with only 53% in favour, compared with 79% in 2017.

Considering the “apply and explain” principle of corporate governance, this is a missed opportunity to be transparent about a charity's commitment to trustee development.



Assessing Performance

Performance appraisal is essential in ensuring high standards of financial governance, hence the survey questioned the assessment of board competency in finance and the assessment of financial governance by charities.

Board competency & effectiveness of financial governance

There was a small reduction in charities formally assessing board competencies in charity finance – reducing from 84% to 77%.

Charities often focus on board skills, which is undoubtedly a good thing. Whilst having trustees with the right skills is a good starting point, assessing the competent application of those skills is essential. So, this result is somewhat surprising given the Charity Commission's focus on skills, and the encouragement to use the revised Charity Governance Code.

Key findings

77% of charities surveyed said they formally assess Board competency in charity finance

55% of charities surveyed did not formally assess the effectiveness of financial governance in their charity.

The reduction of competency assessment is compounded by the failure to formally assess the effectiveness of financial governance in the majority of charities (55% of charities surveyed, compared with 21% in 2017).

The Code, which applies to charities of every size, recommends annual appraisal of board performance, with external support every three years. So, this result is disappointing as it is the key process that could dramatically impact charity governance, if done well.



Board Diversity

The Taken on Trust report highlighted concerns over trustee diversity, so new questions were included in the survey this year to consider diversity from both a demographic as well as a thought perspective.

Demographics & Thought

Responses indicated that charity boards are not diverse when considering demographics and background, with only 20% rating their Board trustees as 'demographically diverse'. This contrasts with diversity of thought, where 43% of charities rated their trustees as being 'diverse' in thought.



Key findings

20% of charities surveyed rated their Board members as 'demographically diverse'.

43% of charities surveyed rated their Board members as being 'diverse in thought'.

It is not surprising that the background of trustees is not diverse, as this is a long-standing characteristic of boards. More needs to be done in Board recruitment to improve this situation.

The result suggests that boards embrace a wider range of views than their composition may suggest, but this still remains a weak area. Overall, these findings point to trustees not appreciating the reality of the diversity challenge sufficiently well. Significantly more needs to be done in this area.



Resources

Resources and guidance to aid trustees' financial competency.

The essential trustee - what you need to know, what you need to do

Charity Commission guidance on what is required of a charity trustee, including your responsibilities to your charity.

www.gov.uk/government/publications/the-essential-trustee-what-you-need-to-know-cc3

Charity finances - trustee essentials (CC25)

Charity Commission summary on how to manage your charity's assets and resources, from cash and investments to staff and volunteers.

www.gov.uk/government/publications/managing-charity-assets-and-resources-cc25

Charity reporting and accounting: the essentials November 2016 (CC15d)

Charity Commission summary on what trustees need to do when preparing trustees' annual reports, accounts and annual returns for accounting periods beginning on or after 1 November 2016.

www.gov.uk/government/publications/charity-reporting-and-accounting-the-essentials-november-2016-cc15d

CFG/MHA essential charity finance for trustees

The guide is a helpful summary for both new trustees and existing trustees about key financial matters.

www.macintyreHUDSON.co.uk/publications/article/essential-charity-finance-for-trustees-guide

Using Conflict as a Catalyst for Change

An MHA guide to help you embrace, manage and mitigate conflict within your organisation.

www.macintyreHUDSON.co.uk/publications/article/inning-conflict-as-a-catalyst-for-change-guide-for-the-not-for-profit-sector

11 Key Steps for Trustees, 1 Giant Leap for Your Charity – Month to Month Guide to Better Governance

This MHA guide has been put together to offer year-round guidance and support to trustees and the senior management teams in Not for Profit organisations.

www.macintyreHUDSON.co.uk/publications/article/11-key-steps-for-trustees-1-giant-leap-for-your-charity-month-to-month-guide

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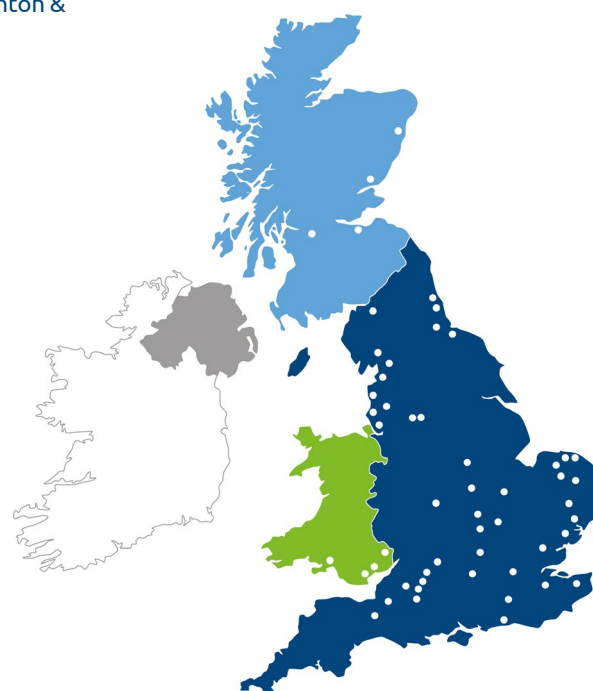
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