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FINANCIAL
LEADERSHIP

Charity Finance Group
Handbook

THE PINK BOOK 2019



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SECTION 1

CHARITY FINANCE GROUP

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Your guide to member benefits

CFG's corporate members

Dawn McNish and Dean Thomson

CFG Board of Trustees

Report from Large Charities Special Interest Group

David Renton

Report from Community Accounting Special Interest Group

John O'Brien

FOREWORD



Caron Bradshaw
Chief Executive Officer,
Charity Finance Group

Nicki Deeson
Chair, Charity
Finance Group

A warm welcome to the CFG Pink Book of 2019 from us both. 2018 was an incredible year and 2019 promises to be full of change and challenge too. Whatever happens on the political landscape, whether we crash out of the EU, continue the lengthy process of negotiating our future relationship with Europe under a government deal, or remain in the EU after all, there is much for our sector to do.

During our Annual Dinner in 2018 the wonderful guest speaker, Dame Julia Cleverdon, said, 'you cannot change the world unless you balance the books'. In one succinct sentence she summed up the power of finance and of finance professionals. Finance people work in the sector, not because they are fixated with SORP, compliance and spreadsheets but rather because they ache for social change – they just happen to do it through the lens of finance.

Finance professionals are no less passionate about the cause, no less committed to making the world a better place. Their skills and knowledge can unleash and sustain the impact of the wonderful and varied

organisations that make up this sector. Similarly our corporate members choose to use their business skills and technical discipline to make a difference.

Communities in the UK are crying out for change. We should actively seek them out and set about co-creating answers to the questions being asked of society. As Julia Unwin said in the final report of The Civil Society Futures enquiry, issued in November 2018, '...re-energised, civil society could be at the heart of the changes we need in our society as a whole: reviving our dented democracy, rebuilding our social fabric and enabling us to address the great challenges of climate change and environmental degradation'.

“Communities in the UK are crying out for change. We should actively seek them out and set about co-creating answers to the questions being asked of society.”

We're here to support you, to help you grow and develop as charity leaders – to be the very best versions of yourselves so that ultimately beneficiaries and their wider communities feel the difference. Our focus on putting financial skills at the heart of decision-making remains crucial. Charities are facing uncertainty that can only be overcome by boldly seizing opportunities.

Within this great publication you will find stimulating discussion pieces, technical content and suggested template documents that will assist your endeavours throughout this year.

Our aim is to provide you and your wider colleagues, trustees and stakeholders with the resources, support and assistance to drive social change. Read it, pass it on and spread the word about the fabulous resources of CFG that are only possible with all of you!

We recognise the power of working together and community. Belonging to CFG is more than just subscribing to content or exhibiting at our events and we're delighted you're part of our network.

Caron Bradshaw
Chief Executive Officer,
Charity Finance Group

Nicki Deeson
Chair, Charity Finance Group

WHAT CFG DOES FOR OUR MEMBERS



Whether you're new to CFG or have renewed for 2019, welcome! We want to make sure that you, your charity and trustees get the most from your membership. Here's a guide to the benefits of being a member of CFG.

EXPAND YOUR NETWORK

We're proud to say that when you join CFG you also join the UK's largest community of finance professionals in the charity sector. Many of our members value this the most as it gives them regular opportunities to share experiences and learn from others in similar positions. The chances to network are varied and wide, from regular **members' meetings** and **Special Interest Groups (SIGs)**, to **conferences** and **events**, which all give you the chance to connect over shared interests and experiences.

IMPROVE YOUR KNOWLEDGE AND SKILLS

Whether you're just starting out in your finance career, working your way up the ladder or in a leadership role, we have the resources, events and training to take you to the next level. Each year we run over 100 **professional development events** and more than 15 **conferences**, and our unrivalled access to a wide range of **expert speakers** helps to deliver programmes that will expand your knowledge, explore issues and ensure you stay abreast of topical issues.

BE A BETTER LEADER

It's our aim to develop financial skills for leaders and leadership skills for finance professionals. For chief executives, that may be through our **CEO Alumni Network**, or our face-to-face **training** and **online resources** to boost financial governance. Our **Inspiring Financial Leadership course** gives those in leadership roles a highly interactive mix of practical experience, research and best practice to take them on to the next stage of their leadership journey. And, to support the next generation of financial leaders in the sector we have a **Mentoring Scheme** designed to partner people up with experienced charity finance professionals.

RAISE YOUR PROFILE

Being part of the CFG community gives you **speaking** and **editorial opportunities** to raise your personal profile – and that of your organisation – amongst our networks. Share insight and experiences to help other charities and support your development as a thought leader at the same time.

BE IN THE KNOW

With membership comes exclusive access to a range of additional benefits and resources.

These include:

- Discounted rates on all **CFG conferences and training**;
- **Job opportunities** with the CFG/Third Sector job e-bulletin;
- Receiving **Finance Focus**, our members' magazine with expert briefings, sector news and features on topical issues;
- Our member-only **online document library** of over 400 documents on current and emerging issues;
- Exclusive access to free **helplines**, staffed by our corporate members on their given area of expertise, such as accounting, tax and legal advice.

HELP US SHAPE GOVERNMENT POLICY

As a member, you have the opportunity to get involved and engage on policy issues by contributing to **policy consultations**, responding to **surveys**, and taking part in our **members-only forums** to ensure that your voice is heard on the issues that matter.

MEMBERSHIP FOR YOUR WHOLE ORGANISATION

When you join CFG, membership is for your charity as a whole. As the primary contact, you can add as many additional contacts as you like – everyone from your chair to your fundraising team.

MEMBER SUPPORT

We're here to answer any questions you have about your membership. Simply email membership@cfg.org.uk or call:

- Zoe Bennett, Customer & Member Support Officer: **020 7871 5468**
- Jessica Meddick, Events and Customer & Member Support Officer: **020 7871 5467**

OUR CHARITY MEMBERS IN NUMBERS

OVER **1,400**
CHARITY MEMBERS

£22bn
COLLECTIVE FUNDS
MANAGED BY
OUR CHARITY
MEMBERS

OVER **3,000**
CHARITY FINANCE
PROFESSIONAL
MEMBERS

7 SIG GROUPS
WITH 11 MEETINGS
A YEAR

LAST THREE
ANNUAL
CONFERENCES,
DELEGATES
ON AVERAGE:

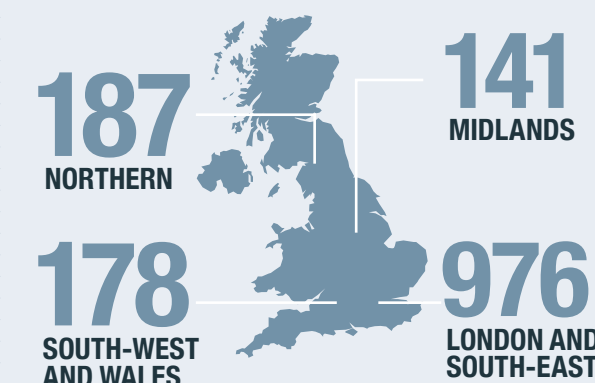
16
CONFERENCES



113
PROFESSIONAL
DEVELOPMENT EVENTS



CHARITY MEMBERSHIP BY REGION:



96% SAID THAT THEIR
KNOWLEDGE AND SKILLS
HAD BEEN IMPROVED

94% SAID THAT THEY FELT
MORE CONFIDENT ABOUT
THE NEXT STEPS THEY
NEED TO TAKE AND HOW
TO IMPLEMENT THEM

92% REPORTED THAT THEY HAD
GREATER AWARENESS OF
BEST PRACTICE IN
CHARITY FINANCE

CFG'S CORPORATE MEMBERS



Dawn McNish and
Dean Thomson
Charity Finance Group

CFG is big on networks, bringing together a range of experts across the corporate and not for profit sector to share knowledge and experience. Our corporate members include accountancy firms, lawyers, banks, pensions firms, investment advisors, HR firms, insurance brokers, various consultants, and IT and software professionals.

Thanks to their expertise and support, we can offer charity members unrivalled insight, guidance and benefits says CFG's Director of Business Development and Events, Dawn McNish.

Our corporate members' support is invaluable, without it we would be unable to deliver the training, events, content and access to sector experts that our charity members need and depend on.

We want to thank our 130+ corporate partners who have supported us for years and new members that we welcome for the year for providing us with invaluable resources, including:

- Speakers for our meetings and conferences
- Content for our publications
- Delivering a variety of training courses
- Providing venues for our events
- Sponsoring our events, which allows us to keep our delegate rates low
- Providing content and advertising in our monthly magazine Finance Focus
- Hosting members' meetings and seminars
- Collaborating on webinars and digital content
- Exhibiting at conferences to showcase professional support and services to member charities

- Sponsoring and hosting tables at our annual fundraising dinner
- Supporting members with free helplines

Our corporate members cover a range of areas and expertise, allowing us to ensure that the needs of our membership base are covered. Their combined skills and expertise make a hugely significant contribution to our work, and it's because of their support that we can offer member charities the range and quality of services that we currently do.

CFG does not explicitly endorse any of its corporate members. Our aim is to provide our members with the necessary tools they require to choose the right advisors and suppliers for the job. The Corporate Members page on the new CFG website details each of our partner firms including a breakdown of their areas of expertise, names and information of key contacts for those looking to get in touch.

As a CFG corporate member, you will access various benefits including networking opportunities with our extensive membership base through our meetings, conferences, events and social media platforms. Our corporate members have a great opportunity to communicate to the charity sector and support members in the running of their organisations.

If you're interested in applying to be a corporate member, or simply want to explore ways in which we can collaborate together, please contact Dawn on 020 7871 5479 or emailing dawn.mcnish@cfg.org.uk.

LIST OF CFG'S CORPORATE MEMBERS

ACCOUNTING & TAX ADVISORS

- AfID
- BHP Chartered Accountants
- BDO
- Beever and Struthers
- Begbies
- Buzzacott
- Centurion VAT
- Crowe UK
- Deloitte
- Goodman Jones
- Grant Thornton
- haysmacintyre
- Kingston Smith
- Mazars
- MHA MacIntyre Hudson
- PEM
- PKF Littlejohn
- Price Bailey
- RSM
- Saffery Champness
- Sayer Vincent
- UHY Hacker Young
- Wilkins Kennedy

BANKING

- Akoni Hub
- Barclays
- Charities Aid Foundation
- Charity Bank

- HSBC UK
- INTL FCStone
- Lloyds Bank
- Natwest
- Santander
- Treasury Spring
- Triodos Bank
- Unity Trust Bank
- Virgin Money Giving

CONSULTANCY

- Adapta Consulting
- Asset Risk
- Auditel
- BlueSpark Consulting
- ExcluServ
- Gerrard Financial Consulting
- Total Enterprise Solutions

HR/RECRUITMENT

- Allen Lane
- Goodman Masson
- Harris Hill
- Hays Senior Finance
- HSF Health Plan
- MLC Partners
- The HR Services Partnership
- TPP Not for Profit

INSURANCE

Access Insurance
D E Ford Insurance Brokers
Ecclesiastical Insurance
Gallagher
Hettle Andrews & Associates

INVESTMENT

Aberdeen Standard Capital
ALLIA
Amundi Asset Management
Baring Asset Management
BlackRock Investment Management
Brewin Dolphin
Brooks Macdonald
Cazenove Charities
CCLA
Charles Stanley
Edentree Investment Management
Fidelity Worldwide Investment
Goldman Sachs International
Investec Wealth & Investment
J.P. Morgan
James Hambro & Partners
Mercer
Newton Investment Management
Quilter Cheviot
Rathbone Investment Management
Rothschild Wealth Management
Sarasin & Partners
SEI Investment
Smith & Williamson Investment Management
The Diversified Property Fund for Charities
UBS Wealth Management
Waverton Investment Management
Yoke & Co

IT/TELECOMS

Access Group
Adaptive Insights
Advanced

Blackbaud
Bottomline Technologies
Lake Financial Systems
Oracle Netsuite
PS Financials
Unit4 Business Software
Vena Solutions

LAWYERS

Bates Wells Braithwaite
Charles Russell Speechlys
Hempsons
Hewitsons
IBB Solicitors
Katten Muchin Rosenman UK LLP
Mills & Reeve
Russell Cooke
Wrigleys

PENSIONS

Cheviot Trust
Lane Clark & Peacock
Quantum Advisory
Spence & Partners
XPS Pensions Group

PROPERTY/FACILITIES

Alliance Asset Management
Utility Aid

PUBLISHER

Charity Financials

CFG'S BOARD OF TRUSTEES


CFG's board of trustees is responsible for running the organisation and steering its strategic development.

CFG's constitution allows for a maximum of ten trustees, seven of whom must be CFG members, elected by other members. The other three can be co-opted by the trustees to fill any skills gaps they have identified.


Each elected trustee serves an initial three-year period, following which they can stand for election for a second three-year period. After that, they must stand down for a year before being eligible to stand again. The chair must be elected by the trustees from amongst their number.

The full board normally meets five times a year, one of which is a designated strategy day.


The list below is current at 31 March 2019. Further details are available online on the CFG website: cfg.org.uk/trustees




Nikki Deeson ACA
(Chair), International Finance Director, Amnesty




Gary Forster
(Deputy Chair), CEO, Publish What You Fund




Samantha Husband,
Director of Finance, North Devon Hospice




Liz Fosbury,
Chief Operating Officer, National Theatre



Brigid Janssen,
Principle Consultant, CounterCurrent Communications




Kevin O'Brien,
Director of Finance & Corporate Resources at CLIC Sargent




Arati Patel,
Currently on sabbatical to travel



Kerry Shea,
Finance Director, Everybody Sport and Recreation



Stella Smith, *Independent Consultant*



John Tranter, *Director of Resources, Independent Age*

FINANCE DEPARTMENT OR BUSINESS INTELLIGENCE SUPREMOS?



David Renton
Director of Finance and Investment,
Guy's and St Thomas' Charity and
Chair of CFG's Large Charities
Special Interest Group

David Renton considers the role of the finance function and the evolution of his own team, and how future planning and a few key questions can help you to determine the identity of finance within your own organisation.

At Guy's and St Thomas' Charity, we are part way through a project to adopt a well-known enterprise software package (OK – Salesforce!) to manage our £25m a year grants programme on. Or at least that is how it started. It is now leading us to capture and use data across our different business streams in interesting ways. Our new system allows us to produce real time information on activity that is relevant to our business that actually helps people to manage their time – our most precious commodity. This information is graphical so more easily accessed by everyone.

With all its advantages, moving to this new way of working is also calling into question some fundamental truths about the finance team:

- What really is our role and value add for the organisation?
- What skills do we need in the team?
- How can we attract the right people?
- What do we call ourselves?

ROLE OF THE FINANCE DEPARTMENT

When I joined the charity eight years ago, we only produced management accounts for quarterly trustee meetings. The annual budget covered two pages of a Word document.

We evolved to produce weekly cashflow reports, monthly management accounts, monthly budget holder reports, and the annual budget became a tome in a box file as well as a massive set of spreadsheets – but few people really looked at the information. The finance team was busy producing it all and our management colleagues' eyes glazed over when it all landed in their inboxes. Partly, no doubt, because not everyone tackles pages of numbers as readily as finance people, but also because we were just telling people if they had met their financial targets, and only about a month after the period end. Not so interesting for most forward-looking leaders and managers!

Having accurate information on meeting financial targets is still important but it isn't the end of the story.

We now see our role as providing business intelligence on all manner of things that relate to whether we are likely to achieve our goals as an organisation:

- Real time information on the pipelines of activity that lead (eventually) to making high quality grants. This information can be cut by individual grant managers, by size, committee, purpose. We can see if there are sufficient projects in the pipeline and how long they are taking to get approved. We can run our grants on the system, approve invoices, log reports and it is all integrated with the (separate) finance system. Importantly, there is “one truth” as we call it internally – no separate systems or spreadsheets to produce clashing information and which takes time to reconcile. However, we can see so much that we are having to make careful choices about what matters and how the reports look to draw the eye to the most important information.
- At-a-glance dashboards for trustees and departments that show whether we are meeting our targets on time. Aggregating data or choosing particular indicators for this is a challenge but the ability to link this high level data to further detail at the press of a click-through hyperlink allows the reader to control how much detail they consume and on what subject – better than even a skilled finance department choosing for everyone.

There are challenges of course. For example, we're still working through how we avoid potential confusion of having real time and monthly information in the same dashboard. Still “one truth” because there is one set of data but it can look inconsistent if time periods or cut-offs are different.

SKILLS NEEDED

To do all this well, we need a wider variety of skills in the team. We still need to do the fundamentals well – recording information, paying invoices, knowing about performance against plans, meeting our

regulatory and professional standards. But now we need skills to harness IT systems, manipulate data, think about user interfaces and user experience, design skills, analytical skills across the businesses (grants, fundraising, investment, property, communications) to begin with. And as we have always done, we need those softer skills of partnering, listening, inspiring and leading. Only with the full suite can we hope to take the whole organisation on a journey that makes information useful and transparent.

ATTRACTING THE RIGHT PEOPLE

There does seem to be a perception that joining a charity finance department is a one-way ticket – not for the ambitious or driven and not for those seeking to develop generally valuable career skills. We need to bust this myth and show our staff that charities are at the cutting edge and that the skills they will gain will make them valuable in many sectors. How can we do this?

Our own response to this challenge is to:

- Make the most of our purpose in recruitment advertising. This does seem to work – people like to join an organisation that is having a positive effect on society but it needs to engage more than just those who are directly affected by our work in Lambeth and Southwark.
- Make sure our adverts communicate the energy we have and our commitment to developing people.
- Search out new ways of getting to candidates who haven't thought about charities as a career – yes, those famed social networking sites!
- Really deliver on training and development.

We are also developing programmes to:

- Facilitate secondments – this could allow us to swap people in/out with commercial organisations to share skills and get the word out that charities are great places for everyone to work

“ There does seem to be a perception that joining a charity finance department is a one-way ticket – not for the ambitious or driven and not for those seeking to develop generally valuable career skills. We need to bust this myth. ”

“Our future will be, I hope, alongside those leading firms from all sectors who have great, multi-skilled people with drive to help our charity be better (and better).”

- Be clearer with staff about their career paths. I hope that we and our staff won't shy away from talking about ambitions whether they lie inside or outside the charity – we all have networks that could help place ambitious people in other sectors if they are ready for the next challenge and we can't offer it internally. Having great people for part of their career can be a success for both parties.

FINANCE DEPARTMENT?

We have also been musing about whether the very name “Finance Department” is either correct or helpful. Maybe a rebrand is in order given what value we now add to our organisation?

We have thought about “Business Intelligence” or “Business Analytics” but haven't settled on anything yet. It may not matter, but I do think that how we see ourselves and how others see us is encapsulated by our name – so let's have one that shows we are helping our charity to really perform well, not just pay the bills!

THE FUTURE

Like technology, our Finance Department has come a long way in the last eight years. The days of trusting that everything is going well (even though we couldn't prove it) are rightly long gone. We have some challenges still – we don't want to drown in data, least of all those things that can be easily measured but don't really capture our progress or lack of it.

Our future will be, I hope, alongside those leading firms from all sectors who have great, multi-skilled people with drive to help our charity be better (and better). We will have insightful information at our fingertips, whether we are trustees, executive leaders or grant managers. We will be able to see whether we are likely to meet our goals not just whether we did or not.

All of this will mean we can help Guy's and St Thomas' Charity to do its best for our mission to support Guy's and St Thomas' NHS Foundation Trust and the health of the people of Lambeth and Southwark.

WHAT IS COMMUNITY ACCOUNTANCY?

John O'Brien
Chief Executive,
Community Accounting Plus



It's vital to have support for managing your financial services and building finance skills, particularly for small charities with stretched budgets. Chief Executive of Community Accounting Plus and CFG's Community Accounting Special Interest Group Chair, John O'Brien shares more about the role of community accountancy in the sector and its vital network.

To the experienced finance director, nothing beats a neat trial balance, a clever reversing journal, or a lengthy discussion on the treatment of a revaluation reserve. To most people working and volunteering in small charities, this all sounds like their worst nightmare.

Good financial management is essential, and in small organisations, when finances are tight, it can be critical. The problem is that finances are often managed by the reluctant treasurer – the one who was arm twisted years ago and has been trying to resign ever since. Sometimes it is left to admin staff or senior paid staff with little or no finance background. The last thing they want to do is finance, but it needs to be done.

This is where community accountancy comes in. If you are lucky, in your area there will be a service that can support you with all aspects of financial management. Many of these services also provide direct support with accounts or payroll, but at the core is training and support for the finance people.

We can help set up appropriate accounting systems, we train those involved and offer on-going support by

phone, or face to face. Obviously there are resources on websites offering guidance, and there are templates to download for cash flow, budgeting and so forth, and even webinars to enjoy. But being able to talk to a human being is a great comfort. Most community accountancy services are charities themselves. We know the importance of good information for trustees and being accountable to funders and members.

Many local authorities and other funders realise that if they are giving out millions in grants and contracts, it makes sense to spend a little on funding community accountancy services. It means there is a better chance of the money being managed well. Unfortunately, it is patchy. Some areas of the country have no services at all. Groups without support either make do and keep their fingers crossed, or spend vast sums on services, and may not be aware of the nuances of the SORP, let alone partial VAT recovery. In the leafy suburbs you can usually find accounting volunteers, but it's not so easy in other areas, and charity accounting is not as straightforward as one might think.

“ Most community accountancy services are charities themselves. We know the importance of good information for trustees and being accountable to funders and members. ”

THE NETWORK

Whether large or small, any community accountancy service needs its own sources of support – professional associations, work colleagues, specialists we can call on when it gets tricky, and most importantly – each other. This is where the network comes in, and in particular the Community Accounting Conference organised by CFG. This is usually an overnight event and will include a range of sessions looking at technical aspects of accounting for charities and other community organisations, CIC's and the like, as well as time to share skills and tools of the trade with each other.

The network has been around since the early 1990's and now sits as a special interest group within CFG. It is fairly informal and is there to help services connect with each other and, especially for newer services, to learn from the more established services around the country.

You can find out more about CFG's community accountancy special interest group at cfg.org.uk/special_interest_groups. The CFG Community Accounting Conference typically takes place in February each year.

SECTION 2

WHAT'S IN STORE FOR 2019?



IN THIS SECTION

Stewards, operators, strategists and catalysts: the new role of finance
Pesh Framjee

Beyond Brexit: the policy landscape for 2019
Richard Sagar

Get ready for Making Tax Digital for VAT
Claire Williams

Let's recover the narrative on trust
Caron Bradshaw

CFG events programme 2019/20

STEWARDS, OPERATORS, STRATEGISTS AND CATALYSTS: THE NEW ROLE OF FINANCE

Pesh Framjee
CFG Special Advisor and Global
Head of Non Profits, Crowe UK



As external pressures mount, the challenge of the finance director becomes increasingly complex. But rise to the challenge, says Pesh Framjee, these are opportunities not threats.

2018 has been a difficult year for charities. Political and economic uncertainty, a difficult funding environment and cost escalations are amongst the many challenges being faced by charities.

Charity Finance Group members are responding to many of these issues. In recent years, most finance functions have developed their role as stewards, protecting and preserving the organisations assets. Separately, many have also become consummate “operators,” balancing capabilities, costs and service levels to fulfil the finance function’s organisational responsibilities. Indeed, the roles of steward and operator are vital and non-negotiable responsibilities for finance teams. As a consequence, they have justifiably spent significant time, energy and resources getting them right.

As finance functions become confident in their abilities as stewards and operators, they will also refocus on their other responsibilities. In particular, their attention will increasingly be on value creation. This entails an emphasis on the two other roles of strategist (providing financial leadership to determine business direction and align financial strategies); and catalyst, (stimulating behaviours across the organisation to achieve objectives).

These roles will also likely drive how the finance director thinks about talent and underlying processes, technologies, and strategies. Each of these roles, in turn, carries associated risks, such as understanding how the organisation is doing from a compliance standpoint, providing effective levels of quality information, protecting the organisation against losses and fraud, assessing consequences of key organisational strategies, and communicating about the risk threshold from the finance function perspective. The 2019 Pink Book has useful insights on these areas.

This will mean that the finance team will have to raise the bar and work outside traditional comfort zones. Traditionally focused on the mechanics of finance and the integrity of financial reporting, finance functions are now being pulled in different directions to help their organisation meet strategic, operational, and performance needs. As their sphere of responsibility expands and pressure mounts, more finance functions will continue to seek better ways to manage their multiple roles and effectively address a widening spectrum of risk.

The finance director’s dilemma is real and will have to be even more multi-talented. The role is, and will continue to get, wider and finance directors are not only accountable for the charity’s financial reporting,

funder interactions, and regulatory requirements, but they are also managing people, dealing with systems and technology infrastructure, and serving as a strategic partner.

Notwithstanding this, the finance director need not feel trapped or oppressed by these increasing responsibilities. These are real opportunities and not threats. I talk with CFG members on a regular basis and I see that the best are relishing the challenge and are taking control. They are ensuring that their organisations are investing in efforts that can help finance boost its productivity with fewer resources, deliver higher-quality information in shorter time frames, drive down the costs while addressing regulatory compliance, and bring about sustainable process improvements for greater efficiency.

David Renton’s article on page 14 shows how his team has managed the evolution.

As operations become more diverse and charities work at different locations both nationally and internationally, information has to be gathered and collated from many locations and charities needs to ensure that they have the right information and knowledge for decision-making – knowledge that is timely, relevant and accurate. Trustees and management will need expertise interpreting and integrating vital non-financial operational information with financial information to develop effective KPIs that provide decision-makers with knowledge that can be used effectively. Strong financial frameworks will require focus on reserves, improved IT and systems, support to volunteers, costing structures and procedures to manage risk. On page 58, Suzanne O’Brien highlights the need for information to be accessible and appropriate to the board, and shares her useful reporting method.

Wealth and patterns of influence and power are shifting. New income streams and new relationships need to be developed and an understanding of the impact of digitalisation and social media on resource mobilisation and programme quality will be important. Zoe Amar makes the case for the importance of going digital on page 34.

Most charities recognise the need to empower management and that management need to empower staff. Empowerment is important but empowerment must be balanced with accountability. Too often there is unwarranted expectation that things

are being done as they should be done and that good practice is being followed.

True empowerment requires an enabling environment and this means that the organisation must ensure that those it is trying to empower have the aptitude, core competencies, values and skills base to properly use tools, methodologies and policies that must support both accountability and devolved decision-making. True empowerment is only possible when suitably experienced individuals take decisions within their competence and adhere to an agreed framework that does not require constant reference to or follow up from others. In practice this is only effective when individuals both follow and rely on clear procedures and policies that set the parameters and framework for decision-making and operations.

True and effective empowerment needs three components – responsibility, authority, and accountability. As activities or tasks are delegated to empowered teams or individuals, all three components need to be considered. The correct balance will be achieved only when individuals or teams have a clear understanding of responsibilities, the authority necessary to fulfil these responsibilities, and the accountability for the consequences of what they have done or failed to do. This accountability is required not just from management but also from boards.

GETTING THE BALANCE RIGHT IS THE CHALLENGE

There is much more to it than ensuring compliance with standard policies and procedures and there is now much emphasis on culture and behaviour with the recognition that charities should assess and monitor culture and where they are not satisfied that policy, practices or behaviour throughout the organisations are aligned with the purpose, values and strategy, corrective action is needed.

Caron Bradshaw’s article on page 66 emphasises the importance of culture and behaviour with some important pointers on how to get this right.

There are many new paradigms and it has become self-evident that plans for future strategic development will have to take into account not only all of these factors, but also a very different environment from that of the last decade. The coming years will be challenging, exciting ones for the charity sector as it continues to respond to the changing external and internal environment.

“ The finance director’s dilemma is real and will have to be even more multi-talented. The role is, and will continue to get, wider. ”

BEYOND BREXIT: THE POLICY LANDSCAPE FOR 2019



Richard Sagar
Policy Manager,
Charity Finance Group

2018 was a busy year for the CFG Policy team, and 2019 looks to be just as eventful.

BREXIT, BREXIT, BREXIT

It's no exaggeration to say that Brexit has almost entirely dominated political discourse in 2018, and with so many things related to our departure from the European Union yet to be settled, including whether or not we will actually leave, Brexit will continue to be the defining political issue in 2019 and for many years to come.

CFG's position on Brexit has focused on the potential costs and benefits. Last September, having analysed the government's stance on five sector issues (the opportunity to reduce irrecoverable VAT, reform to state aid, public procurement, funding post-Brexit, and immigration) we came to the conclusion that as things stood, the cost of Brexit would outweigh the benefits. There has been little which has occurred over the last few months which has led us to change our mind on this issue. We expressed this concern to all MPs writing to them outlining the problems with Theresa May's proposed deal.

We have also remained consistent in warning against a no-deal, meeting with MPs from all parties to express our concerns. As the Office for Budgetary Responsibility has rightly pointed out in their October 2018 Economic and Fiscal outlook concerning Brexit "A disorderly one could have severe short-term implications for the economy, the exchange rate, asset prices and the public finances". This is too great a risk for our sector and should be avoided by government.

Regardless of the outcome of Brexit, it's crucial that charities seek to address the social causes that gave rise to it in the first place. It is this question which will be the primary focus of our work on this issue for the year ahead.

MAKING TAX DIGITAL

Making Tax Digital is a significant change to the way tax is administered, and has required much work from charity finance teams to meet requirements HMRC

“ Brexit will continue to be the defining political issue in 2019, and for many years to come. ”

has set out. CFG, alongside a range of stakeholders, has lobbied HMRC to allow additional time for charities to meet the requirements of MTD, which HMRC has partially accepted, by deferring mandating it until October for a number of organisations including, 'not for profit' organisations that are not set up as a company, VAT groups and VAT divisions (amongst others).

In addition to lobbying activity, we have tried to ensure that all members feel prepared to make the necessary changes. We've hosted interactive webinars with representatives from HMRC and have got them to present at numerous members' meetings. But there is more work to do, and we will continue to support members to comply with MTD.

CHARGING FOR THE CHARITY COMMISSION

A topic which is of perennial concern is the prospect of charities being charged by the regulator. But as with previous years, there is a strong possibility that at some point during 2019 a consultation on charging will be undertaken.

Our stance on this issue has not changed, and we are opposed to charities having to pay for the Charity Commission. Both on the grounds that it would call into question the independence of the regulator, and its ability to impartially regulate the charities that it is required to oversee. If a consultation is called we will seek opportunities for members to feed into our response.

GIFT AID AWARENESS

2018 saw CFG successfully launch Gift Aid Awareness day, highlighting the £560m of Gift Aid which goes unclaimed every year, with support from Robert Jenrick, the Treasury minister responsible for charity tax, HMRC, and from a range of charities and corporate partners.

The day trended on Twitter, and hundreds of charities downloaded our Gift Aid resources.

Throughout 2019 we will look to reduce the amount of Gift Aid that goes unclaimed; not only by a bigger and better Gift Aid Awareness Day 2019, but also by commissioning research to gain insights into how we can encourage donors to tick the box.

TACKLING CHARITY FRAUD

Fraud will remain a key issue for CFG in 2019. With new and evolving threats from cyber security on the horizon remaining vigilant against these on-going threats is crucial for CFG and the sector as a whole. We have continued to promote our counter fraud pledge to members, and have engaged with both regulators and law enforcement agencies to make sure charities are better protected from the threat of fraud.

SPENDING REVIEW

During 2019 the government is set to undertake a Spending Review. Expected in the autumn, Spending Reviews take place every three years or so and are the process where government sets departmental budgets for a yet to be determined period of time, they could last for as long as five years, but with government still dealing with Brexit it could be for as little a period of time as one year. This will account for almost half of government expenditure, and with local government already feeling the squeeze; a more generous settlement is needed so charities do not have to offset the consequences of further cuts to local government. We will look to speak to as many members as possible on this issue, feeding into government the potential implications of further reductions in spending, which will hopefully lead to a fairer offer for local government and the charities that depend on this.

GET READY FOR MAKING TAX DIGITAL FOR VAT

Claire Williams

Digital Delivery Team Manager,
HM Revenue & Customs



If you're a charity registered for VAT and have a taxable turnover above the VAT threshold, you'll need to get ready for Making Tax Digital (MTD) which is being introduced this year. Claire Williams from HM Revenue & Customs explains what it means and how to prepare.

THE REVOLUTION IN BUSINESS TAX

Millions of us are already banking, paying bills and interacting with customers and suppliers online. Going digital with business records and taxes is the next step to charities and businesses gaining more control over their organisation and their finances.

We know the vast majority of people want to get their tax right, but too many often struggle to do so, with honest errors accounting for a large proportion of the tax gap figure (which in 2015–16 was over £9bn). The tax gap is the tax that should, in theory, be collected against what is actually received, and is money that would otherwise go towards paying for the UK's public services.

By further digitising the tax system, we want to help charities and businesses to significantly cut down on these errors.

The move to digital integration will make filing taxes feel like a by-product of running their business finances, helping them to be more effective and efficient, allowing businesses and their agents to devote more time and attention to more important matters.

VAT

The first step to achieving this will be submitting VAT returns using software. For VAT periods starting on or after 1 April 2019, the vast majority of VAT-registered entities with a taxable turnover above the VAT threshold (£85,000) will need to keep their records digitally and send us their VAT return data from that software. The exception to this is a small minority of VAT-registered entities with more complex requirements. For these entities, the MTD rules will apply from 1 October 2019. Further details on deferral can be found below.

Those registered for VAT but who are below the VAT threshold are not required to use the MTD service, but can opt-in if they choose to do so.

This is a change for many of our customers, who will in future need to keep their records digitally (using software or an app) and use that software to send us their VAT returns. But it is important to note that they will neither have to provide any additional information, nor provide it more regularly, than they currently do.

DEFERRAL

We have deferred mandation to MTD VAT for a small minority of our customers until 1 October 2019. The six-month deferral applies to those who fall into one of the following categories:

- Trusts
- Not-for-profit organisations that are not set up as a company
- VAT divisions
- VAT groups
- Those public sector entities required to provide additional information on their VAT return (such as government departments and NHS Trusts)
- Local authorities
- Public corporations
- Traders based overseas
- Those required to make a payment on account
- Annual accounting scheme users.

In December 2018, we wrote to all our customers within this deferred group to inform them that they are deferred from the requirement to join MTD until October. If you did not receive a deferral letter, you will be mandated to join MTD VAT from your first VAT period starting on or after 1 April 2019.

WHAT YOU CAN DO TO GET READY

We want to help charities get ready for the change.

You can start preparing for the VAT move now by:

- Looking at how you keep your records digitally, if you don't already keep them in this way;
- If you currently use commercial accounting software, asking your software provider about when their software will be MTD compatible;
- If you have an agent who deals with your VAT on your behalf, speaking to them about what they are doing to prepare; and
- For more complex charities, looking at your internal business operations to ensure your end-to-end process is digital.

If you search for 'Making Tax Digital for VAT' on [gov.uk](https://www.gov.uk), you will find that there is lots of information available, including a list of compatible MTD software for VAT and a series of short YouTube videos.

JOIN THE PILOT

We started a year-long live pilot of MTD VAT in April 2018. Since then we have successfully tested the end-to-end customer journey, from sign-up through to submission of a VAT return and payment. The pilot is now open to all customers mandated to join from April and will be expanded over the coming months. We encourage you to join the pilot as soon as you can so you can test the service before you are mandated to join.

You can sign up to the pilot on [gov.uk](https://www.gov.uk) via the following link: [gov.uk/guidance/use-software-to-submit-your-vat-returns](https://www.gov.uk/guidance/use-software-to-submit-your-vat-returns)

“ The move to digital integration will make filing taxes feel like a by-product of running their business finances, helping them to be more effective and efficient, allowing businesses and their agents to devote more time and attention to more important matters. ”

LET'S RECOVER THE NARRATIVE ON TRUST

Caron Bradshaw
Chief Executive,
Charity Finance Group



When we published Caron's opinion piece on public trust in Finance Focus it struck a chord with many readers. In case you missed it, here are her thoughts on how, by constantly talking about the crisis in public trust, we are in danger of it becoming a self-fulfilling prophecy.

You probably know that I have four children – you might even have read some of my articles, when I wrote for Third Sector magazine, drawing on my experiences of being a mother – highlighting things as diverse as managing the risks of a twin pregnancy to benchmarking insurance products for my daughter's first car!

In this article I want to explore the negative impact of the 'lack of trust' narrative on the sector. My theory is drawn from my experience of birth. Fear not – what follows is not a blow by blow account of childbirth – rather the risks, expectations and impact of the language we use and the narrative we assign to the social change sector.

When my daughter came along the predominant question being asked of me, and all mothers in the hospital labour ward, was 'how is the pain?' But it wasn't just the question I was asked during the

labour – it was the topic of virtually every conversation in my last trimester. How would I manage the *pain*? Had I considered the various ways I could safeguard against *pain* – medical or otherwise? My expectation, based on other women's experiences and the medical professionals was therefore; boy was this going to hurt! Everywhere I turned, pain, pain, pain.

My theory? All this talk of pain conditions the mind to concentrate on it. By no means is it a conclusive study but my own experiences bear this out – the references to pain having a direct correlation with my suffering, or lack, of it.

BUT WHAT HAS ALL THIS GOT TO DO WITH CHARITIES AND TRUST?

Everywhere we turn in the sector the narrative is falling trust in us.

“ It's not down to the Charity Commission to work to build trust in charities they argue, but rather to build our understanding of the public expectations of us. ”

Just as no two pregnancies are exactly the same – no two charities are. Things that work for one charity to demand trust in them and generate confidence that they are having an impact, may scare the living daylights out of another charity's stakeholders.

Our regulator, like the medical profession, is worried about getting management of this emotional state wrong and being blamed for any fallout. It's not down to the Charity Commission to work to build trust in charities they argue, but rather to build our understanding of the public expectations of us. If the Commission doesn't talk of being tough on those who step the wrong side of the line and undermine trust – they will be criticised. If they underplay the need for action to address the potential for things to go off the rails then they may be blamed – not just by the media but by all stakeholders.

Yet all the talk of a lack of trust leads us (the public, charities, the media) to question trust. There is no doubt that trust in the sector has gone down year on year in response to a range of surveys. Some of these are directly undertaken by the Charity Commission, others by think tanks and research agencies. All have one thing in common – they ask how the patient is dealing with that *painful* issue of trust – or lack of it – not just in the charities they support but in the sector as a whole.

We can understand that some people will tell of painful deliveries whereas others, like me, genuinely managed to avoid the agony. Similarly, some people will say that charities are not to be trusted and will say their trust is 'low' in response to these surveys but there are also others whose experience of the individual charities to whom they donate or volunteer, is not that they are failing to command the trust and confidence of their stakeholders. And much like the programming of pregnant women to expect childbirth to be excruciatingly painful the more we talk of this terrible crisis of trust the more we create one!

I do not mean in any way to play down the very real sense that some charities have let themselves and the sector down. Nor do I want to be complacent and say that if we just stopped talking about falling trust levels they would spontaneously improve. Much like my birthing story, as individuals our own perceptions are a mixture between what we are told by our peers, what we see and experience and what those in positions of influence or power say with authority.

Baroness Tina Stowell, the chair of the Charity Commission, said in her maiden speech that it wasn't the 'Commission's job ... to represent charities to the public, but to represent the public interest to ...' charities. She has a point – but perhaps if we stop focusing on the pain quite so much we may need fewer epidurals!

CFG EVENTS PROGRAMME 2019/20



CONFERENCES

ANNUAL CONFERENCE

SAVE THE DATE – THURSDAY 14 MAY 2020, LONDON

CFG's Annual Conference is the must-attend charity finance event of the year, connecting sector leaders and professionals across the charity and corporate worlds. Through sharing knowledge, learning from tried and tested practices and exploring practical, usable tools, our flagship conference provides valuable solutions to apply in your own organisations.

LARGE CHARITIES

TUESDAY 11 JUNE 2019, LONDON

Bringing together the sector's senior finance leaders for a day of networking and knowledge-sharing, tailored especially to large charities. This event is open to charities with an annual income of £25m+.

TAX

THURSDAY 26 SEPTEMBER, BIRMINGHAM

DATE TO BE ANNOUNCED, LONDON

WEDNESDAY 9 OCTOBER 2019, NEWCASTLE

For many charities, raising income through trading activities and Gift Aid has become an increasingly important source of revenue. The conference will offer updates for those already working with VAT and Gift Aid, offering tips for optimising income, as well as those new to it, walking them through the benefits, registering and administration of VAT and Gift Aid schemes.

CFG runs a comprehensive range of events and training courses, bringing together expert speakers from both the corporate and voluntary sectors to support you and your team.

Our events and training days provide a great way to network and share knowledge with your colleagues in the sector. There is also an opportunity for charity members to lead on sessions as speakers.

As membership with CFG is based on the organisation, this means your whole team and board are able to receive discounted rates on our events and training, as well as exclusive access to early bird rates available only to our members.

We work hard throughout the year to develop a comprehensive, insightful, valuable programme which is as relevant as possible for our members' needs and interests, and we always welcome your feedback on which topics and issues you would like to see in our programme each year.

For full information on CFG's training and events including new announcements and dates, visit our events pages on the CFG website at cfg.org.uk/events.

SOCIAL CARE CONFERENCE

TUESDAY 8 OCTOBER 2019, LONDON

Bringing you the latest topical and regulatory developments in social care, our unique sector-specific event will be invaluable to those working in social care, equipping you with regulatory, legal and strategic knowledge.

RISK

TUESDAY 3 DECEMBER 2019, LONDON

Charities continue to be challenged by a wide range of risks that can affect all areas of their organisations. With essential updates and guidance on risk and risk management, this conference gives the opportunity to share your risk challenges and seek expert advice from speakers and exhibitors.

COMMUNITY ACCOUNTING

TUESDAY 25 – WEDNESDAY 26 FEBRUARY 2020,

LOCATION TO BE ANNOUNCED

This specialised conference for organisations provides accounting services for charities across the country, and it is a great chance to connect with other organisations that face the same challenges. If you run any community accounting or payroll service for charities, or want to run such services in the future, this is an essential conference to attend.

TECHNICAL UPDATE

THURSDAY 27 FEBRUARY 2020, LONDON

THURSDAY 26 MARCH 2020, LOCATION TO BE ANNOUNCED

This conference is a one-stop-shop for all the latest regulatory updates and developments on VAT, tax, Gift Aid, HR, governance and other topical issues.

IT

THURSDAY 19 MARCH 2020, LONDON

IT plays a major role in the finance function across all charities, and often IT responsibilities are integrated with, or fall under, many finance professionals' remits. The CFG IT Conference is a comprehensive programme, designed to fit the needs of finance directors and CEOs.

INVESTMENT

We will be running a series of roundtables, webinars, podcasts and articles with the support of our specialist corporate members throughout the year, on key investment themes relevant to you and your organisation. Find out more on our website.

REGIONAL CONFERENCES

NORTHERN

THURSDAY 27 JUNE 2019, MANCHESTER

Our biggest conference in the north returns to Manchester. With Brexit a fixed feature of uncertainty in the landscape, it's crucial for financial managers to possess the latest knowledge to maintain a robust role, and to keep growing and developing strategies at a challenging time.

SOUTH-WEST AND WALES

THURSDAY 21 NOVEMBER 2019, BRISTOL

It is more important than ever to keep abreast of all the big social and regulatory issues in the world of charity finance. This regional conference is usually made up of two streams of sessions including industry updates, technical tips and case studies for you to choose from to customise your day.

MIDLANDS

THURSDAY 6 FEBRUARY 2020, BIRMINGHAM

CFG's Midlands Conference offers an exciting programme of sessions, providing a regional outlook and addressing key issues impacting the charity sector as a whole. The two-stream programme allows you to choose which sessions are most relevant to your role and organisation and also gives you the chance to network with your sector colleagues.

TRAINING

FOUNDATION INVESTMENT
WEDNESDAY 10 JULY 2019, LONDON
WEDNESDAY 27 NOVEMBER 2019, LONDON

ADVANCED INVESTMENT
WEDNESDAY 2 OCTOBER 2019, LONDON

FOUNDATION CHARITY FINANCE
TUESDAY 18 JUNE 2019, BRISTOL
WEDNESDAY 18 SEPTEMBER 2019, MANCHESTER
WEDNESDAY 9 OCTOBER 2019, LONDON

ADVANCED CHARITY FINANCE
MONDAY 17 JUNE 2019, LONDON
THURSDAY 3 OCTOBER 2019, MANCHESTER
TUESDAY 8 OCTOBER 2019, BIRMINGHAM
WEDNESDAY 23 OCTOBER 2019, BRISTOL
TUESDAY 12 NOVEMBER 2019, LONDON

FINANCE FOR NON-FINANCE MANAGERS
FRIDAY 7 JUNE 2019, LONDON
MONDAY 11 NOVEMBER 2019, LONDON
WEDNESDAY 27 NOVEMBER 2019, BRISTOL

AUDIT COMMITTEE
WEDNESDAY 6 NOVEMBER 2019, LONDON

INSPIRING
FINANCIAL
LEADERSHIP

Not-for-profit organisations need finance professionals who can do more than report on the figures and police the budget. An effective financial leader goes beyond the numbers to become a strategic business partner. Inspiring Financial Leadership (IFL) is a series of monthly breakfast seminars run in association with CFG, Cass Business School and Sayer Vincent, combining the latest leadership models with practical advice and support through interactive sessions, discussions and individual coaching. Find out more at cfg.org.uk/IFL

MEMBERS' MEETINGS

We have a regular programme of free meetings throughout the year for our members where we delve into relevant topics and issues in more depth, giving you a unique opportunity to gather together with your peers and discuss challenges and experiences, and get your questions answered. We also hold members' Christmas Drinks in December in London (this year, it will be on Thursday 12 December), which is a fantastic way to wrap up the year with your colleagues.

SPECIAL INTEREST GROUPS

These smaller groups give members the opportunity to share knowledge and ideas with other charities with a similar profile and remit, both online and offline. Like CFG's members' meetings, special interest group meetings include presentations from expert speakers relevant to the group's profile. There are also email and LinkedIn groups, and periodical webinars and conferences, so if you aren't able to be there in person, you can join meetings online. Find out more about these specialist groups at cfg.org.uk/special_interest_groups

SECTION 3

TECHNICAL
INSIGHTS

IN THIS SECTION

Realising diversity and inclusion in your workplace
Pao Sangsuwan and Kai Adams
Let's build the charity sector's digital future
Zoe Amar

Stop making decisions: how to create a happy workplace
Henry Stewart
Six reasons to prioritise improving diversity and inclusion in 2019
Vicky Browning

Five top tips to transition from FD to CEO
Frances Lang

A view on tax and VAT for 2019
Luke Savvas and Socrates Socratous

Gift Aid – what's in store for 2019?
Helen Elliot

Charities – a big target for cybercriminals?
James Arthur

A positive pensions outlook to better protect savers
Fiona Frobisher

Accounting for Gift Aid payments made by a subsidiary to a parent charity
Richard Bray

Are you a (governance) code breaker?
Sudhir Singh

Why trustees need to understand the business
Suzanne O'Brien

Investing for the first time
Emma Robertson

How to achieve a sustainable withdrawal rate
William Reid
Trends in risk management
Alyson Pepperill, Anita Punwani and Richard Evans
Risk management: behaviours, not registers
Caron Bradshaw
Impact at the heart of an organisation: common themes from around the globe
James A Kirkland and Paul Rao
Responding to fraud in charities
Brendan Weekes
Are you proactively tackling charity fraud?
Mia Campbell

Events calendar up to date at time of publication. There may be minor changes in our programme; for up to date information, visit our website: www.cfg.org.uk/events

REALISING DIVERSITY AND INCLUSION IN YOUR WORKPLACE



Pao Sangsuwan
Programme Manager,
Green Park

Kai Adams
Partner,
Green Park

Improving diversity is a priority issue for many organisations in the third sector. Here, Kai Adams and Pao Sangsuwan of Green Park discuss how diversity needs to go hand in hand with inclusive leadership in order to develop effectively, and also examines how a robust Equality and Diversity Impact Analysis can help bring clarity and action to the issue within your organisation.

There is an assumption that if an organisation increases its diversity this will in turn bring the inclusion. Research proves that this is not necessarily the outcome. The case is much stronger if there is diversity at the top of and throughout the organisation, and where the organisation is run by inclusive leaders – those that can adapt their style to manage, engage, develop and, ultimately, lead all the diverse employees that it has.

The majority of today's business leaders know that diversity and inclusion are critical to performance. However, many executives don't know how to close the gap between aspiration and reality. Most leaders face this challenge because their organisations lack the internal capability and expertise to clearly communicate why they value diversity, develop inclusive strategies or embed inclusive practices.

As has been well documented in recent times, the voluntary sector continues to face considerable pressures and challenges; political, financial, technological, reputational. New solutions need to be found. Whether diversity is inherited or acquired,

visible or cognitive, we believe that no organisation can sustainably deal with change without increasing the agility, skills and customer orientation within its leadership team. We also know there is a clear correlation between those qualities, the diversity of the team, and its ability to protect the future relevance and impact of the organisation. We firmly believe that for charities to thrive and drive positive social change, it will be vital to "widen the gate without lowering the bar". Diversity is not just another priority, it is a possible solution.

Our *Third Sector Leadership 2,000* analysis of 1,866 charity leaders in the UK reveals some interesting trends. The 100 largest UK charities have a higher level of ethno-cultural diversity in leadership positions (8.1%) than the FTSE 100 (7.1%), ministerial (3.8%) and non-ministerial departments (1.9%). This is especially noteworthy when we look at the top three positions (Chair, CEO and CFO) where there are almost double the amount of ethnic minority post holders within the major UK charities compared to FTSE 100 organisations.

There is a healthy and robust representation of women in the sector at senior executive level. Women make up 41% of top 20 level leaders, higher than their equivalents in the FTSE 100 and central government. There is also strong female representation within executive leadership teams (46.3%) and trustee (42%) positions. On the downside, there has not been enough penetration into the highest level (top three positions). Males occupy 77% of chair roles, 72.9% of CEO roles and 67.4% of CFO roles. We should not lose sight of the fact there is still a great deal to do.

Below we outline some of the processes we use to help organisations think differently about talent.

ABOUT EQUALITY AND DIVERSITY IMPACT ANALYSIS (EDIAS)

An EDIA is a process that enables organisations to analyse their policies, processes, practices and procedures to make sure they do not discriminate or disadvantage people, (both employees and those who may be affected externally by the procedure).

It supports organisations to identify any adverse impacts, ensures practices are fair and equitable and helps them to leverage the full benefits of a diverse workforce and client/customer base. At Green Park, we do this by developing and implementing EDIAs that are fundamental to their decision making and policy development processes. The approach to each EDIA should be a commitment to ensuring that it is not another administrative 'tick-box' exercise.

We recommend that organisations and employers in all sectors conduct effective EDIAs or buy them from sensible, strong, independent sources who will help, not hinder progress though their lived experience:

- **Timing:** Whilst EDIAs often appear to be conducted retrospectively, we recommend the process is more effective when adopted as part of a proactive and preventative future planning approach during the development of a new policy or practice. This will ensure those elements that could cause adverse impact, discrimination or disadvantage are considered at a time when any negative effects can be minimised or eliminated. At the very least reasonable and practical safeguards are developed and built in to mitigate risk of intended or unintended bias and/or disadvantage as the new policy and procedure is rolled out.
- **Design:** Each organisation is unique so bespoke, nimble EDIAs should be designed, adapted to each organisation's environment, client group, service users and evolving stakeholders. Recognise the unique risks that could not only disadvantage certain groups but potentially damage an organisation's brand reputation and profitability.
- **Implementation:** While the Equalities Act 2010 identifies nine protected characteristics, experience

has shown us that difference is never static and intersectionality is the norm. We recommend that those involved in carrying out an EDIA should always have a thorough knowledge of diversity and inclusion issues, barriers and concepts. This will enable them to effectively assess the degree to which a policy or practice could affect some people – so it does not become a 'tick-box' exercise.

- **Collaboration:** Diversity and inclusion issues and concepts are multifarious and complex so an effective, holistic EDIA should involve the input of various experts to avoid any blind spots. This ensures that the evidence that is needed to conduct an effective EDIA is credible, robust and up-to-date.
- **User-Input:** The most important element of an effective EDIA is ensuring the voices of those who are likely to be disadvantaged by a policy or practice are heard. This will ensure the EDIA truly addresses groups that are most relevant. When creating a holistic D&I strategy and building a sustainable and diverse leadership pipeline, it is prudent to recognise that effective EDIAs, coupled with proper community and stakeholder engagement can prevent discrimination and barriers or disadvantages, whilst creating a trusted platform to tackle any negative perceptions of the sector.

In very simple terms, an effective, robust and credible EDIA should be a normal part of every organisation's standard risk assessment policy and practice. It can, and should, be included in forward looking change programmes and project plans which will have clear lines of governance, assurance, risk-management and ultimately accountability.

ATTRACTION AND RETENTION

We recommend a partnership in which those requirements, the job description, person specification, and the market proposition can all be robustly critiqued. How our client articulates its needs should not only be well-defined, attractive and welcoming to all candidates but also free from bias.

Clarity around why people are being targeted is critical if potential candidates are to trust the authenticity of the approach. So too is clarity over what constitutes the benchmark. The focus of any conversation should be on the individual's specific attributes against the brief, not simply on their diversity.

To ensure equity in the process and allow candidates to put themselves forward in the strongest possible light based on their own merits, it is critical to provide tailored care and support. We advocate an asset-based approach – centred on how the candidate's different experience will provide fresh perspective or better insight into the mandate – as opposed to the classic deficit model focused only on lack – of skills, experience, networks – and concomitant risk.

LET'S BUILD THE CHARITY SECTOR'S DIGITAL FUTURE



Zoe Amar MCIM
Founder and Director,
Zoe Amar Digital



The charity sector is keen to embrace digital, but research shows that skills are still lacking. The first Charity Digital Code of Practice in the sector was launched in November last year. Zoe Amar tells us more about how the Code originated and why it's so important for you to add your voice to the conversation.

Have you ever sat in a senior management team meeting, debating where to invest in digital? Wondered what other charities are doing about tech? Have you found that some colleagues are more eager to engage with digital than others?

Hundreds of charities that we have worked with have told us they are grappling with such issues – and we are not the only people to have noticed this. That's why a group of organisations, including CFG, the Charity Commission, Office for Civil Society, NCVO, ACEVO, Tech Trust and others have come together to help set out a framework for charity success in digital. It is the new Charity Digital Code of Practice, launched a few months ago in November.

Here's the story behind it and why I think it's needed across the sector.

WHY DID IT COME ABOUT?

There have been many reports across the sector over the last few years, from Lloyds Banking Group's Business Digital Index to our own Charity Digital Skills Report, which show how charities are behind the curve with digital. This is a common challenge in most sectors at the moment. Look at the way that the high street is struggling, whilst companies such as ASOS thrive. Meanwhile Deliveroo has become Europe's fastest growing company just as restaurant chains such as Jamie's downsize. And we all know what happened to companies such as Blockbusters and Kodak when they missed the moment to go digital.

The Charity Digital Code of Practice represents charities coming together to meet this challenge, setting their own standards for success. It covers what charities should be aiming for in digital, and how their own working practices and behaviour may need to change.

It aims to develop charities' digital skills, improve take up of digital activity across the sector, and create a level playing field for all organisations by increasing digital motivation and confidence. Through the Code, we want to make charities more accessible for beneficiaries, create new opportunities for funders to engage with digital and enhance collaboration across the sector. That's what I think is truly unique and exciting about the Code, and why digital is such a huge opportunity for charities.

The Code is owned by DCMS through its Digital Enterprise Delivery Taskforce, which Lloyds Banking Group (one of the funders) co-chair.

HOW WAS IT DEVELOPED?

The bare bones of the Code were created in a series of workshops with the steering group. All of the organisations around the table had helped charities with digital in some form or another, so we drew on our collective experience to share initial ideas. It was very important to everyone that the needs of small charities were factored in from the outset, so we were delighted that the Small Charities Coalition were able to join the steering group. The Co-Op Foundation also came on board as a funder and had many insights to share about both small and large charities.

Most importantly, we then worked closely with more than 40 charities of all sizes and stages of digital maturity who tested out the Code and shared their feedback. This was invaluable and we are really grateful for their insights. Now that the Code is out there we are really excited to hear what the sector makes of it, and are already talking to charities who are using it and have developed programmes of work and strategies based on it.

WHAT NEXT?

We've had positive feedback to the Code so far. Many of the organisations who have tested the Code are now championing it. But we need as many of you as possible to tell us what you think of the Code, so we can improve it further once we have secured funding for Year 2.

We would love to hear your opinions. Please do get involved. This is an exciting opportunity for us all to shape how the sector uses digital, and how we can deploy it to help us all reach more people and make an even bigger difference to their lives.

Take a look at The Charity Digital Code of Practice charitydigitalcode.org

“ This is an exciting opportunity for us all to shape how the sector uses digital, and how we can deploy it to help us all reach more people and make an even bigger difference to their lives. ”

STOP MAKING DECISIONS: HOW TO CREATE A HAPPY WORKPLACE

Henry Stewart
Founder, CEO and Chief
Happiness Officer, Happy



Happy Henry went down a storm with delegates when he closed last year's CFG Annual Conference. We've invited him back to share some of the innovative thinking and approaches which create happy workplaces.

What would it be like to commit to making no decisions as a senior manager of your charity, and instead coach your people to decide for themselves?

I made that commitment 18 months ago as head of Happy. The result has been 26% growth in income and a move from loss making to significant surplus. In that time Happy has made some key decisions, including changing the IT system that is at the core of our work and increasing prices, but I haven't been directly involved.

I was inspired to do this by a US Navy submarine commander called David Marquet. You can google the animated video in which he explains how he was trained for one submarine and, at the last minute, put in charge of another one.

He couldn't tell people what to do, because he literally didn't know how the submarine worked. So he resolved to make no decisions, instead coaching his people to use their own judgement. There was just one exception: if missiles had to be launched, that remained his responsibility.

That submarine, the Sante Fe, went from underperforming to become the best performing submarine in US Navy history. Eleven of the crew went on to become commanders themselves because what Marquet did, in stepping back, was to create real leadership among others.

Pause for a moment. What would it be like to make virtually no decisions – say, for three months. And what would be your exception?

The point is that it forces you to truly delegate and give real ownership on the basis that decisions are made as close to where they affect as possible. There are several ways to do this.

Pre approval is the idea of giving approval to somebody (or a team) in advance, effectively approving the solution before they have thought it up. One example is the TLC charity in Manchester, where CEO Michelle Hill pre-approved her new marketing officer to create the new website.

“Pause for a moment. What would it be like to make virtually no decisions – say, for three months. And what would be your exception?”

“She knew the outcome we were aiming to get. You almost saw her come to life, because actually she's really creative, she thinks really quickly, she wants to test new things, and actually the website is amazing. The difference that we've seen in traffic through to the website in the last month is unbelievable.”

Ownership: At Happy, John does not lead the IT Training section but he is responsible for pricing within it. If he wants to change the pricing, he consults, takes advice but the decision (and the accountability) is his. Our aim is to have somebody in ownership of every area of our business.

Responsibility: A not-for-profit called us in because they wanted to know why people were so demotivated. Staff told us they weren't trusted and needed three levels of approval even to issue a press release. Directors told us the approval was vital, as their reputation was at stake.

But what do the directors know that the frontline staff don't? Training was arranged in those factors, and employees were certified to issue press releases without approval. The biggest benefit, the CEO later told me, was the huge gain to managers in not having to spend hours double-checking the original work.

Delegate financial decisions to the frontline: At a large government body, they allocated a £1m budget to innovation. The staff set up a crowdfunding site, where people could bid for money for projects. In

most organisations it would then be down to senior managers to decide who got the money.

At this agency they instead divided the money into 100 batches of £10,000 and gave it to the most junior members of staff to make the decision. One colleague told me how he had an idea for a piece of technology to improve communications, but that would cost £11k. Previously it would have needed five levels of approval. Instead he put it on the website, got funded within a week and implemented within two weeks.

The result of this bottom-up approach was much faster innovation and response to change, but also decisions made by frontline staff who had better knowledge of their own situation. You may not have £1m to spare, but it could work as well with a £10k budget.

Give greater autonomy: At Social Adventures in Salford the management grew tired of people asking them to approve for small items of expenditure. So they said for anything up to £250, people were pre-approved and free to decide for themselves. The result was that things got fixed quicker and spending actually went down 6%.

There are many approaches to try. What would happen if you stepped back from many of the decisions and approvals you are involved in? Indeed what would happen if you resolved to make no decisions at all?

SIX REASONS TO PRIORITISE IMPROVING DIVERSITY AND INCLUSION IN 2019



Vicky Browning
Chief Executive, ACEVO



Why is diversity in the charity sector workforce so at odds with the demographics it exists to support? Vicky Browning looks at why we need to move the diversity issue to the top of the pile of priorities in our organisations and on the whole as a sector, and highlights what benefits a change in approach will bring.

The charity sector as a whole is failing to reflect the diversity of the individuals, communities and geography it serves. As leaders, our genuine commitment to diversity and inclusion combined with a positive attitude about what change offers, will make a difference to the speed and scale of change in civil society.

Here are six reasons why improving diversity and inclusion should be a priority for you and your organisation in 2019.

1. DIVERSE ORGANISATIONS GENERATE MORE INCOME

Research by the global management consultancy firm McKinsey found that companies in the top quartile of ethnic diversity were 35% more likely to financially outperform others in their industry. In the US, data shows a linear relationship between racial and ethnic diversity and better financial performance; for every 10% increase in racial and ethnic diversity on the senior executive team, earnings before interest and taxes rise by 0.8%.

“Creating a truly inclusive and diverse workplace will take time and require ongoing commitment.”

In the UK, a report by the Department for Business, Energy and Industrial Strategy said that the potential benefit to the UK economy from full representation of BAME individuals across the labour market, through improved participation and progression, is estimated to be £24bn a year, which represents 1.3% of GDP.

2. DIVERSE ORGANISATIONS ARE MORE INNOVATIVE

Diversity of people brings diversity of skills and experience, which in turn can deliver richer creativity, better problem solving and greater flexibility. A study by researchers from the Centre for Talent Management found companies whose leaders exhibited at least three inherent (characteristics people are born with) and three acquired (differences in life experience) diversity traits were 70% more likely to say they had expanded into new markets.

3. DIVERSE ORGANISATIONS PREVENT GROUPTHINK

Groupthink refers to the psychological phenomenon in which a group of people strive for consensus at any cost. Uniformity and consensus is valued over openness and constructive challenge. Groupthink is more likely to occur in groups where people share a similar background and experiences. Groupthink can have serious, negative consequences. Following the financial crisis, an independent evaluation of the International Monetary Fund said that, “In the run-up to the 2008 financial crisis, the International Monetary Fund’s (IMF) ability to correctly identify the mounting risks was hindered by a high degree of groupthink”.

Psychologists have found that teams made up of people who all know each other were less adept at digesting information and identifying possible responses than teams comprising at least one person unfamiliar with all the others. It is logical that these findings would transfer to charitable organisations and that greater diversity will create stronger, more resilient charities that can operate more effectively.

4. DIVERSE ORGANISATIONS ATTRACT MORE TALENT

In 2016, 14% of the working age population was from a BAME background. This is increasing, with the proportion expected to rise to 21% by 2051. Charities failing to think about how to recruit from this talent pool will miss out on the best candidates for the role. A survey by PwC of millennials in the workplace found that the younger generation has a greater expectation of diversity and inclusion from employers. 76% of those in the financial services sector said they considered the employer’s record on equality and diversity when accepting their current role.

5. THE MORAL CASE

Improving diversity and equality of opportunity within charities is compatible with the moral, ethical and value based framework under which charities are formed and operate. Everyone should be able to access the same opportunities and fulfil their potential. At the moment, we know that this is not the case in the charity sector. Data from NCVO shows us that fewer than one in 10 voluntary sector employees (9%) are from black, Asian and minority ethnic groups (BAME). At CEO level, ACEVO’s Pay and Equalities Survey 2018 found only 3% of CEOs were from a BAME background.

6. THE LEGAL CASE

And if none of this is compelling enough then there is the law. Under the Equality Act 2010 employers must avoid direct and indirect discrimination. Indirect discrimination is when a decision is made which has (or would have) a worse impact on a group that share a particular protected characteristic than on people who do not have that characteristic. Employers are able to take positive action under equality law. Positive action means the steps that an employer can take to encourage people from underrepresented groups to take up employment opportunities. It is different to positive discrimination which is unlawful under the Equality Act. More information on this can be found on the Equality and Human Rights Commission website equalityhumanrights.com/en.

WHAT NEXT?

It’s OK if you’re not sure where to start – good leaders learn. Sign up to ACEVO’s diversity principles at bit.ly/ACEVODiversity, ask for advice from your membership body or bring on board a consultant to work with your organisation.

Opening this piece, I said that improving diversity and inclusion should be a priority for 2019, but creating a truly inclusive and diverse workplace will take time and require ongoing commitment. But the return on investment is clear; the result will be a stronger, more creative, inclusive and innovative workplace and that should be every leader’s goal for 2019.

FIVE TOP TIPS TO TRANSITION FROM FD TO CEO

Frances Lang
CEO, Variety



Frances Lang has made the journey from finance director to chief executive. Here, she shares five insightful and practical tips for aspiring CEOs.

Frances is relatively new to the charity sector having joined Media Trust in 2014 as Director of Finance and Operations, prior to that she was a partner and FD of a private equity business. When Media Trust's founder CEO, Caroline Diehl, stepped down after 23 years, Frances was invited back to Media Trust by the Chair of the Board of Trustees as interim CEO, as the newly appointed CEO was unable to start for eight months. She is now CEO of Variety, the Children's Charity which transforms the lives of children in the UK challenged by disability, ill health or poverty.

We asked Frances to share some practical tips for finance professionals who are keen to make the move to CEO. Here are her top five tips:

ADOPT A GROWTH MINDSET – IDENTIFY THE SKILLS AND KNOWLEDGE YOU NEED TO ACQUIRE

I think the most important thing you need to make the transition to CEO is a growth mindset. You need to assess your skillset, knowledge and experience to identify what you need to develop, and then proactively go about acquiring these skills, knowledge and experience.

At the risk of stating the blindingly obvious, there are lots of skills which are common to all CEO roles but certain types of roles demand different skills. Clearly a start-up differs from a major strategic overhaul which differs from a relatively steady state environment. Equally, different types of charities need different kinds of CEOs.

One practical tip, even before you actually start job-hunting, is to sign up for things like Guardian online for their notifications of charity CEO roles. Spend some time looking at the job and people specifications and see how your skills and experience measure up against those. This will help you both identify what you need to develop as well as the types of roles and organisations that you are best suited to.

CREATE AND SEIZE OPPORTUNITIES IN YOUR CURRENT ROLE TO ACQUIRE THESE SKILLS

My next top tip would be to create and seize development opportunities in your current role. Find ways to expand your operational and external responsibilities.

It's critical that you have experience of running a function beyond finance. It's a very different skill managing a team with a completely different skillset and expertise to you. Lots of finance directors oversee IT and HR and that's great, but do speak to your CEO about other responsibilities that you can take on.

It is really important to make sure that you are leading on business planning and strategy. Clearly as a finance director you already play a very crucial role in this area, but I think there can be a huge difference between participating in the process and assessing the financial viability of other people's ideas – and actually driving it forward.

Communication skills is another big area. Public speaking is one important element. I don't think everyone is born knowing how to confidently and engagingly speak to a roomful of people; but again, I think you can learn by doing. Grab all those opportunities to do public speaking. There's nothing less inspiring than a CEO who's got their head stuck in their notes or is essentially reading from wordy slides – that's just dull.

Have a conversation with your CEO about your career aspirations. I believe that any CEO worth their salt will understand that you have aspirations and will support you in that. Ask if you can deputise for them on an adhoc or ongoing basis. Maybe you can attend meetings or sit on committees in their place or take on external speaking engagements or take a specific project off their hands. Certainly at Media Trust I was lucky to work with Caroline Diehl who was very happy to help me take on a much broader role.

Another good idea is to become a trustee of another charity so you can get experience of being a trustee on a different board.

AS WELL AS LEARNING BY DOING, MAKE THE MOST OF ONLINE AND OFFLINE LEARNING OPPORTUNITIES

As well as learning by doing you can learn through other channels.

There are vast online resources – I love TED Talks. I'm sure you've all watched some of these but I really recommend taking time on a regular basis to watch some about inspirational leadership and how to create an innovative, productive organisation culture. Simon Sinek's 'How great leaders inspire action' and 'Start with Why' are essential viewing, in my opinion.

There are also a lot of CEOs in the charity sector and beyond who share their ideas on social media about leadership. Follow a few people you admire and listen to their ideas. Bruce Daisley of Twitter is one of my favourites with his EatSleepWorkRepeat podcasts and his 'New Work Manifesto' approach.

There are also some great courses out there. ACEVO have a huge range of courses designed for charity CEOs and Media Trust offer a full spectrum of communication training from media interview training to how to really optimise your use of social media.

LEARN FROM A WIDE RANGE OF PEOPLE AND GET A MENTOR

Make sure you're really learning from the widest range of people.

Get yourself a mentor, maybe an experienced charity CEO. They will be an invaluable source of advice and guidance and this can act as a sounding board. The right mentor now may also help you find your first CEO role.

And never forget that you can also learn an enormous amount from the younger and more junior people in your organisation and beyond. They may have technical skills that are better than yours, they may use apps or other software which could make you more efficient – ask them to show you.

Be brave, ask your colleagues at work what they consider to be your strengths and weaknesses as a manager. This is invaluable insight from people who report to you and from people who sit alongside you on the leadership team. You may already have some element of this as part of your appraisal process but for me nothing beats a face to face conversation.

BUILD UP YOUR NETWORK, MAKE IT DIVERSE

My final top tip is that you really need to work on building up your network both in the real world by attending events, and active membership of various organisations as well as online. I'm a big fan of Twitter and LinkedIn but I would say it's well worth making sure that you are using them productively – again there's plenty of training available online and offline.

I have been amazed and delighted at how willing people I admire, some of whom I have never actually met before, have been to meet over a cup of coffee and let me pick their brains. And more often than not I've connected with them via Twitter or LinkedIn. And I have very consciously 'paid this forward' and taken the time to talk to people who have approached me for the same reason.

I think a strong network is one which is really diverse in terms of types of organisations and people.

Finally, I would say that if you are really passionate about what you do and you're willing to work hard and keep learning, you are well-placed to be successful.

Good luck!

“ Any CEO worth their salt will understand that you have aspirations and will support you in that. ”



A VIEW ON TAX AND VAT FOR 2019



Luke Savvas
Partner, Buzzacott
Socrates Socratous
VAT Partner, Buzzacott

There have been many changes in tax and VAT during 2018 which have laid the groundwork for more this year. Here Luke Savvas and Socrates Socratous share the key developments and look ahead to what 2019 has in store for the taxation landscape.

With changes to taxation for charities regarding Gift Aid looking positive and relieving some administrative burdens for charities, as well as precedents being set within VAT around the finer details of what constitutes 'economic activity' and just how much protection an Alternative Dispute Resolution really gives an organisation, 2018 brought some interesting developments for tax and VAT, and 2019 looks set to be yet another eventful year.

TAX: SOME WINS AND CONSIDERATIONS, BY LUKE SAVVAS

Gift Aid and Assist

A consultation on making Gift Aid more 'user-friendly' and to increase the take-up commenced in 2006 and seems to have remained open. In the 13 years since, we have seen a moderate number of changes such as the Retail Gift Aid Scheme predominantly applied to charity shops.

The 2018 Autumn Budget announced a number of changes including a relaxation of the paperwork requirements for charity shops using the Retail Gift Aid Scheme. Charities will no longer have to write to every supporter each year to inform them of the proceeds

raised from their second-hand goods. With effect from April 2019, letters will only need to be sent every three years, where the proceeds are less than £20 a year. Although it may appear to be a small change, this will significantly reduce the administrative burden for many charities.

Other changes to be implemented from April 2019 include increasing the maximum individual donation limit under the Gift Aid Small Donations Scheme (which I know is not real Gift Aid and has separate rules but still uses the term 'Gift Aid' in its title!), from £20 to £30. Not only does this increase the amount you can give in the form of 'old-fashioned' notes but also brings it in line with the limit for individual contactless payments. The days are numbered for the times where we would love to make a donation but sadly don't have the cash in our purses or wallets to do so!

The Finance (No.3) Bill 2018–19 also included helpful changes to Gift Aid donor benefit thresholds. These apply to the value of benefits donors are permitted to receive in consequence of their donation. The new simplified thresholds will, subject to royal assent, come into effect from April 2019.

The thresholds will reduce from a three to a two-tier system, as follows:

- 25% limit for the first £100 of a donation and
- An additional 5% of any amount exceeding £100

This is a welcome change as it effectively allows charities to provide a more generous level of benefits to the donor, where the donation is over £100, and still enable Gift Aid to be claimed. This is particularly useful for charities that operate 'friends' schemes.

Other direct tax changes

Charities can receive income from non-primary purpose charitable trading and other sundry income providing this income does not exceed a certain threshold. The Budget announced an increase in the threshold from April 2019, from £50,000 to £80,000 for charities with an income of more than £200,000. This saves charities a potential tax liability but also the requirement to report the source of income on a tax return.

While 2019 brings some positives for the charity sector, medium to large charities should be mindful of the tightening rules on 'Off Payroll Workers' from 6 April 2020 and the potential additional cost to charities of using contractors with personal service companies. Charities should be planning and budgeting for these costs now.

VAT: LESSONS FOR 2019, BY SOCRATES SOCRATOUS

As always in the world of VAT, keeping abreast of case law is important not just for planning and structuring, but also for identifying whether there is a hidden exposure because of a change to the interpretation of existing legislation. Looking back at 2018, two cases heard last year illustrate this.

The first is the case of Wakefield College. The Court of Appeal (CoA), grappled with the perennial question of whether the charity was undertaking a business activity. Wakefield was constructing a new building and wanted to benefit from the zero rate relief available for new buildings used for non-business purposes.

The CoA found that whether there is a supply for consideration, and whether that supply constitutes an economic activity, are two separate questions. A supply 'for consideration' is necessary, but is not sufficient in itself for an activity to be an 'economic activity'. The first condition requires the payment to be made under a legal relationship with reciprocal performance between the supplier and the recipient, i.e. the 'direct link'. The economic activity condition means also showing that the supply is made 'for the purpose of obtaining an income'.

In the end Wakefield College lost its case, as its subsidised student fees were deemed a business activity, but the decision sets out factors to consider when asking the 'business' question.

The second case, Serpentine Gallery Trust Ltd (TST) showed that an Alternative Dispute Resolution (ADR) agreement with HMRC did not give certainty. Despite the fact the First-tier Tribunal (FTT) found the agreement constituted a contract and there was no unilateral mistake by HMRC, TST could not rely on the agreement because what HMRC had agreed was wrong as a matter of law – even though the evidence showed that HMRC had been issuing rulings on a similar basis to other taxpayers since at least 2003.

Both of these cases changed the VAT landscape in charity finance, giving two key lessons to learn from 2018. Firstly, organisations should prepare for a more in-depth analysis on what constitutes 'economic activity'. Secondly, don't assume that because your organisation has an ADR agreement that you can't be challenged.

Along with those two lessons from last year and aside from Making Tax Digital and Brexit, there are some other areas to keep under review:

• VAT group extension for non-corporate entities

With effect from royal assent next year, the eligibility to join a VAT group will be extended to certain non-corporate entities. Specifically the change will allow a non-corporate entity (e.g. a partnership or LLP), or an individual, to be a member of a VAT group with all the corporate entities that the entity or individual controls, which is a welcomed extension of the rules.

• VAT rules for electronic and physical publications

On 6 November 2018 the European Council of the European Union adopted a directive allowing alignment of VAT rules for electronic and physical publications. Member states will be able to apply reduced, super-reduced or zero VAT rates to e-publications. It will be interesting to see whether the UK takes steps to introduce this.

• Domestic Reverse Charge for construction services

From 1 October 2019, a Domestic Reverse Charge (DRC) will apply to construction services. Under the DRC a main contractor would account for the VAT on the services of any sub-contractor and the supplier does not invoice for VAT. The customer accounts for VAT on the net value of the supplier's invoice and at the same time deducts that VAT, leaving a neutral tax position. The DRC only applies to businesses that use the construction services to make a further supply of building services and not to 'end users'. This change will affect charities which use their own design and build company to provide construction services, and steps should be taken to ensure the accounting records can cope with the new requirements.

GIFT AID – WHAT’S IN STORE FOR 2019?



Helen Elliott
Partner, Sayer Vincent LLP

Awareness and effective management of Gift Aid are crucial in making the most of this tax relief as an income stream for your charity. Here Helen Elliott takes a look at some of the technical aspects of claiming for Gift Aid, and shares what changes are in the pipeline for this year.

Gift Aid continues to be a very valuable income stream. HMRC paid £1,260 million of it to charities in 2017/18, so it is vital to keep up to date with changes and make sure your records and procedures are in order to maximise the income, and also minimise any repayment to HMRC. HMRC research estimates that around 8% of donations that are not eligible

for Gift Aid are Gift Aided, but a further 25% eligible for it are paid without a Gift Aid declaration.

DONOR BENEFIT LIMITS

The Gift Aid donor benefit limits will increase for donations made on or after 6 April 2019:

DONATION AMOUNT	BENEFIT VALUE LIMIT: TO 5 APRIL 2019	BENEFIT VALUE LIMIT: FROM 6 APRIL 2019
Up to £100	25% of donation amount	25% of donation amount
£100 to £1,000	£25	£25 plus 5% of donation amount above £100
Over £1,000	5% of donation amount	
Annual limit	£2,500	£2,500

CURRENT VS FUTURE GIFT AID DONOR BENEFIT LIMITS ■ Limit to 5/4/19 ■ Limit from 6/4/19 ■ Future – current



No charity loses out under the changes and the discontinuity at £1,000 is removed (the current benefit value limit for a donation of £1,000 is £25, for a donation of £1,001, it is doubled to £50.05).

The donations that gain the most from the changes are those between £500 and £1,000, with a donation of £1,000 gaining the most at £45 (current benefit limit £25, future benefit limit £70). Donations of over £1,000 gain a flat £20, for example for a donation of £2,000 the benefit value limit is currently £100 but will become £120.

THE HMRC ‘CHAPTER 3’ GIFT AID GUIDE

To tie in with the changes to the donor benefit limits HMRC is in the process of revising and updating its ‘Chapter 3’ Gift Aid guide in order to clarify how donor benefits should be valued for Gift Aid purposes.

Valuation of benefits is a frequent source of confusion and dispute so any clarification is to be welcomed. However there is clearly a risk that HMRC’s policy on benefit valuation might change and, depending on what the updated guidance says, charities might have to revise benefit valuations and donor benefit packages. The revised Chapter 3 guide will therefore be a key development to watch out for.

We understand that HMRC policy is likely to be ‘clarified’ in a few areas, including how benefits are valued for split payment schemes and also HMRC policy on donation only fundraising events, as explained below.

DONATION ONLY FUNDRAISING EVENTS

HMRC is now taking a stricter view when it comes to examining Gift Aid claims for donations made in connection with ‘donation only’ fundraising events, that is, where there is no minimum admission price but attendees are invited to make a suggested charity donation. Not only are the donors’ tax relief claims at risk where it is not made clear that admission to the event is free and all donations are voluntary, but HMRC also say trustees should be able to provide evidence in the form of a minuted decision that the event could generate a better return overall for the charity by seeking donations instead of charging for tickets. Failure to provide satisfactory evidence may result in the costs of the event being treated as non-charitable expenditure.

RETAIL GIFT AID SCHEME END OF YEAR NOTIFICATION

In the 2018 budget the government announced that from April 2019 there will be no need to send a donor end of year notification for the Retail Gift Aid Scheme if the donor’s total donations in a tax year (net sales proceeds) are under £20. However there will still be a requirement to send notifications at least once every three tax years rather than every tax year.

It is not yet clear if the three year letter will have to include donations made in the previous two tax years. It seems likely as one of the government’s concerns is that higher and additional rate donors should know the correct donation amounts for entering on their tax returns in order to claim tax relief.

CLAIMING RETAIL GIFT AID ON RAG SALES

HMRC accept that Gift Aid can be claimed on Retail Gift Aid goods sold as rag but only if it is possible to apportion the rag proceeds back to the donors accurately. This is likely to require weighing these goods and using separate and differently coloured bags for Retail Gift Aid rag or keeping a control sheet with weights or garment numbers to be able to trace back to donors. This is a lot of work for potentially little gain so we know many charities do not claim for rag but it may be worthwhile if sufficient goods are sold as rag.

GIFT AID SMALL DONATIONS SCHEME PAYMENT CAP

The Gift Aid Small Donations Scheme is currently limited to donations of £20 or less made by individuals in cash or by contactless payment. The 2018 budget announced the limit will increase to £30 for donations made from 6 April 2019 to be in line with the limit for contactless payments.

GIFT AID DECLARATIONS – FIRST NAMES

The minutes of the October 2018 meeting of the HMRC organised charity tax forum record that HMRC's Gift Aid guidance is to be changed to require all Gift Aid declarations to include, as a minimum, the donor's full first name, surname and postcode, though this will not apply retrospectively. The minutes record that HMRC intended to implement this change with effect from April 2019, however HMRC was open to further representations on when the publication of the guidance will occur and when it will come into effect. We understand that charity representatives such as the Charity Tax Group are currently discussing this matter with HMRC and it is hoped that this change will not be implemented.

“HMRC paid £1,260 million of Gift Aid to charities in 2017/18, so it is vital to keep up to date with changes and make sure your records and procedures are in order to maximise the income, and also minimise any repayment to HMRC.”

CHARITIES – A BIG TARGET FOR CYBERCRIMINALS?



James Arthur
Partner, Head of Cyber
Consulting, Grant Thornton

Many charities don't always realise the value that the personal, financial, commercial and other data they hold has to cybercriminals.

Charities typically don't perceive themselves to be targets. A common misconception is that cybercriminals won't bother to target charitable organisations. Yet 44% of charities hold personal data on customers, beneficiaries or donors electronically. And 30% of these charities have experienced breaches or attacks on this data and their systems¹. In fact, statistics show that charities reported 137 data security incidents to the Information Commissioner's Office (ICO) in the first quarter of 2018/19. This has increased more than six times since the previous year, and is a very clear indication that the threat towards the industry is growing rapidly. This requires a change of mindset on cyber security towards a realisation that if a charity does have vulnerabilities it will be attacked.

TIGHTENING SECURITY

CEOs and trustees have a responsibility to consider and manage cyber risks alongside other business risks – so now is the time to better understand and act on this critical threat. Taking a holistic approach, where all parts of the charity are interconnected and

continuously working together, will help to protect the entire organisation.

Charities can actively consider how they can prevent themselves from being an easy target for attackers. The culture of openness makes charities more vulnerable to cyber fraud and extortion, ranging from ransomware and malware to data breaches and phishing. As charities become increasingly reliant on online services – a key advancement in the industry – unfortunately their exposure to attacks grows, risking serious financial and reputational consequences. These advances in technology need to be embraced by organisations to match the expectations of donors, so investment in cyber security practices, therefore, has never been so pressing as it is now.

Smaller charities may not consider it a priority to commit resources to cyber protection. It can be seen as an expensive overhead that will divert money away from the frontline. Or they may not fully understand the threat and the significance that threats could have on the charity's ability to function. Regardless, they have the same duty of care as any other business to

safeguard their information. While it is not surprising that charities want to spend scarce resources on fighting poverty or housing the homeless, it is those very services that could be at risk if they fail to invest in cyber security tools and practices.

WORTH THE INVESTMENT

Cyber security doesn't need to be overly complicated or vastly expensive, and to provide assurance to trustees, donors and the general public there are a range of solutions available from providers:

- A simple health check that informs a charity's risk management process in line with the National Cyber Security Centre's 10 steps to Cyber Security: bit.ly/CFG_NCSC
- Vulnerability scans that identify breached security credentials or whether other sensitive information is leaking
- Ensuring a business continuity and remediation plan is in place for when an incident occurs
- Implementing training and awareness programmes among staff

There are also simple and effective tips that charities could follow to make an immediate start on implementing cyber security best practices:

1. Ensure that your software and devices are kept up to date and patched
2. Ensure you are not relying on passwords alone for user authentication
3. Ensure you have an active strategy for defending your organisation against phishing attacks
4. Ensure you have a process to make sure your third-party partners and suppliers protect the information you share with them
5. Ensure you are considering and monitoring cyber risks at a board level on an ongoing basis – these are business risks, not just an IT problem!

There are no options that will eliminate 100% of the risk – charities must employ a pragmatic, balanced and focused approach to cyber security. Not only will this help them respond to the constantly evolving threat landscape, mitigating the risk from increasing levels of cybercrime, it will also go a long way to meeting data protection obligations.

References

1. National Cyber Security Centre – 10 Steps to Cyber Security



A POSITIVE PENSIONS OUTLOOK TO BETTER PROTECT SAVERS



Fiona Frobisher
Head of Policy,
The Pensions Regulator

What's in the pipeline for pensions in 2019 and what does it mean for employers? Fasten your seatbelts as The Pension Regulator's Fiona Frobisher takes you on a whistle-stop tour of defined benefits, auto-enrolment, consolidated schemes and master trusts.

It can be daunting to start the year knowing that the next twelve months are going to be extremely busy. But, notwithstanding the challenges which may be thrown in our direction, we think there is a lot to look forward to for pensions.

2019 looks set to see positive progress in several areas which we think will benefit charities and their employees, including the final automatic enrolment contribution increase and the development of the dashboard to help savers keep track of their pensions.

I am going to talk about the changes in three areas which I know are on the minds of charity finance directors: the future of defined benefit (DB) pensions,

auto-enrolment and information for members; consolidated schemes and master trusts.

DB PENSIONS

Last year we welcomed the government's proposals for clearer DB funding standards and for more effective powers for us to take tough action where expectations are not met.

We have started work on a new DB funding code which will introduce standards to help trustees and employers to agree good funding outcomes for their schemes and which should, alongside any expansion of our powers, better equip us to take enforcement action.

We will be engaging actively with industry to ensure the revised code is based on expert input, has industry consensus and provides practical guidance on long-term funding. We want the revised code to be clearer about ambiguous terms such as 'prudent' and 'appropriate' whilst preserving the flexibility of the current approach to recognise different scheme situations. It will seek to take into account the different kinds of covenant standing behind schemes, including charities reliant on grants and donations. We will initially consult on options for a clearer framework early this year, with a consultation on the new draft code expected later in 2019.

Where standards in the funding code are not being met, the government's proposed changes to powers, including the section 231 funding power and new fines and information gathering powers, are designed to strengthen our ability to take regulatory action, which could include imposing an appropriate recovery plan. We are working with the Department for Work and Pensions (DWP) on developing these new powers.

AUTO-ENROLMENT

Automatic enrolment is entering a new era. Saving into a workplace pension is the norm. At the start of 2019 we expect to hit a landmark of 10 million employees saving for retirement. But the task of making sure people have enough money for retirement continues as in April contribution rates rise to 8%.

Together with the DWP and the pensions industry we will be keeping a close eye on the impact of the increase, but the previous contributions increase to 5% in April last year did not have a major impact on opt-out rates. We will continue, across our channels which will include an advertising campaign, to encourage staff to recognise the benefits of their pension and continue to save.

As automatic enrolment becomes business as usual, we remain alert to those trying to avoid their duties. In 2018 we revealed that, year on year, the number of fines we issued increased 144%. Our role continues to move from supporting businesses to enrol their staff, to ensuring that employers are continuing to comply with their duties. This includes enforcing against those who deliberately avoid their duties. Recent cases have seen accountants given a criminal record for lying to us to avoid enrolling staff into a pension and employers fined for illegally opting staff out to avoid paying contributions.

CONSOLIDATORS AND MASTER TRUSTS

Commercial consolidators, schemes which exist purely to look after pension entitlements, look set to play an increasing role in both the DB and DC pensions landscape.

Master trust schemes which provide DC pensions for multiple unconnected employers are currently applying to us for authorisation or winding up and

exiting the market. We're overseeing those exits to ensure trustees are acting in the best interests of members and they're being protected.

We expect to announce the first batch of authorised schemes in the spring. By the end of the year we will have a market of authorised master trusts meeting new and tougher standards, and better protecting the millions of members in these schemes.

In new DB superfunds, members' security will come from a capital buffer rather than ongoing employer contributions. An authorisation framework planned by government is under consultation and development which will mean these DB consolidation vehicles will have to prove to us that they meet standards in certain areas, putting safeguards around the market. In the meantime we have set out our expectations for these schemes about how they should operate, and also provided guidance for employers seeking to enter the schemes.

DB master trusts which do not sever the link with the employer already operate in the DB landscape and some of the biggest almost exclusively serve charities and the voluntary sector. DWP has considered whether these sorts of schemes should require authorisation and have decided on an industry led accreditation scheme, setting standards which would raise awareness and promote the use of DB master trusts, and which DB master trusts would be able to sign up to on a voluntary basis.

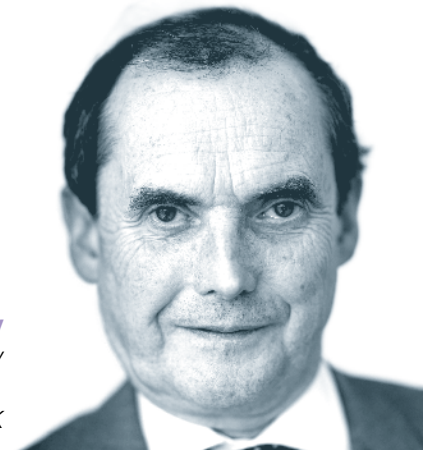
It's important to stress that we don't just expect good practice among superfunds or master trusts. Following on from our 21st Century Trusteeship work to drive up the standards of governance among trustees, we will be continuing to ask those responsible for running schemes if they are acting in the best interest of members.

We want to see better value for members and fewer poorly run schemes. This is particularly pertinent for small schemes – trustees need to fully consider if operating at this scale represents good value for members, especially if their small scale is accompanied by a poor compliance record.

TPR will be working to remove barriers to consolidation and to challenge trustees, as well as their sponsors, to ensure their scheme meets the standards set out in the law and in our codes and guidance, or consider winding up.

So a whistle-stop tour through some significant change ahead. 2019 will see the industry pushing ahead with new and effective policies and solutions to the challenges we face, while we at TPR we will be developing our new approach to better protect savers in the future.

ACCOUNTING FOR GIFT AID PAYMENTS MADE BY A SUBSIDIARY TO A PARENT CHARITY



Richard Bray
Finance Regulatory
& Taxes Manager,
Cancer Research UK

Grappling with Gift Aid payments from a trading subsidiary?
Richard Bray from Cancer Research UK is here to help, starting with a close look at the Financial Reporting Council's latest guidance.

One of the accounting issues that has become a bugbear in the charity accounting world recently has been the treatment of Gift Aid payments by trading subsidiaries to a charitable parent. Much clarity has now been given through the issue of an information sheet from the Charity SORP-making body. This information sheet is the snappily-titled *Information Sheet 2: Accounting for Gift Aid payments made by a subsidiary to its parent charity where no legal obligation to make the payment exists*. While, of course, an information sheet is only advisory, and is not reviewed formally by the Financial Reporting Council (FRC), the FRC has taken an interest in it and so is unlikely to object to this guidance being followed.

The aim of this article is to explain the context for the information sheet, what it does not cover and what might happen in the future. Being a 'live' issue it might be overtaken by subsequent events and so keep your ear to the ground for further developments!

Going back to basics, a corporate Gift Aid payment is made to shelter the profits of a charity's trading subsidiary from tax.

The saga began when the Institute of Chartered Accountants in England and Wales (ICAEW) issued a technical bulletin on the nature of a Gift Aid payment made by a charitable subsidiary to its charitable parent.

“ I would urge charities which believe that their trading subsidiaries have a legal obligation to make a Gift Aid payment to discuss with their auditors the appropriate accounting treatment to adopt sooner rather than later. ”

Having obtained Counsel's opinion, it was determined that this was a 'distribution' for *company law purposes*. The motive for getting the opinion was to determine how much a Gift Aid payment could be and not how it should be accounted for.

But it was not long before some audit firms made the connection between the counsel's opinion and what the accounting might be.

This led to some firms as part of their audit insisting that a Gift Aid payment made by a charity's trading subsidiary should be treated as if it were akin to a dividend paid to owners. This has implications for the financial statements of both the subsidiary and the parent charity. Firstly, many charity trading subsidiaries use the opportunity to make a Gift Aid payment after the year-end and still obtain tax relief on that payment in the period. If that payment is

considered to be analogous to a dividend, then it can only be recognised when paid. Secondly, if it were a distribution, the payment would need to be accounted through equity rather than through the profit and loss account.

Whilst this might be viewed to be technically correct (and to some extent that is a moot point!) it means that the trading subsidiary's financial statements will not always reflect the Gift Aid payment that will ultimately be paid in relation to the profits of that period.

Meanwhile some audit firms have continued to consider that a trading company could account for corporate Gift Aid payments as they had done previously. For them it remained an expense and so could be treated as a 'constructive obligation' i.e. a liability could be accrued for based on a past pattern of practice of making those payments.

This led to inconsistency in the treatment of Gift Aid payments in charity trading subsidiary financial statements. Largely this was determined by who your auditors were – an unsatisfactory state of affairs.

As a result, the FRC considered this as part of its first review of FRS102, eventually leading to the issue being recognised in the revised version of the standard.

In a nutshell the FRC now requires that a corporate Gift Aid payment should be treated as a distribution to owners but that no tax charge need be made if it is likely that the Gift Aid payment will be paid.

The FRC considers that the treatment of a corporate Gift Aid payment is a clarification and not a new requirement. As a result, this approach should be implemented immediately if not done so already. Alongside this, the ignoring of a potential tax charge can be introduced early without the need to adopt other FRS102 changes.

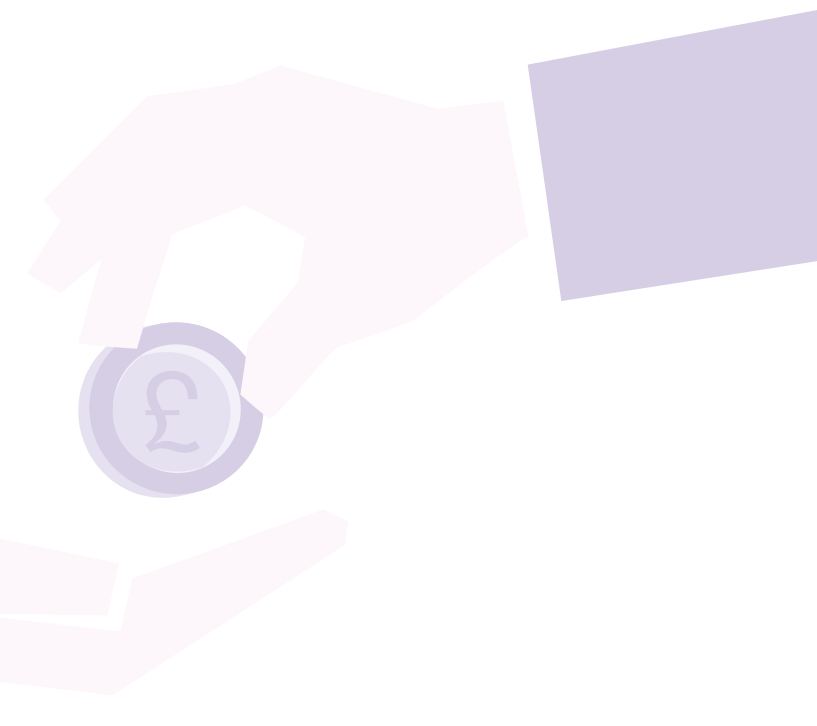
A simpler scenario is where there is no legal obligation for the subsidiary to make a Gift Aid payment and this is what is covered by the information sheet. The information sheet gives four different examples which set out the accounts presentation including accounting policy notes and the requirements for prior period adjustments both for the treatment of the Gift Aid payment and the tax relief for that payment. This will provide useful templates for charities to prepare the charity's financial statements and for their auditors to audit them. This should avoid disagreement and uncertainty over what needs to be done – ultimately reducing costs.

The more complex scenario is where there is a legal obligation to make the Gift Aid payment through, for example, the use of a deed of covenant. The information sheet is silent on this. It would be thought that far fewer charities would fall into this category but it may well be that further guidance will be provided in future covering this scenario.

For now, such charities can still make use of the principles set out in the information sheet. Further factors that they may need to consider will be, for example, the exact wording of their deed of covenant – does it really create a legal obligation? And there may be different accounting treatments depending on whether the deed of covenant is time limited or not. For example, it could be argued that an ongoing deed of covenant amounts to a complex financial instrument which would have its own disclosure issues. I would urge charities which believe that their trading subsidiaries have a legal obligation to make a Gift Aid payment to discuss with their auditors the appropriate accounting treatment to adopt sooner rather than later. Others may simply want to discuss whether it is worth the hassle of creating a legal obligation, most probably by means of a deed of covenant, to be able to accrue a Gift Aid payment made after the year end.

At least we now have a lot more clarity, but does the clarity we do have make sense? I remain to be convinced. In particular, I am concerned that when a charity cannot accrue for a Gift Aid payment, but can assume the tax relief on it, its level of reserves may be misleading. Mindsets about accounts disclosures tend to focus on what we have to disclose and not what we can disclose. To give the full picture I would favour a charity's trading subsidiary disclosing voluntarily the tax charge that would come about if a Gift Aid payment was not eventually made (should that be material).

I also hope that at some stage the FRC will recognise that a corporate Gift Aid payment requires a treatment of its own and should not be squeezed into the mould of a corporate dividend regime. But that is a battle for another day!



ARE YOU A (GOVERNANCE) CODE BREAKER?



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

Following publication of the 2019 Trustee Charity Finance Competency report, Sudhir Singh from MHA MacIntyre Hudson explores how attitude and values can help charities create the optimal conditions for embedding the Charity Governance Code so that it delivers the effective governance their beneficiaries deserve.

INTRODUCTION: FROM DENIAL TO ACCEPTANCE

I recall as a (fairly) young audit manager working with both charities and listed companies, meekly suggesting at a meeting of charity finance professionals in the mid-90s that there could be merit in charities considering aspects of the corporate governance codes that public companies were just being forced to adopt. The then doyens of the charity finance world effectively poured scorn on my ‘ill-judged’ suggestion and denied any need.

Yet more than 20 years later the sector is actively embracing the third edition of the Charity Governance Code (charitygovernancecode.org) and many other sectors have produced their own bespoke governance codes – from further education and housing, to sports governing bodies. Even the private company world has recently recognised the merits of good governance, with

the establishment of the Wates Principles for larger unlisted companies.

I certainly don’t claim to have had a unique insight all those years ago, but it is a memory that reminds me to not be complacent, and to respect all well-meaning views by giving them due consideration. Yet I can’t help the nagging feeling that the sector has in some ways still been playing lip service to fully embracing excellence in governance – maybe despite all well-meaning intentions and the undoubted commitment of a multitude of trustees and charity executives.

So, I want to explore if there are different attitudes and values that charities can embrace that will help initiatives such as the latest governance code establish the highly effective governance that charity beneficiaries deserve. There is clearly no readily-available silver bullet, but I hope this article provokes a little self-reflection.

**THE CHARITY GOVERNANCE
CODE 2017 – AN OVERVIEW**

The Code was launched in July 2017 and was the third iteration of the Code that was first published in 2005.

The Code comprises a ‘Foundation Principle’ and seven further Principles, the first being an overarching principle. A visual representation of the Code is included within the body of the Code, and this has the appearance of a Roman temple. The Foundation Principle is the underpinning of the building, the over-arching principle its roof, and the other six principles its columns.

The Foundation Principle is the ‘Trustees role and charity context’, the need for trustee commitment and proper understanding of their role and responsibilities for their particular charity. The Overarching Principle is ‘Organisational Purpose’, the primacy of charitable purposes, i.e. its Objects, and the board’s core role to focus on strategy, performance and assurance.

Under each of the seven principles there is a common approach. This starts with the Principle itself, and the Rationale for it. Key Outcomes from meeting that Principle are set out, along with Recommended Practice actions, which identifies procedures and approaches for trustees to follow.

**WHAT HAVE GOVERNANCE
CODES EVER DONE FOR US?**

Listed companies have been on an almost 30-year journey to today’s UK Corporate Governance framework. Here are some of the key changes and reports that have made the greatest differences.

1992	Cadbury	The starting point to a codified approach to good governance
1995	Hampel	Established a principles-based approach
1995	Nolan	Established the required standards in public life
1999	Turnbull	Focussed consideration on risks before establishing mitigating systems and internal controls
2002	Smith	Identified the merits of audit committee scrutiny
2002	Higgs	Promoted the role and effectiveness of the non-executive

“ I can’t help the nagging feeling that the sector has in some ways still been playing lip service to fully embracing excellence in governance – maybe despite all well-meaning intentions and the undoubted commitment of a multitude of trustees and charity executives. ”

HOW DID WE GET HERE?

Increasing numbers of charities are examining the 2017 version of the Charity Governance Code, and are using it to assess the effectiveness of their own governance. Governance codes started to emerge in the charity sector with the Charity Commission's 'Hallmarks of an Effective Charity' in 2002, soon followed in 2005 by the first formal sector code – the Good Governance Code for Voluntary and Community Sector, which was 'refreshed' in 2010.

Over the years there has been an encouraging response from the sector, with charities, sector bodies and professional advisers all developing initiatives, guidance and tools. Overall standards undoubtedly have improved, and some aspects now have the status of conventional wisdom, such that governance culture is widely recognised as being important.

The understanding of the management of risk, and the principles established by the Turnbull Committee, is a good example of this as most boards know they must actively manage significant risks. But the reality that many charities still do not have a highly developed and fully embedded risk management methodology also illustrates the sector's major failings in adopting the most effective governance approaches.

The reasons for the highest standards of governance excellence being rare can be varied but set out below are some possible contributing factors, including the failure to appreciate the fundamentals of the revised Governance Code.

THERE IS NOTHING NEW UNDER THE SUN

There is always a risk that the reaction to new guidance, such as the revised Governance Code, is a sense of weariness – what has been will be again – as the biblical Old Testament book of Ecclesiastes states. But the Foundation Principle alone of the Code should be a cause for concern for the majority of charities – large or small. This appears to be a somewhat harsh statement – but consider the evidence below which suggests charities are failing at the first hurdle of the Code.

The Charity Commission's research report, *Taken on Trust* ([bit.ly/ToTrust](https://www.bit.ly/ToTrust)), published in 2017, was one of the most comprehensive ever studies about the awareness and effectiveness of charity trustees – covering 19,000 charities, over 10% of the sector. The report stated: "there may be something of a gap between trustees' perception of, and actual knowledge of their legal duties". Deficiencies in trustees' understanding, skills and diversity were highlighted as major concerns.

In a trustee finance competency survey undertaken by the Charity Finance Group and my firm, MHA, in 2018 it was identified that whilst 57% of the charities surveyed considered their trustees understood

“ Those charities that are fair and realistic about their compliance with the Governance Code principles should be congratulated on their honest accountability. ”

strategic financial governance matters well, almost 85% of charities considered it would help if they had better understanding. Also, only 45% of charities formally assess the effectiveness of their financial governance.

So, it would be fair to conclude that many charities do not fulfil the Code's Foundation Principle, which has got to be the minimum starting point.

PRINCIPLES VERSUS RULES

Very early on in the development of corporate governance in public companies the approach of following principles rather than rules was established, largely through the work of the Hampel Committee. Accordingly, it is positive that the new Charity Code is strongly principles based.

A principles approach has been seen as the most effective for several reasons: it enables the frameworks developed to cover the widest range of circumstances; it enables codes to be more concise and easier to access (the Charity Governance Code is just 25 pages long); principles are flexible and adaptable to cover the widest range of situations; and they often follow common-sense approach which can gain acceptance more readily.

A rules-based framework on the other hand is intrinsically more precise and specific, which can be appropriate in less subjective environments but in behavioural areas can be problematic for a number of reasons; it is hard to be completely comprehensive without being overly voluminous; being more rigid they are difficult to change; and they can encourage manipulation or the seeking of exceptions to the rules to circumvent the overall framework.

A number of organisations have produced checklists to help charities follow the Governance Code. Anything to encourage adoption is certainly good. However, as the principles approach of the Code is its fundamental framework, a tick-box compliance approach can be quite misleading.

The foreword to the Charity Governance Code states it is 'deliberately aspirational' and it is intended that the Code is a tool for 'continuous improvement'. Yet I have regularly heard charities state that they have undertaken a review and meet all the Code requirements. Whilst this would be laudable, is it realistic given the on-going governance journey that the Code anticipates? It would be more appropriate if charities adopting the Code were more sanguine – perhaps, after measuring themselves against the Code, stating that they have committed to the 7 Principles, and aspire to achieve all the key outcomes.

APPLY AND EXPLAIN

Listed company corporate codes are generally mandatory to adopt. Hence the disclosure principle was established – comply with the Code and explain what the organisation has done to do so.

This contrasts with the charity sector where governance codes are only ever best practice. The sector has been happy to encourage an 'apply and explain' approach. This means when a Code has been utilised, the charity should state in its Trustees' Annual Report it has applied the Code, and to explain what specific actions it has done as a result.

It is undeniable that this transparent approach can be a powerful imperative for charities to strive to adopt the best possible approach to governance, and the Charities Statement of Recommended Practice has long-supported this principle. For example, requiring since 2000 the disclosure of risk management processes for major or significant risks, thus embracing the principles established by the Turnbull Committee.

A transparent approach helps to shine light on those areas of poor practice that linger in too many charity boardrooms. Those charities that are fair and realistic about their compliance with the Governance Code principles should be congratulated on their honest accountability. More should follow this good example.

A STRONG GOVERNANCE CULTURE

It is clear that governance in charities has improved over recent years, and the various charity and corporate codes over the last two decades have undeniably contributed to this by raising understanding and expectations. Perhaps most importantly a strong governance culture is increasingly recognised as essential for organisational success.

The management guru, Peter Drucker, coined the maxim 'culture eats strategy for breakfast'. This

recognises that regardless of the strength of an organisational strategy, it will ultimately be unsuccessful if the cultural environment for its adoption is not right.

Hence trustees would be well-advised to reflect on their charity's ethos and values, and how the cultural environment of their charity contributes to governance effectiveness.

CONCLUSIONS AND ACTION POINTS

1. The Charity Governance Code is not the only mechanism for creating strong and effective governance, but it would be beneficial for all charities to formally adopt the Code.
2. To avoid complacency and to gain an independent perspective of board performance, undertake an external evaluation periodically – the Code recommends every three years.
3. Ensure the culture and values of your charity are clearly and widely understood – they apply to everything the charity does, not just its governance and management.
4. Don't consider applying the Code as a tick-box exercise but focus on the principles-based journey which the charity is travelling.
5. Be open and transparent in the Trustees' Annual Report regarding the charity's progress. Remember – what gets measured and reported, tends to also get done.

If you haven't already, you can download the Charity Governance Code: [charitygovernancecode.org](https://www.charitygovernancecode.org)

To see the full report of the 2019 Trustee Charity Finance Competency Survey: [bit.ly/Trustee_survey](https://www.bit.ly/Trustee_survey)



WHY TRUSTEES NEED TO UNDERSTAND THE BUSINESS



Suzanne O'Brien
Chair, The Fifth Trust, Vice-Chair
CXK Ltd, Vice-Chair Cross Keys
Homes, Chair Finance Committee

Trustees are required to make informed and appropriate strategic decisions for their charity, and to do this, have to fully understand the business. Suzanne O'Brien highlights the need for information to be accessible and appropriate to the board, and shares her useful reporting method.

Whether you are a trustee or an executive, it is vital that you understand the business of your organisation. If you don't, the consequences range from mild embarrassment, when you can't articulate why you volunteer, to severe, when you can't demonstrate leadership and management to the regulator, and potentially catastrophic, when you take board decisions that are ill-informed.

The challenge is significant. The charity sector, like the business sector is diverse, but with the added dimension of delivering charitable objectives while remaining solvent! Without the profit motive focusing business decisions, and in a world where it seems more difficult every year to stay afloat, it can be a struggle to identify an effective and appropriate strategic direction.

Working as a trustee can be daunting. Board and committee meetings may be held only four times a year, with a full agenda and a mountain of paperwork to assimilate. Like many, I became a trustee, with the intention of 'giving back'. Having spent decades working in the private sector (financial services mainly), I wanted to bring my knowledge and experience of

business to serve those less-fortunate than myself. The world of fundraising, grant-funding and commissioned income was entirely new to me and brought its own language, stakeholders and motivations. So, how to govern wisely, and to add value effectively?

For many the starting point is with the charity's website and any other information in the public domain or with the Charity Commission. As an accountant, a key resource for me is the annual report. When done well, the narrative gives a sense of the organisation, its aims and culture. However, for many, tables of numbers are intimidating and there is the perennial problem of the distortion caused by accounting conventions such as provisions, depreciation and asset valuation. I appreciate that financial information is somewhat one-dimensional, and definitely historical, so not necessarily an accurate indication of the present situation, much less the future. This was always the case, but the problem is particularly acute today when the pace of change is so rapid and is unprecedented. Government policy shifts, democracy surprises and the world keeps on turning!

“ Without the profit motive focusing business decisions, and in a world where it seems more difficult every year to stay afloat, it can be a struggle to identify an effective and appropriate strategic direction. ”

Of course this is not new and it is widely recognised that focusing on just the financial is to view an organisation through a limited lens, when what is required is a multi-dimensional prism. Ideally this would reflect strategy management, operations management, human resources, organisational behaviour, information systems, and marketing – did I forget anything?

There are many methodologies that have developed over the years, to try to capture the business of the organisation. These usually focus on developing a framework to capture and measure performance, with a view to incorporating the measures as of a process to challenge the content and validity of the strategy. A pioneering development, which has stood the test of time, is Kaplan and Norton's Balanced Scorecard. I fully subscribe to their persuasive argument; why would you want to be a passenger in a jet where the pilot was only interested in airspeed and ignored altitude and fuel consumption? However, it is complex incorporating operational measures such as innovation and learning, customer satisfaction and internal processes. Implementing such a framework

takes huge commitment from the executive and the trustees both in terms of time and resource. While there are many stories from the private sector lauding the results of an effective scorecard implementation, there are many more salutary tales of difficult or trite implementations which added little or no value.

What I have developed to great effect is a hybrid report marrying financial information with organisational structure to give trustees and the executive a basic business sketch – 'BuSk'! It is an 'at-a-glance' overview of the organisation aligning charitable objectives with resource. Including beneficiaries and where possible, outcomes, speaks to the core of the organisation; its charitable objectives. Financials are necessary, as the old adage 'no money, no mission' endures. Organisational structure reflects the allocation of resource and is intended to break down silos. While BuSk reflects the rationale behind the Balanced Scorecard methodology, it is intended to deliver a broad-brush view of the organisation in a simple and clear way so that we begin 'understanding the business'.

INVESTING FOR THE FIRST TIME

Emma Robertson

Associate Director, Waverton
Investment Management



If you're new to investment, or you're considering investing for the first time, there are some key considerations that you need to take into account. Emma Robertson from Waverton Investment Management walks through what you should think about, who you should bring on board and when and how to get support.

The impact of inflation on cash deposits has been one of the driving factors behind many of our conversations with charities across CFG's events over the past year; should charities be considering investing some of this cash? There is no simple answer to this, but the considerations below should help you on your way to making the right decision for your charity.

RISKS, REGULATIONS AND OBJECTIVES

Investing doesn't come without risks. It is important to ascertain your charity's attitude to risk and capacity for capital loss, which will determine your investment approach. Investment managers should outline different types of investment risk and explain them to you.

Trustees must exercise care and skill when making investment decisions and take advice, unless there is a good reason not to.

Trustees have to comply with certain legal requirements as detailed in the Charity Commission's guidance on investment matters, CC14: a must-read before investing for a financial return.

Your answers to the questions detailed below will help you to determine your risk profile and affect your investment approach, whilst demonstrating good governance.

- What is the money for?

- What are you trying to achieve with the money?
- What is your timescale?
- How is your charity funded?
- How much cash may be required in the near future?
- What other assets do you have to call on?
- How important is the liquidity of your investment assets?
- What are your future spending plans and do you have sufficient cash to cover this?
- Would the charity cope if one of your funding streams stopped?
- What is the board's tolerance for losses?

INVESTMENT POLICY

A clearly written investment policy sets out what you aim to achieve. When writing your policy, you should also consider the following questions:

- What is the investment experience of the board?
- Are you seeking a total return or income?
- Do you have any social or ethical criteria?

Your policy should include:

- Your investment objective
- Your time horizon
- Any income requirements
- Any ethical policy
- Any investment restrictions (ensure you check your charity's governing document)
- What asset classes can be invested in along with any asset allocation ranges (if appropriate)
- Any specific performance benchmarks, such as: Inflation (CPI / RPI) + your investment objective, Index, Peer Group
- What are your reporting requirements?
- Who are your authorised signatories?
- Date the policy was agreed and the date of your next review

You need a policy that is right for your charity's objectives. Your investment manager can help you to ensure that your policy is practical and realistic, but the legal responsibility for writing and maintaining the policy lies with the charity.

An outline of your investment policy should be included in your report and accounts along with investment performance and any ethical policy.

CHOOSING A MANAGER

Your investment objectives are the starting point for your strategy and ultimately your choice of manager. There is a myriad of choice and no one size fits all approach. There are a number of ways to meet prospective investment managers. Some rely on personal recommendations, or meet investment managers at conferences and events. Some use third party consultants.

There are legal requirements you will have to meet if appointing an external investment manager – this includes a written agreement, which will detail the remit and relationship.

Consider the level of service and whether or not the manager is providing investment advice or not – this isn't always available from managers offering pooled funds. You should feel at ease with the people, and the organisation, you entrust with your assets – trust is the foundation on which you build a relationship and good, clear communication is a vital part of this.

THE TENDERING PROCESS

The following information should be included in your request to prospective managers:

- Summary of your charity
- Amount available for investment

- Investment policy (if already written)
- Deadline for proposal and dates for presentations
- How you want to receive the proposal (email / post)
- Include any word or page limit for the document

Before appointing a manager, you may want to ask for references as well.

The majority of charities provide investment managers with specific questions that they want answered, allowing greater ease for comparison.

You can keep these questions as general or detailed as you want. We list some of the questions we most often get asked below:

- Provide a history and background of the firm
- Detail assets under management (total firm and charity assets)
- Detail charity clients (number of charity portfolios, broken down by size)
- Outline of investment process
- Approach to risk management
- Recommendations for managing the mandate (including any benchmarks)
- Past performance
- All fees and charges
- Details of the charity's point of contact
- Client reporting process

REVIEW AND REFLECT

You must review your portfolio and performance regularly. This includes how your manager is doing against your investment objective and service agreement.

The frequency of review is up to you – most managers will provide quarterly reports and meet with your board of trustees at least annually. There will be periods when the value of your portfolio goes down, quarter-on-quarter, or year-on-year. During these times it is important to focus on the objective you set for your manager and to remember the reason why you invested in the first place; it can be easy to focus on the short term.

However, ongoing, significant, poor performance or poor service are grounds for a formal review. It is also important to question significant out-performance of your target return in case the manager is taking more risk than is appropriate. If you are content that your manager is still fulfilling the original brief, and there are not any substantial changes to the charity's financial circumstances that may affect this, then a formal review may not be necessary. Many charities will still do a review of the market every five years, but this should not necessarily prompt a full beauty parade.

HOW TO ACHIEVE A SUSTAINABLE WITHDRAWAL RATE

William Reid
Head of Charities,
Quilter Cheviot
Investment Management



Making decisions on what a sustainable withdrawal rate might be for your investment is a key issue which financial leaders need to manage with care, and has short and long-term implications. Here William Reid of Quilter Cheviot Investment Management shares his advice and gives some practical examples for what you need to take into account.

How much can we withdraw from our investment each year? It's a common question charities ask investment managers. And while figures from the NCVO suggest charities rely on investment income for only 8% of their funding, my own anecdotal experience is that this figure is often much higher for smaller charities.

Calculating a sustainable rate, where the sum withdrawn does not impact on the long-term real value of the portfolio, is therefore an important consideration. The exact sum will depend on several factors, including a charity's risk appetite, how it is invested, time horizon, the rate of inflation and forecast market returns.

Charities retain control in determining the percentage to withdraw. So we have modelled how differing withdrawal rates impact a typical 'medium risk' charity portfolio, which has around 70% invested in risk assets, such as equities, and the rest in more defensive assets

such as bonds and infrastructure. We start with two identical £5 million portfolios, at the beginning of 2004, one withdrawing 3.5% and the other 5%.

Unsurprisingly, the portfolio with the lower withdrawal rate performs better. Over fourteen years the investment grows to £7,995,656, comfortably outpacing inflation, as measured by CPI, or the rise in the cost of living.

Where 5% has been withdrawn, the investment portfolio has still risen, but only by around 30%, to £6,509,870. This might seem reasonable performance, but the portfolio would have failed to keep pace with inflation, with prices rising by 37% over the same period.

Some charities might be tempted to ignore this and still withdraw 5% – after all, your investments have still grown and the variation in value may be considered acceptable. But you also need to consider the wider impact on the withdrawals on income.

“Calculating a sustainable rate, where the sum withdrawn does not impact on the long-term real value of the portfolio, is an important consideration.”

If the portfolio value increases ahead of inflation, by definition, the absolute value of your withdrawal also increases. Conversely, the value decreases if the portfolio fails to keep pace with the rate of inflation. For the charity withdrawing 5% a year, this means, in real terms, that the value of the income received has actually fallen.

At this point, we are normally asked if the charity can make additional withdrawals if their investment portfolio has grown above the rate of inflation. The charity could argue that it should be rewarded for good behaviour; showing restraint in how much is withdrawn each year should allow them to reap the benefits of frugality later on.

Our response to this is that markets are volatile. If you take a lump sum from your investment you might regret it further down the line. Charities that withdrew excess returns from their investments in 2007 might have found 2008 and early 2009 to be a particularly challenging time, for example. Better to calculate withdrawals based on smoothed portfolio valuations and three or five year average values.

The sustainable withdrawal rate should not be considered solely from the perspective of potential market returns however. A military charity, for example, might have large financial commitments today, based on the size of the current potential beneficiary base, but expect smaller commitments in future, given that the number of armed forces personnel has fallen dramatically in recent years.

It also depends on what you plan to do with the money. If you are using the money to invest in fundraising you might expect that the future increase in donations will offset the short-term deterioration in your investments.

Ultimately, if I had one piece of advice on achieving a sustainable withdrawal rate, it would be to have an active discussion with your investment manager. This means that we understand what you want as a charity, and you understand how your investments might perform, and how that fits into your financial plans.

Investors should remember that the value of investments, and the income from them, can go down as well as up. Investors may not recover what they invest. Past performance is no guarantee of future results.

Any mention of a specific security should not be interpreted as a solicitation to buy or sell a specific security.

This article should not be relied upon by financial advisors or customers.

Please remember that past performance is not a guide to future performance. The value of investments and the income from them can go down as well as up and investors may not get back any of the amount originally invested. Exchange rate changes may cause the value of overseas investments to rise or fall.

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TRENDS IN RISK MANAGEMENT



Richard Evans

Partner – Head of Risk and Assurance, Crowe UK LLP

Alyson Pepperill

CFIRM, Client Projects Director, UK Retail, Gallagher and Chair of the Institute of Risk Management Charities Special Interest Group

Anita Punwani

CFIRM, Independent Consultant and Director, IRM

Risk is prevalent in the charity sector. Your awareness of risk in relation to your organisation is vital in developing an effective approach, and so you can build on your existing strategy. Alyson Pepperill and Anita Punwani of the IRM and Richard Evans, Crowe UK, discuss the key elements of risk and what you can do to implement robust practice.

In 2019 we believe there will be an enhanced emphasis on creating a positive culture which supports the early identification and management of risks, both internally as well as from external factors.

We have seen members from IRM's charities special interest group and others across the sector highlighting that a positive culture helps to protect people and a charity's reputation, avoid negative media scrutiny, and embed effective risk management. Whilst the last point is not always linked to culture, without the right tone from the top risk management will always remain on the sidelines as something to be done 'when I have a spare moment' or worse, to be viewed as just a tick-box exercise. A negative organisational culture can lead to actions not being taken which can mean organisational strategies are impacted or change initiatives are not implemented.

At one of our events in 2018, we heard from one charity about how it was starting to strengthen culture by identifying and then developing positive leadership behaviours. The thinking here being that if this aspect is right, the rest will flow through.

In recent years, to quote Rumsfeld, we have seen the 'known unknowns', such as fundraising regulation, safeguarding and GDPR dominate resources in order to comply with new legislation or emerging sector issues. We believe that having a positive culture and an integrated approach to risk management, so it is considered as part of day-to-day decision-making rather than sitting as a separate discipline, will lead to 'business as usual' risks being managed within day-to-day work.

In this context, emerging and future risks need to be considered, whether these occur through changes in legislation/regulation or the external or internal environment that will become the future focus of risk management. In an internal context, deep dives are a valuable approach for gaining greater information in specific areas – Roberta Beaton wrote an article for Charity Finance magazine to explain how to do this (you can read this on the SIG website at bit.ly/IRM2018_1).

This will potentially help free up capacity and capability, as well as increase awareness and positivity around risk management, and a greater understanding across the organisation that good risk management equates to good management.

Should we achieve the position of only focusing time and effort on risks, when we have sufficient information to make an assessment of their likelihood, we may miss emerging risks – those risks that we may be aware of but may not yet understand how they could specifically impact our organisation. At another event, we considered stakeholder mapping (a must to understand the impact of risks), and at a third we looked at horizon scanning as a process, rather than simple crystal-ball gazing (see the SIG website for a copy of an article written by Anita Punwani on expecting the unexpected, bit.ly/SIGIRM).

Effective stakeholder engagement reinforces the importance of communication in risk management. At a strategic level managing messaging or communication can really support a charity in achieving its objectives and maintaining trust. If you can be clear what you are all about, the impact you have, and how you spend your income, many difficult situations can be avoided. Risk management can help you compose the messaging – after all, if you understand what can stop you achieving your objectives and are mitigating the impact and likelihood of this happening, you can demonstrate that you are doing all you can to survive and thrive in a testing environment.

No doubt you recognise that some income will inevitably need to be spent to ensure organisational resilience and retention of the best people – that isn't always accepted. Public and media expectations on the sector remain high – perhaps unreasonably so. Until you have mastered the art of risk management and communications make sure you have a clear and easily deployed crisis management plan that you've tested and can rely on should the worse happen!

SIG members flagged managing regulatory risk as a key focus area due to the increasing numbers of regulators and the growing level of scrutiny. A recent KPMG Risk Benchmarking publication reviewing 98 larger charity reports and accounts, cited managing regulatory risk as a key risk in the trustee statement. This has doubled since the same review was undertaken a year earlier. In 2018 we published *An Introduction to understanding and managing regulatory risk* and in 2019 we will supplement this with a publication on how to assure regulatory risk management.

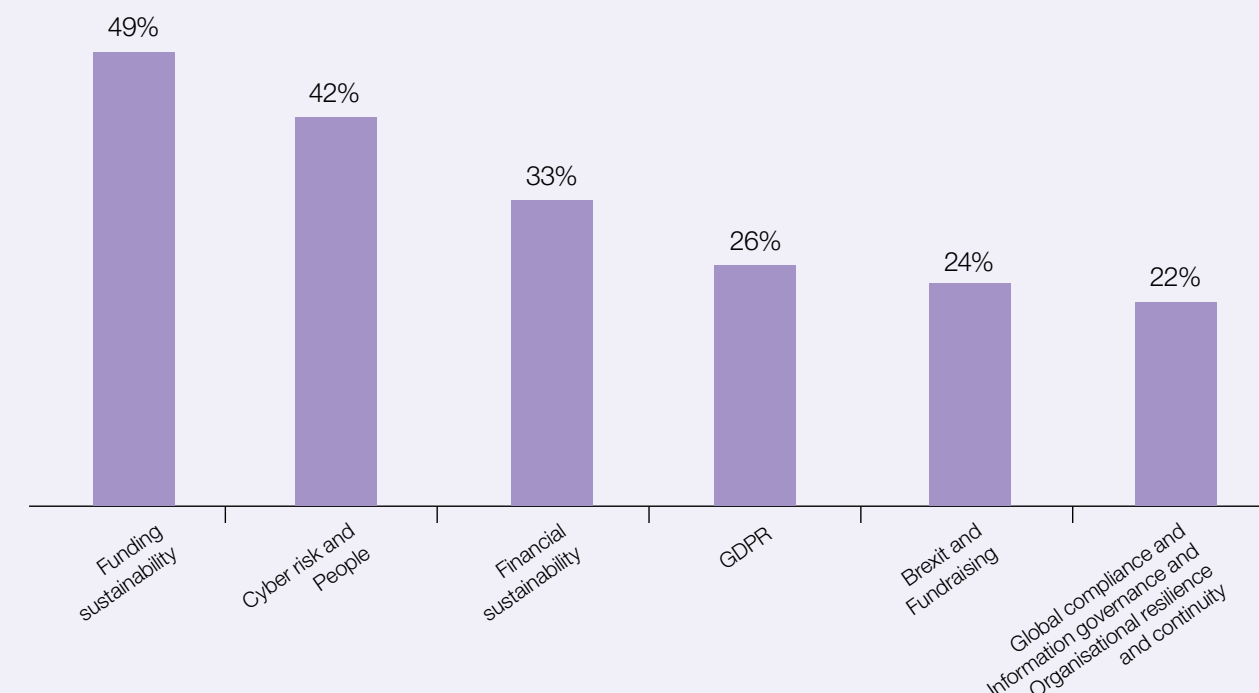
For the past three years we have undertaken our Charity Top Risks Survey which has reflected the balancing act most of those involved in managing risk feel between 'business as usual' and 'hot topics'. The graph below shows the results from 2019.

The 2019 survey shows that funding sustainability has overtaken cyber risks as the number one concern for charity representatives who responded to the survey. Suggested key influencers include the reduction in local and central government funding due to financial pressure, local authority funded outcomes based contracts being used, and enhanced scrutiny over pay and other outgoings.

Our 2019 events programme will provide support on a key asset to any charity, its people, including the topic of retention/quality.

View the full results from the 2019 survey at bit.ly/IRM2019toprisks

TOP RISKS SURVEY RESULTS 2019



RISK MANAGEMENT: BEHAVIOURS, NOT REGISTERS



Caron Bradshaw
Chief Executive, Charity Finance Group

Throw out your risk register says Caron Bradshaw – risk is life, and we want to live life better! As CFG pilots a new approach, Caron explains why embedding risk into everything we do makes us think about what is happening at present rather than what might happen in the future.

CFG is currently piloting a model, developed in house, which breaks away from the traditional risk register approach. We have adopted a more dynamic way of thinking about risk. At its heart is continuous dialogue, within the staff, within the board and between the executive and board. Our journey is by no means complete, we continue to refine our approach, but we are confident that we're managing risk better than we ever have before.

The tools and methods to manage risk are many and our suggestion is not to abandon everything that has gone before. We're not advocating throwing out the baby with the bath water! Rather we're challenging the mind-set many approach risk with, and advocating more flexibility in thinking.

At the very least I hope, in this piece, to prompt you to review your approach actively and decide whether

there are any elements of what we do at CFG that might be helpful to you.

I have long held the belief that an industrial approach to risk management does not help us avoid harm or seize opportunity. Many of us have bought into established processes which cannot, of themselves, embed effective risk management in our organisations. We have become caught up with calculating and weighting, identifying and recording risks and spend way too little time actually managing them.

The way we think about risk can encourage us to believe in the illusion of a sanitised risk environment in which we can predict, measure, monitor and eradicate the majority of risks – where if we fail to prevent a negative outcome we are axiomatically wrong. However not all good decisions lead to successful outcomes and not all great outcomes come from good decisions!

“ Risk registers steer us towards attempting to predict the future and focus on what might happen rather than keeping us focused on what is happening in the present. ”

CRYSTAL BALLS AND STOPPING THE BAD STUFF

Historically we have tended to think about risk in terms of what our response should be if things go wrong, what safeguards ought we have in place and what our contingency plans should be.

Take loss of a key member of staff as an example. What if we approached this differently? What if we asked what a positive work environment might look like – where you are not so reliant on individuals, where people feel empowered, power is distributed and staff feel they are making a significant contribution? This different emphasis leads down a very different path. In the first example we might be interested in notice periods, using interim staff, continuing to 'get the work done', responding to the 'bad stuff'. In the second our thoughts shift to thinking about creating a positive environment – the consequences of which would do more than simply safeguard against losing a key member of staff.

In a traditional approach to risk we tend to try to predict things we might encounter and determine how likely they might be to happen and how badly they might hit us. We spend a lot of time debating whether something is a five or a six, a red or an amber and think about who should own that risk and what actions we should take to avoid, mitigate or transfer the risk.

But life isn't that predictable.

The things that can take us down often come from left field. How many charities had a volcanic eruption on their risk register in 2010 for example? Yet it still caused disruption and loss to many organisations as planes were grounded for a significant period and work was interrupted.

Risk registers steer us towards attempting to predict the future and focus on what might happen rather than keeping us focused on what is happening in the present.

What if, instead of thinking about 'risk' as a topic in its own right, we change our mind-set and think of risk being everything we do, and ask how we do it well. What if our starting point is that risk is life and we want to live better?

The greatest duty we hold towards our stakeholders is not to try to minimise all risks at all costs. It's to maximise impact. In order to do this we need to know what situations could give rise to negative outcomes, be alert to the barriers, problems and challenges we will inevitably encounter as part of our charitable activities. We need to always be open to learning from and sharing our experiences when things go wrong and be fleet of foot to seize opportunity and share knowledge when our efforts bring about positive change.

THROWING OUT OUR RISK REGISTER

If you agree risk is life, then it follows we cannot hope to pack everything we do into a risk register! In our experience the risk register had become an unwieldy and unhelpful document – something to document and demonstrate we were thinking about risk rather than something that actually helped us manage it. Attempts to cut it down or to predict what might be the strategically important risks only served to create gaps – and those things that did pop up to cause us the greatest challenges were not on our register. Despite best intentions that it should be a living document – the reality was very different. So we abandoned it. Yes, we have no risk register.

Instead we have two things;

- a control table (of all areas of the business, our processes, systems and controls)
- a risk issues log

Our control table came from a brainstorm of the areas of activity and things that we do that can either advance or impede the delivery of our strategy. We captured the processes and systems that we had in place to address those areas. This exercise in its own right identified some gaps we then set about addressing.

This list of controls is an anchor, a reference point, a checklist that we revisit once a year and add to when we change things through the year.

The items are grouped together and categorised for ease of management. But it is essentially just a record for reference.

Alongside it we started recording in a ‘risk log’ the things we actually encountered that might be strategically important – that is the things that could significantly advance or knock our strategy off course. For reporting purposes and to spot trends we categorised those things using the same grouping we use for our control table.

We identified within our log details of what the issue is, what category it arises in (such as reputation), who is doing what about the risk (or opportunity) and whether the board needs to be informed or act. We review those items formally once a month during our senior management team meetings but we can add to or discuss issues on it at any point. Twice a year a report about the issues is discussed with the finance and audit committee and once a year a comprehensive look at risk management is discussed with the full board.

This enables the governance structures to consider whether we are discussing the right things, at the right times, effectively and dynamically. They are not limited to certain topics and risk is becoming part of every conversation and every meeting.

“ In our experience the risk register had become an unwieldy and unhelpful document – something to document and demonstrate we were thinking about risk rather than something that actually helped us manage it. ”

CULTURE DOESN'T JUST EAT STRATEGY FOR BREAKFAST!

It's important that the culture helps everyone own risk and have a shared understanding of the organisational risk appetite. Culture will not prevent failure but it will grow an organisation's resilience to counter the negative impact – it helps create an environment in which staff are content to raise concerns and are not fearful of the consequences of failure. It allows valuable lessons to be taken from every experience and helps an organisation bounce back after facing challenge, crisis or disaster.

So what do we mean by shared understanding of risk? Well of course we can all agree statements that indicate whether we have a high, medium or low appetite for risk. However, these generic statements are incredibly limited in their usefulness. At CFG we have started to understand that risk appetite is multi layered, differs between topics, actions and people and is not fixed at a moment in time. A risk statement, included below, is a statement of intent and tone. It helps set a framework, act as a guide and gives permission to fail.

CFG's risk statement includes the following;

‘...we want to be seen as bold, decisive and proactive. CFG does not wish to be risk averse and is happy to take calculated risks where the potential benefit outweighs the cost. The board recognises that a proportion of actions as a result of calculated risk taking will not provide positive outcomes. However, provided that reasonable steps have been taken to ensure resources are protected and charitable aims/objects are delivered upon, the board accepts this outcome. Opportunities should be taken, even if to do so would impede current activities, if the risk of inaction is greater than the risk arising from that impediment’.

Understanding an individual's and an organisation's appetite for risk is about understanding people. People can interpret the same words very differently. For example, CFG have explored what we mean by ‘being bold’ in our policy work. After all one person's ‘bold’ can be another's ‘reckless’.

No two organisations will be exactly the same; two boards might agree that Brexit is a risk. In one, the board considers that the impact on them might be low and purely operational (or even an opportunity) but in the other, the board feels the potential impact is high. This does not automatically mean the first board has a high tolerance for risk and the second is more risk averse. It simply means their tolerance in the context of their organisations and their perceptions differ.

When you break free of the labels you can talk in different terms. How comfortable are we if this project fails? What are the most important things to us? What are our red lines? If we were to do more what are the trade-offs? Could we do more in a certain area and what would the consequences be?

So we have to talk more frequently, about more topics but in a more targeted way. We try to unpick what individuals (staff and trustees) feel about different outcomes to understand what their risk appetite is.

We cannot eradicate risk; it is inherent in everything we do. For all the mechanisms and registers you might have in place the **most powerful risk management tool is actually freedom and willingness to have the right conversations, at the right levels at the right times.**

REVIEWING WHAT YOU'VE GOT

I would like to leave you with a challenge.

Does every bit of paperwork you currently have (in your risk process) add value and help you manage risk? If not, can it be improved or removed?

Review the items on your risk register and ask a different question. Most of us are facing financial challenges but instead of having ‘financial sustainability’ on our risk register could we start from a different premise? Instead of worrying about cutting back our plans because of financial constraints why not ask what resources do we need to deliver maximum impact and/or how much impact can we create with all the resources we have at our disposal – not just the money?

Finally think about your culture – including governance. Do you talk enough? Do you understand each other sufficiently? Are you connecting as human beings? Risk is about life and life isn't about three or five big stages, it's about millions of different tiny stages. Embed consideration of risk and opportunity in everything you do, not just when encountering, seeking to avoid or managing failure.

As our work and thinking develops we will continue to share and it is planned that we will produce a risk toolkit which members can use in due course.

IMPACT AT THE HEART OF AN ORGANISATION: COMMON THEMES FROM AROUND THE GLOBE

James Kirkland
Market Insight and Development,
Grant Thornton UK LLP



In this updated article, originally published in Finance Focus, James Kirkland and Paul Rao from Grant Thornton explore the challenges of impact measurement. While putting impact at the heart of an organisation can be absolutely transformative, it will only work, they argue, if it is absorbed by everyone.

Should every charity aim to be unnecessary? This bold and thought-provoking idea is often debated in the charity sector; it is what fundamentally marks charities as different from the private sector. The principle is simple: if a charity succeeds in definitively achieving its mission, there will be nothing left for it to do and a charity should only exist if the need or detriment persists. The question is how do you know if you have achieved that mission? Or more pertinently, how do you know you're heading in the right direction as quickly as you can?

Whether you agree with the self-abolition premise or not, it emphasises the importance of measuring your impact effectively because it is an indicator of whether charities are implementing their strategy successfully and advancing their cause. While demonstrating financial probity is critical, the conversation with donors, funders, beneficiaries and the wider public is thankfully becoming more advanced and impact measurement

can no longer be viewed as a 'nice-to-have' that provides a few numbers in the annual report. It is increasingly taking its rightful place as the ultimate currency of a charity's success or failure.

Impact is also a universal 'currency'; countries across the globe are engaging in the same debate about efficacy as colleagues in the UK. Over the last six months, Grant Thornton has therefore undertaken a research project built around conversations and roundtables with charity leaders across the globe, which has resulted in a new report, *Impact in Action*. We have gone into depth about what impact means to different charities, the challenges they face in measuring it, and the innovations developed to overcome these challenges.

The research has generated some key common themes which many finance directors will recognise and where they can have significant input.

TRUSTEES MUST UNDERSTAND HOW IMPACT AFFECTS DECISION-MAKING

The conversations with charity leaders that we held for *Impact in Action* unveiled that, for charity trustees to hold their executive to account effectively, understanding of impact is vital. Take, for example, deciding where to direct resources. Does a charity spend funds now on something that is likely to have clear short-term outputs and measurable results? Or does it invest the funds for a longer-term return that could have a greater impact in a decade? A trustee must understand impact, and how it generates the charity's strategy, to inform this decision.

Boards are also under greater scrutiny externally and it is a valid question that trustees should be asking – are they comfortable with the impact claims that their charity is making? After all, no-one wants to make the errors that Kids Company did, but impact results rarely receive the scrutiny from the board afforded to the financials.

THE IMPORTANCE OF CULTURE

During the research a common view was that the way a charity measures impact both defines and is shaped by its culture. Getting impact measurement right must start internally. If a charity is going to be open and honest externally it must first be so internally. It is also crucial that everyone in the charity is aware of, and focussed on, the final goal because activity that is extraneous could be removing resources that could be used more fruitfully elsewhere.

IMPACT IS A RISK MANAGEMENT ISSUE

Charities take on very significant risks to achieve their mission because they believe that the risks of inaction are even greater to society. Therefore, impact is inherently linked to risk – both the risk of outright failure or the more subtle risk of only achieving partial success – but do trustees completely grasp this implication?

There is also the longer term risks associated with changing patterns of fundraising and donations. Crowdfunding and direct donation websites have been portrayed as cutting out traditional charities – an example of that terrible neologism 'disintermediation'. However, this is where charities that measure impact will be able to meet the demands of their donors, as well as realise their impact potential. Charities that build projects from the ground up and put impact at the heart of them will be able to communicate their progress and how money is being spent. For those charities that don't measure their impact, they risk not having that weight of evidence that demonstrates their efficacy over other options.

Putting impact at the heart of an organisation can be transformative, but it has to be absorbed by everyone. Done well, impact can be scaled to the size of an organisation and it need not result in multitudes of KPIs or paperwork. But it also means staying the course and keeping impact front and centre.

“ Getting impact measurement right must start internally. If a charity is going to be open and honest externally it must first be so internally. ”

RESPONDING TO FRAUD IN CHARITIES

Brendan Weekes
Senior Manager,
Forensic Services,
Smith & Williamson



Brendan Weekes, Senior Manager, Forensic Services at Smith & Williamson and Trustee Director of the Fraud Advisory Panel shares his advice on how a charity should respond to fraud in their organisation.

Charities are not immune to fraud. In some instances charities are specifically targeted by criminals due to their perceived lack of controls and heavy reliance on trust based governance.

Whilst there is an increasing awareness of fraud risk in the charity sector, and a growing concern by the Charity Commission over weaknesses in controls, failure to respond appropriately to allegations of fraud can increase the risk to a charity's reputation, jeopardise the public's trust in the charity, and future income streams.

This article covers some key points to consider when responding to fraud.

A RESPONSE PLAN

While it is said to be impossible to eliminate the risk of fraud to any organisation, it is possible to mitigate some of the harm fraud can cause. One approach is to prepare for the worst, by developing an incident response plan which will also help the organisation to act quickly.

A response plan should set out what actions a charity should take if it detects fraud and who will be responsible for (and undertake) those actions.

In developing a response plan, charities should consider the extent of their obligations in the event of fraud. These may include notifying the Commission, insurers, certain grant providers, or internal committees formed by the trustees.

The response plan should list a nominee trustee and a member of senior management who would take responsibility for an investigation and should also set out the options available to the charity and the circumstances in which they should be pursued.

These options may include:

- Pursuing appropriate disciplinary action against employees;
- Making an insurance claim (where fraud is covered by the charity's policy);
- Seeking to recover lost funds through the civil courts; and reporting to the authorities.

“ While it is said to be impossible to eliminate the risk of fraud to any organisation, it is possible to mitigate some of the harm fraud can cause. ”

A response plan should also consider how the charity will manage stakeholders' expectations and set out agreed media contacts and actions.

ACT QUICKLY

The Charity Commission expects charities to report actual or suspected serious incidents of fraud as soon as is reasonably possible – immediately after the charity becomes aware of the incident. A delay in reporting may affect the Commission's assessment of the risk to the charity and how the charity is dealing with the incident.

Furthermore, the number of options available to a charity may diminish in the event of a delay in taking action. Evidence may be lost, destroyed (or, in the case of electronic evidence, overwritten) and there is a risk that losses may continue after the charity discovers an incidence of fraud and takes no action.

SEEK EXPERIENCED PROFESSIONAL ADVICE

Not only is there the need for charities to act swiftly in response to fraud, it is recommended that they seek advice from appropriately experienced professionals.

Forensic accountants and investigators can assist the charity to secure evidence and witness testimony, minimising the risk of contaminating that evidence. There is a significant risk of compromising an investigation if evidence is not gathered in accordance with best practice and police regulatory codes, and the Defence will seek to dismiss any claims or allegations based on compromised evidence.

A key example is digital evidence – it can be tempting to log on to a suspect employee's computer and look at electronic documents in case there is something incriminating saved on the hard drive. However, opening up an electronic document can change key information about that document such as the last modified author and date. The Defence will challenge the reliability and admissibility of any document shown to be opened by a curious trustee. Forensic technologists will assist investigators to secure forensically sound images of computer servers, hard drives and mobile telephones which can then be reviewed and used as evidence, without compromising that evidence.

Another key consideration is obtaining appropriate legal advice to assist the charity to navigate through its options and its reporting obligations. A specialist solicitor will be able to help articulate an appropriate report to the Commission and will be able to provide advice in relation to the likely success of any civil recovery based on evidence gathered during the investigation. Solicitors can also work well with investigators, providing advice on the best direction of any investigation with a view to maximising the possibility of success in any action.

Lastly, charities should consider getting advice from media and public relations professionals. It is important for the charity to be ready to respond to any inquiries which could arise from the fraud incident.

ARE YOU PROACTIVELY TACKLING CHARITY FRAUD?

Mia Campbell,
Head of Operations,
Fraud Advisory Panel



Fraud is not a word you would commonly associate with the charity sector and, until recently, rarely spoken, but there is now an increasing willingness to engage with the issue and to speak out. This is good news for the sector and bad news for those with criminal intent, says Mia Campbell from the Fraud Advisory Panel.

Fraud and cybercrime are now growth industries in which everyone is a potential target. Charities can be an attractive opportunity for professional criminals and opportunistic fraudsters because of the amount of money flowing through the sector (some £76bn annually in England and Wales alone), their perceived reliance on goodwill and trust, and the information they hold on trustees, staff, donors and beneficiaries. It is no wonder then, that fraud could cost UK charities as much as £2.3bn a year.

IT'S A QUESTION OF TRUST

Fraud can be committed anywhere, by anyone, at any time, given the right circumstances. In many cases fraud is committed by someone on the 'inside' – a person who knows the organisation well – such as an employee, trustee, or even a volunteer.

The Charity Commission recently took a deeper look into a sample of insider fraud cases and found three common contributory factors: individuals with too much trust or responsibility, poor (or no) controls, and a lack of challenge or oversight. These findings echo those of previous research we undertook ten years ago and suggest there is still work to do.

“ The Charity Commission recently took a deeper look into a sample of insider fraud cases and found three common contributory factors: individuals with too much trust or responsibility, poor (or no) controls, and a lack of challenge or oversight. ”

THE EXTERNAL THREAT

Last year the National Cyber Security Centre conducted the UK's first cyber threat assessment for the charity sector and found that while some charities were aware that their data was 'sensitive, valuable and vulnerable to [cyber] attack' many more – especially smaller ones – were not. While at first glance this lack of awareness may not seem very significant, when coupled with the increasingly sophisticated and convincing techniques being used by today's fraudsters, it could result in these charities being more susceptible and easily tricked out of their information and inevitably their money.

Two common examples that continue to catch out organisations, including charities, are CEO and invoice frauds. Both involve the impersonation of genuine people or businesses by email and sometimes by phone. Despite these risks being widely publicised fraudsters still managed to steal almost £93m from organisations through invoice fraud last year and over 40% were unaware of the threat.

GETTING THE BASICS RIGHT

The examples above highlight the importance of getting the basics right in terms of good risk management. Individually and collectively there is still a lot we can do to make our charities and the sector more fraud resilient. And there is an expectation that we will.

93% of respondents in one recent social media poll thought it was extremely important for charities to play their part in fighting fraud. Keeping abreast of the latest fraud trends, understanding how they might manifest within our individual charities, having appropriate internal controls, processes and policies in place to reduce the likelihood and impact of fraud are all part of the solution. So too is ensuring that everyone is well-informed and well-warned of the potential dangers and encouraged to raise concerns.

WE ARE STRONGER WHEN WE WORK TOGETHER

It can sometimes be difficult for charities to talk about fraud. And this is where Charity Fraud Awareness Week can help. Run in October, it creates a safe environment

for charities, regulators, professional advisors, law enforcers and other sector bodies to come together to promote fraud awareness and share good practice in tackling fraud and financial crime. Co-ordinated in the UK under the auspices of the Charities Against Fraud partnership it comprises a mixture of social media activity, live events, and other free resources such as webinars and helpsheets for charities to use.

This year's international Charity Fraud Awareness Week 2019 is taking place between 21 – 25 October. For more information and to download the supporters pack please visit fraudadvisorypanel.org/charity-fraud/charity-fraud-awareness-week/

We are all stronger when we work together to keep #CharityFraudOut



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CHARTERED ACCOUNTANTS

SECTION 4

USEFUL RESOURCES & TEMPLATES



IN THIS SECTION

Model job description:
Finance Manager
Charity Finance Group

Model job description:
Honorary Treasurer
Denise Fellows, The Honorary Treasurers Forum

Model terms of reference:
Finance Committee
Fiona Condron, BDO

Model terms of reference:
Audit Committee
Fiona Condron, BDO

A checklist for company secretaries
Suresh Lalvani, Chartered Company Secretary

MODEL JOB DESCRIPTION: FINANCE MANAGER

Reporting to:

Direct reports:

Purpose of role:

AREAS OF RESPONSIBILITY:

- Preparation of the annual statutory accounts and management of the audit;
- Preparation and submission of relevant Charity Commission, Companies House and HMRC returns;
- Review and submission of quarterly VAT returns;
- Preparation and submission of Gift Aid claims as appropriate;
- Liaison with the payroll bureau and payment of monthly salaries;
- Review of monthly bank reconciliations and routine financial processes;
- Preparation of cash flow forecasts;
- Responsibility for effective treasure management;
- Responsibility for maintaining and updating the financial system to ensure maximum financial control;
- Responsibility for updating and maintaining all financial procedures to ensure maximum efficiency and control;
- Lead liaison with banks, auditors, HMRC, loan and grant making bodies;
- Preparation of ad hoc management reports as appropriate;
- Lead role on topical finance projects as appropriate;
- Ad hoc financial advice to staff and trustees as required.

PERSONAL SPECIFICATION:

The candidate is required to have the following skills and experience:

- Fully qualified accountant;
- Charity financial and management accounting experience at finance manager level;
- Commercial accounting experience, ideally at manager level;
- Extensive VAT knowledge and experience;
- Extensive knowledge of relevant SORPs;
- Experience of producing Charity final accounts and managing an audit;
- Good verbal communication skills;
- Good report Microsoft Office skills, particularly in Excel;
- Familiarity with use of databases.

ADDITIONAL DESIRABLE SKILLS AND EXPERIENCE ARE AS FOLLOWS:

- Writing skills;
- Familiarity with [name] accounting package [any other software used in the role];
- Experience of Gift Aid claims;
- Technical financial systems experience, including report writing;
- Payroll experience.

MODEL JOB DESCRIPTION: FINANCE MANAGER

Reporting to:

Direct reports:

Purpose of role:

RESPONSIBILITIES:

Corporate

- As a member of the executive team, contribute to the development and delivery of the organisational strategy;
- Working closely with our policy team, act as thought leader on specific areas of work for the organisation, attending meetings or speaking on our behalf as appropriate and promoting our work within the sector;
- Exemplify a continuing deep understanding of issues facing financial leaders in the charity sector;
- Build effective working relationships with stakeholders, from Trustees through to auditors to ensure that the organisation obtains maximum value from those relationships;
- Undertake the Company Secretary role for the organisation and any subsidiaries.

Financial Management and Internal Control

- Provide financial leadership to the senior team and together with the CEO to the Board of Trustees through the:
 - Development of a strategic financial agenda;
 - Use of plans and forecasting scenarios;
 - Provision of clear timely relevant management accounts and key historic data;
 - Provision of operationally relevant day to day financial data including cash flow;
 - Management of the annual planning, budgeting and reporting processes and timetables, including the annual review and preparation of three year financial projections aligned to achieving the organisation's strategic objectives;
 - Support and training to colleagues to ensure they have the confidence to proactively engage with the financial agenda and are empowered to contribute to the management of the finances of the organisation as a whole, and their team in particular.

- To ensure the organisation's approach to risk management is fit for purpose and to lead the regular review and reporting of risk and the development of a robust assurance framework.
- Ensure that proper effective accounting records and financial control systems are maintained and that all financial matters are dealt with in a proper and secure manner.
- To ensure that the organisation meets all its statutory financial and regulatory obligations, and that appropriate tax planning is undertaken (including Companies House, Charity Commission and HMRC).
- To ensure that satisfactory financial administration systems and procedures are in place and are properly documented and adhered to.
- To ensure that all income due is promptly collected and monies owed are paid in a prompt and efficient manner.
- To ensure that adequate insurance cover is put in place for the organisation's operations and activities.

IT

- To lead the development and implementation of the IT strategy, which will deliver the organisation's strategic and operational targets.
- Ensure the organisation has appropriate project and programme management processes to ensure all change initiatives meet their objectives.
- To champion knowledge management and the development of systems and processes to enable the more effective collection, collation, storage and dissemination of information across the organisation.

HR

- Working to ensure HR processes are appropriate, fit for purpose and legally compliant
- Overseeing and managing the processing of payroll and pension arrangements
- Supporting the CEO in ensuring the organisational development agenda supports the achievement of the organisation's objectives.

MODEL JOB DESCRIPTION: FINANCE MANAGER CONTINUED

Team

- To foster a culture which supports organisational and individual learning
- Ensure staff are motivated, customer focussed, trained, and deliver against objectives.
- To be responsible for budgetary control and to regularly review the risks for the department

Other

- To undertake any other duties as required by the CEO or the Board
- Person Specification
- Technical, Qualifications & Experience
- Substantial senior experience in charity finance and strategic planning.
- Educated to a degree level with a professional accountancy qualification (desirable).

- Evidence of continued learning through achievement of additional qualifications.
- Experience of managing change.
- Experience of developing high performing teams.
- Up to date knowledge of accounting developments and areas of work which are relevant to the organisation's objectives.
- Experience of developing and maintaining an effective internal control and risk management environment.
- A successful track record of leading multi-disciplinary professional teams (IT, HR etc.)
- Strong motivational leadership skills with the ability to motivate others to achieve results.

MODEL JOB DESCRIPTION: HONORARY TREASURER

Treasurers may have specific roles and responsibilities delegated to them; however, all trustees, not just the Treasurer are responsible for the charity's finances and should be able to understand, consider and comment on financial information.

THE OVERALL ROLE

- To monitor the financial administration of the charity and report to the board of trustees at regular intervals on its state of financial health, in line with best practice, and in compliance with the governing document and legal requirements to provide the board with the confidence and knowledge to better make strategic decisions.

The main responsibilities and duties of the Honorary Treasurer include:

- Overseeing and presenting budgets, internal management accounts and annual financial statements to the board of trustees;
- Leading in the board's duty to ensure that proper accounting records are kept, financial resources are properly controlled, invested and economically spent, in line with good governance, legal and regulatory requirements;
- Leading in the development and implementation of financial reserves, cost-management and investment policies;
- Liaising, where applicable, with the appropriate member of staff responsible for the financial activities of the organisation;
- Chairing any finance committee in line with standing orders and terms of reference, and reporting back to the board of trustees;
- Monitoring and advising on the financial viability of the charity;
- Overseeing the implementation of and monitoring specific financial controls and adherence to systems;
- Advising on the financial implications of the charity's strategic plan;
- Overseeing the charity's financial risk-management process;

- Acting as a counter signatory on charity cheques and important applications to funders; and
- Board-level liaison with the independent examiner or external auditors on specific issues such as the Auditors' Management Letter and the related board representations.

The extent of these duties and the Treasurer's involvement will vary with the size and complexity of individual charities and the level of finance staff employed.

Critical Areas of Involvement for the Treasurer:

- **Budgeting and strategic financial planning**

The Treasurer must ensure that all strategic plans are fully financially appraised and that the budget is in line with the plan's short-term objectives as set for each year.

- **Management Reporting**

Trustees have a duty to ensure that proper accounting records are kept, assets are safeguarded and resources properly applied in accordance with the objects of the charity. The Treasurer should ensure that management accounts are prepared on a regular basis and that there is a target timescale for their production. The Treasurer should also agree with the trustees the type of financial reporting they require and the extent of it.

This needs to be done in coordination with the Director of Finance (where present).

- **Statutory financial reporting**

The Treasurer's task here is to guide and advise fellow trustees in the board's formal approval of the annual report and [audited] accounts. Therefore it is important the Treasurer is fully aware of their content, regardless of any involvement in their preparation.

- **Investments**

The Treasurer needs to be closely involved in the overall management of this important asset. Many charities have investment sub-committees convening several times a year, where the Treasurer and other committee members are able to meet with the external investment advisers or managers to discuss targets, constraints, performance and future investment policy.

MODEL JOB DESCRIPTION:
HONORARY TREASURER CONTINUED

The Treasurer may well have to chair the charity's investment committee.

• **Staff pensions**

Pensions legislation and regulation has greatly increased, and Treasurers need to be able to advise fellow trustees on the financial intricacies and implications.

• **Risk Assessment and Risk Management**

Treasurers need to ensure that the risk-management process is adequate and that the financial implications of risk are fully taken into account.

• **Audit**

The Treasurer ensures there is a framework for accountability; for examining and reviewing all systems and methods of financial control, and ensures compliance with all aspects of the law, relevant regulations and good practice relating to finance. Where there is a separate Audit committee, Treasurers should be a member rather than chair to limit conflict.

• **Reserves policy**

A final critical area is reserves policy in relation to any voluntary funding and/or to the charity's operational viability and ultimate solvency.

The Treasurer must be involved in:

- The development of any reserves policy and could well be its guardian on behalf of the trustees;
- Keeping the board regularly informed of the free reserves position and target (if any), even if only as part of the essential cash management reporting where solvency is an issue; and
- Advising any action needed to cope with changing circumstances.

THE TREASURER AND GOVERNANCE

In larger charities it will be necessary to have a committee of the trustee board to deal in more detail with financial and perhaps investment, fundraising and operational management issues. In many cases the Treasurer will chair a finance or resources committee and report back on its work to the full board. Some charities also find it necessary to have subcommittees of the finance committee to deal with pensions and investments. The Treasurer may also be involved in the remuneration committee. Whatever the structure for governance, the Treasurer needs to be happy that the arrangements are sound from a financial management point of view and that they provide full information to trustees.

THE HONORARY TREASURER RELATIONSHIPS WITH THE EXECUTIVE

The Treasurer will have important relationships with the executive, particularly with the Director of Finance. The Treasurer will also have a more distant relationship with the Chief Executive. Chief Executives should ensure that the main interface on financial matters is between the Treasurer and the Director of Finance. However, the Chief Executive and the Director of Finance may meet the board's Chair and Treasurer occasionally to discuss major aspects of the strategy, operational activities and finances of the charity. Where possible, the Chief Executive and the Director of Finance should also attend finance committee meetings.

This resource was kindly donated by the Honorary Treasurers Forum and reproduced here with permission. A longer and more in-depth version can be downloaded from honorarytreasurers.org.uk.

The
Honorary
Treasurers
Forum

MODEL TERMS OF REFERENCE:
THE FINANCE COMMITTEE

COMPOSITION, ATTENDEES, QUORUM & REPORTING RESPONSIBILITIES

1. The Finance Committee is a Committee of the Board of Trustees ("the Board") and reports directly to the Board.
2. All members of the Committee are appointed by the Board.
3. The Committee shall consist of not less than three Trustees appointed by the Board in addition to the Chairperson. *[note: the maximum number of members of the Committee as a whole will vary according to the size of your organisation and your needs]*
4. The Committee shall consist of no more than *[x number of members]*
5. The Committee may co-opt ex-officio members who in the opinion of the Committee will bring additional relevant skills to the Committee, but appointed members shall always form the majority.
6. The Chief Executive, Finance Director, H.R. Director and Head of Finance will normally be in attendance at all meetings.
7. The Head of Finance is the Secretary to Committee Meetings. Minutes of meetings will be reviewed by the Board of Trustees when approved by the Committee Chairperson.
8. Unless otherwise determined by the Committee, a quorum shall consist of two members of the Committee.
9. The Committee will not meet less than three times a year and additionally as may be necessary. Where possible, and without compromise to the balance of skills, the composition of the Committee should be such so as to achieve a reasonable balance in terms of gender, age and ethnicity.
10. The Chair of the Committee (or in his/her absence, another Trustee member of the Committee) shall report to the Board at the next Board meeting.

Financial

1. To review the draft of the three year business plan and supporting financial plan and budget and make recommendations thereon to the Board of Trustees.
2. Regularly review performance against Plan and Budget and seek/corroborate any significant variances in actual performance for the year to date and forecast results for the full year
3. Take responsibility on behalf of the Board for overseeing all financial aspects of Charity operations so as to ensure short and long term
4. Approve, within limits agreed by the Board, expenditure of a significant nature on new initiatives.
5. Identify priorities for additional expenditure or for savings as actual income dictates.
6. Review longer term forecasts of income and expenditure and approve the form of presentation of financial information.
7. Propose options for timely actions to mitigate risks to satisfactory financial performance.

MODEL TERMS OF REFERENCE:
THE FINANCE COMMITTEE CONTINUED

INVESTMENT

- 1. To agree and review the Charity’s statement of Investment Principles.
- 2. To agree and review the Charity’s investment policy, including the Charity’s stance on ethical investments and social investments.
- 3. To agree and review the Charity’s attitude to financial risk and the Charity’s asset allocation strategy.
- 4. To review the performance of the Charity’s portfolio of investments.
- 5. Consider changes to investment strategy and make appropriate recommendations to the Board.
- 6. To review the performance of the Charity’s Investment Managers and to meet them formally at least once a year.
- 7. Report to the Board of Trustees.

PENSIONS

- 1. To monitor and review the Charity’s Pension Schemes.
- 2. To recommend to the Board of Trustees appropriate actions following any scheme valuations, e.g. Triennial, FRS 102.
- 3. To approve the actuarial assumptions to be applied in the calculation of the scheme liabilities used in the FRS 102 valuations.
- 4. To review the Performance of the Charity’s Pension Fund Managers and to meet them formally at least once a year.
- 5. To review the asset allocation strategy for the Final Salary Scheme at least once a year.
- 6. To consider if there are any notifiable events under The Pensions Act 2014.
- 7. To report to the Board of Trustees.

With thanks to Fiona Condron, Partner / Gatwick Business Assurance, BDO LLP for reviewing and updating this Terms of Reference.



MODEL TERMS OF REFERENCE:
THE AUDIT COMMITTEE

Please note that some organisations will have a combined audit and risk committee, which will have a broader remit.

COMPOSITION, ATTENDEES, QUORUM & REPORTING

- 1. The Audit Committee is a Committee of the Board of Trustees (“the Board”), and reports directly to the Board. The Chairperson of the Committee is appointed by the Board. In addition to the Chairperson, the Committee comprises two or three other Trustees appointed by the Board as members. At least one member of the Committee shall have significant, recent and relevant financial experience. Other members of the Finance Committee are invited to attend the Audit Committee’s meeting when the draft annual accounts are reviewed.
- 2. The Chief Executive, Finance Director and Internal Auditor will normally be in attendance at all meetings, with the external auditors as appropriate.
- 3. The Committee has the authority of the Board to have access to any information or employee of the Charity in the course of undertaking its responsibilities, and to obtain outside legal or other independent advice.
- 4. Until otherwise determined by the Committee, a quorum shall consist of three members of the Committee.
- 5. The Committee will have the power to co-opt external members as appropriate.
- 6. The Committee will continually review the training and development needs of committee members. The Chair of the Committee will ensure there will be an induction programme for new Committee members.
- 7. The Committee will meet not less than twice a year and additionally as may be necessary.
- 8. The Internal Auditor [or Company Secretary etc., if there is no Internal Auditor] is the Secretary to Committee Meetings. Minutes of meetings will be reviewed by the Board of Trustees when approved by the Committee Chairperson.
- 9. The Chair of the Committee (or in his/her absence, another Trustee member of the Committee) shall report to the Board at the next Board meeting.

RESPONSIBILITIES

General Objectives

- 1. On behalf of the Board it maintains an overview of the Charity’s risk management and governance processes, ensuring that the system of internal control is satisfactory to deliver regulatory compliance.
- 2. Review the annual internal audit plan, ensure coordination between the internal and external auditors and ensure the internal audit function is adequately resourced.
- 3. Monitor and review periodically the effectiveness of Internal Audit by reviewing the progress reports, any major internal audit recommendations and any major findings of internal investigations and management’s responsiveness to them.
- 4. Review reports from management and Internal Audit on the effectiveness of systems for internal control, financial reporting and risk management.
- 5. Consider management’s recommendation for the appointment or dismissal of the head of internal audit.

SPECIFIC RESPONSIBILITIES

- 1. To determine the frequency and process of tendering for the external audit service.
- 2. To consider the appointment, resignation or dismissal of the external auditors, to approve their fee annually, and to review their independence and objectivity and matters relating to the provision of non-audit services.
- 3. To formally review the performance of the external auditors every 3 years
- 4. To discuss with the external auditor, before the audit commences, the nature and scope of the audit and to review the auditors’ quality control procedures and steps taken by the auditor to respond to changes in regulatory and other requirements.
- 5. To review the annual financial statements in conjunction with the external auditors before submission to the Trustees, focusing particularly on the consistency of the Trustees’ Report with the financial statements, and:
 - The quality of control arrangements put in place over the preparation of the accounts by the Finance Director;
 - Critical accounting policies and practices and any changes in them;

- Major estimates and judgemental areas;
 - The extent to which the financial statements are effected by any unusual transactions in the year and how they are disclosed;
 - The clarity of disclosures including those pertaining to fundraising activities;
 - Significant adjustments resulting from the audit;
 - Material misstatements detected by the auditors that individually or in aggregate have not been corrected, and management's explanations as to why they have not been adjusted;
 - The ongoing concern assumption;
 - Compliance with accounting standards and legal requirements;
 - The charity's statement on compliance with the Charity Good Governance code and internal control systems prior to endorsement by the Board and reviewing the policies and processes for identifying and assessing business risks and the management of those risks;
 - The charity's identification and disclosure of the principle risks and uncertainties and the controls in place to manage them;
 - To recommend the annual report and financial statements to the Board once satisfied.
6. To discuss any problems or reservations arising from the annual audit and any matters the auditors may wish to discuss. Each session includes a closed session (e.g. in the absence of management) to discuss any issues.
 7. To consider the external auditors management letter (including any prior year recommendations which have not been satisfactorily addressed) and the Charity's management response, and ensure appropriate action is taken.
 8. To review management's and the internal auditor's reports on the effectiveness of systems for internal financial control, financial reporting and risk management.
 9. To consider any necessary disclosure implications concerning material internal control aspects of any significant problems disclosed in the annual report and accounts.
 10. To consider the disclosure about the role, responsibilities of, and actions taken by the Audit Committee included in the Annual Report.
 11. To consider the appointment, resignation or dismissal of the Internal Auditor. To authorise the Internal Audit Charter, review the internal audit strategy and plan and monitor progress against the plan. To satisfy themselves on the appropriateness of the audit cycle, and that appropriate liaison is maintained between the internal and external audit functions.
 12. To review all reports of the Internal Auditor and consider management responses to recommendations. To be the final arbiter in any case of dispute/disagreement.
 13. To receive regular reports from the appropriate directors of progress with implementation of agreed internal audit recommendations and any other actions associated with internal control, and satisfy themselves that effective and timely management action has been taken.
 14. To be advised of, consider and approve or otherwise any significant changes to the prime financial and management policies, control systems, and authority levels of the Charity.
 15. To be advised of any instance discovered within the Charity, or affecting the Charity, of fraud or financial misdemeanour and obtain reassurance that satisfactory management action has been taken.
 16. To ensure compliance with Delegated Authorisations which should be monitored by the Treasurer
 17. To review and approve the charity's Whistleblowing Policy and procedures, Serious Incident Reporting Policy and procedures and Fraud Policy and procedures.
 18. To periodically review and update its own terms of reference, and submit them to the Board for approval. The Internal Auditor should produce a report, annually, to review the Audit Committee's performance against its terms of reference and best practice, which will be also be sent to the board.

With thanks to Fiona Condron, Partner / Gatwick Business Assurance, BDO LLP for reviewing and updating this Terms of Reference.



A CHECKLIST FOR COMPANY SECRETARIES

The core duties of the company secretary are:

- Being the custodian of governing documents. This means not just holding a copy of the up-to-date documents (and past versions) but also understanding, interpreting and advising the Trustees on any contents;
- Attending and servicing Trustee and general meetings (and having overall responsibility for the servicing of committee meetings). This includes issuing notices, agenda and papers for meetings and being responsible for the taking of minutes. The secretary is responsible for the operation of the company's formal decision-making and reporting machinery;
- Having custody of registers; minute books; records. From 6 April 2016 all UK Companies are required to maintain a new register of people with significant control ("PSC register");
- Maintaining a Trustees' register of interests in order to monitor any conflicts of interests;
- Communications with members;
- Oversight of appointment processes for Trustees;
- Being responsible for statutory compliance (see below);
- Having custody of any seal and overseeing its use;
- Ensuring the charity's stationery, website, emails, invoices and other documents include all details required under company law, charity law and VAT legislation;
- Advising on governance matters;
- Trustee support, training and development;
- The provision of legal advice and advising on statutory requirements.

STATUTORY REQUIREMENTS

The company secretary must be aware of the obligations of the charity under both the Charities Acts and the Companies Act 2006. There are a number of changes now in place as a result of the Companies Act 2006. In some instances, for existing companies, their Articles will override the Act, but in other instances (e.g. in regard to proxy voting) the Act will prevail no matter what the Articles state. The Secretary must be aware of these requirements.

The secretary must also be aware of a range of other legislation.

This will depend on the work of the charity, but is likely to include:

- The Equalities Act 2010;
- The Bribery Act 2012;
- The Company Directors Disqualification Act 1986;
- The Business Names Act, RSO 1990 and 1985 as modified by the Companies Act 2006;
- The Competition Act 1998 and Enterprise and Regulatory Reform Act 2013;
- Money Laundering Regulations 2019;
- Current pensions legislation including auto-enrolment;
- The Insolvency Act 1986 and Insolvency (Amendment) Rules 2010;
- The Criminal Justice Act 2003 and the Criminal Justice and Immigration Act 2008; and
- The Financial Services and Markets Act 2000.

ANNUAL AND EVENT-DRIVEN COMPLIANCE

During the year the company secretary must ensure the following:

- That an annual return and annual report and accounts are filed with the Charity Commission within ten months of the year-end.
- That the annual report and accounts are filed at Companies House within nine months of the year-end;
- * *From 30 June 2016, instead of the annual return (AR01), companies will be asked to submit a confirmation statement to Companies House, confirming all their filings are up to date. Importantly, in the confirmation statement, companies will need to file details of their register of people with significant control (PSC register) with Companies House for the first time. These details will then appear on the public register. This also applies to CICs. Confirmation statements will be due in the same timeframe as annual returns were due;*
- From 30 June companies will also have the option of maintaining their statutory registers (e.g. members, directors, people with significant control) at Companies House;
- That the registers of members, directors (Trustees), directors' residential addresses, secretaries and charges are kept up-to-date; and
- That proper minutes are kept of meetings.

Other event-driven obligations are:

- Change of registered office: notify Companies House within 15 days of changes;
- Passing of special resolutions: copies of resolutions are to be sent to Companies House within 15 days of being passed;
- Amendment of constitution. This must be filed with both the Charity Commission and Companies House. The filing at Companies must be within 15 days and the amendment does not take place until it is filed. The amendment of some part of the constitution will require Charity Commission consent before approving;
- In certain instances Charity Commission consent may need to be sought e.g. for payments to a Trustee if not allowable under the constitution;
- Forms AP01 – AP04 as applicable are to be sent to Companies House within two weeks of a director or secretary joining the company, or forms TM01/TM02 when resigning. Forms CH01 – CH04 are sent to record changes of particulars for a director or secretary;
- All charges on the company's property and assets must be recorded in the register of charges and Companies House notified within 21 days.

If the charity operates in Scotland and/or Northern Ireland the secretary may also be responsible for registering with the Office of the Scottish Charity Regulator and the Charity Commission for Northern Ireland and meeting their regulations.

ONGOING REVIEW

The company secretary must consider a number of matters as part of his or her oversight of the charity's affairs.

For example:

- (a) The constitution: review the constitution to ensure that the provisions are appropriate to the current operation of the charity;
- (b) Good governance: review the processes for the appointment of Trustees; consider arrangements for Trustee induction and ongoing training; consider Board performance review and a skills analysis; review the governance structure; review the effectiveness of Board meetings and Board information systems. Bring to the attention of Trustees a number of publications published by the Charity Governance Code for larger charities, and the Charity Governance Code for smaller charities (annual income under £1 million);
- (c) Review conduct and probity matters, such as a code of conduct and conflicts of interests procedures;
- (d) Ensure that Trustees of charitable companies are aware of the recent company law changes. The

Fundraising Regulator has made changes to the Code of Fundraising Practice to take account of new data protection laws (GDPR). The new rules will come into effect from May 2018. Also be aware of the latest Gift Aid provisions:

Ban on Corporate Directors – It will no longer be possible for companies to have corporate directors. From October 2016 all directors of a company must be natural persons. This does not affect ex-officio directors. Any appointment of a corporate director after this date will be void. Any existing corporate directors will cease to be directors one year after the changes take effect.

Keep an eye out as there are likely to be some exceptions.

Other legislation: consider compliance procedures in connection with, for example, lotteries legislation, and legal and tax implications of fundraising activities, including trading companies. Be aware that HMRC has published new model Gift Aid declarations, with a single donation form, multiple donation form and form for a sponsored event. Charity fundraising: a guide to trustee duties (CC20) is the Charity Commission's new guide to charity Trustees' responsibilities in the fundraising context;

- (e) Contracts: review the procedure for entering into contracts and ensure ongoing compliance with terms and conditions of contracts;
- (f) Property: review the procedures which are adopted when land or property is being acquired or sold or leased;
- (g) Compliance with the General Data Protection Regulation (GDPR) which comes into force in May 2018;
- (h) Safeguard the charity's intellectual property.
- (i) Be aware that since January 2018, the charity commission has been accepting applications from charitable companies wishing to convert to a charitable incorporated organisation.
- (j) The charity commission has announced a suite of steps on safe guarding.
- (k) The charity commission has issued new guidance on charities connected with non-charities.
- (l) The charity commission's guidance "Protect your charity from fraud" has been updated to include a new infographic about reporting fraud.
- (m) The 2016 Act provisions on automatic disqualifications of trustees (and senior charity managers) will be introduced on 1st August 2018

Prepared by Suresh Lalvani

Chartered Company Secretary and Chartered Governance Professional

May 2019

SECTION 5**CORPORATE PROFILES**

KINGSTON SMITH

AWARD-WINNING CHARITY TEAM

Kingston Smith has been serving the charity sector for over 20 years and have an award-winning, multi-disciplinary team who act for over 750 charities providing audit and value-added services.

We are one of the leading firms auditing and advising charities and act for a diverse range of organisations from disability charities, medical and health, membership bodies, grant giving trusts and foundations, arts and culture, international and overseas aid, religious organisations and education.

We were ranked number one for charity expertise and maintain our top position for overall service amongst the top 20 charity specialists in the Charity Finance magazine 2018/19 audit survey.

ADDED VALUE OFFERING

Our commitment to the sector has extended to developing specialist resources and capacity and investing in a suite of unique services for charities. In addition to providing technical updates, newsletters and seminars, these services are designed to help our clients improve the efficiency of their business and take advantage of new opportunities. Our services include:

- Audit and Accounting
- Tax and VAT
- Governance and business advice
- Fundraising and Impact reporting
- Strategic advisory
- HR consulting
- GDPR and data security
- International services

YOUR POTENTIAL, OUR EXPERTISE

We aim to provide you with the practical and innovative solutions you need to meet your charity's strategic objectives. Our expertise allows us to assist you in your decision-making process. This might be as a sounding board on general management issues or dealing with a specific technical query.

Whatever your needs, we strive to deliver a service that goes beyond your expectations.

KEY CONTACT

If you would like to speak to our head of Not for Profit directly and find out how your charity can benefit from working with Kingston Smith, please contact:

Neil Finlayson

Head of Not for Profit

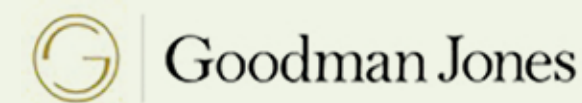
T: 020 7566 3761

E: nfinlayson@ks.co.uk

W: www.ks.co.uk/charities



GOODMAN JONES



We help charities by providing advice, support, and the reassurance that all financial aspects are well managed, allowing you to focus on the important work of your charity.

We provide all the compliance work you would expect and as charity specialists we complement that with valued advisory services.

Our focus is on helping to improve your financial efficiencies and resources. This can include looking at accountancy technology and processes, but mostly it's about helping the people in your organisation thrive and make better decisions for the future of charity.

SERVICES WE PROVIDE

Accounts, Audit, Benchmarking, Forecasting, Governance, Independent Examinations, Risk Management, System Reviews, Strategic Reviews, Tax & VAT, and Trustee Training

KEY CONTACTS

Julian Flitter

E: julian.flitter@goodmanjones.com

Martin Bailey

E: martin.bailey@goodmanjones.com

W: www.goodmanjones.com/charities

HAYSMACINTYRE

haysmacintyre
chartered accountants & tax advisers

haysmacintyre is an award winning chartered accountant and tax adviser working with charities and not for profit organisations across the UK and globally from our London office.

With one of the largest charity and not for profit teams in the country, we audit more of the Top 5000 charities than any other UK accountant (Charity Financials' League table January 2019). Fees from our charities and not for profit clients represent over 40% of our business and our experience means we have developed a thorough and in-depth knowledge of the issues charitable organisations face. We have a large charity specialist team made up of 12 specialist not for profit partners, 15 specialist audit managers and other team members, many of whom are trustees and governors themselves.

We offer a comprehensive seminar programme and issue regular briefings on the topical issues impacting charities, and are proud to support many CFG events.

SERVICES

Specialist charity and not for profit external and internal audit, advisory, VAT services, tax advice and compliance.

CONTACTS

Murtaza Jessa

E: mjessa@haysmacintyre.com

Anna Bennett

E: abennett@haysmacintyre.com

W: www.haysmacintyre.com

WAVERTON

Waverton is an award-winning discretionary investment management firm providing portfolios that are directly invested, actively managed and truly global.

We have looked after charities since our inception and understand how to manage charitable investment assets in a prudent, pragmatic and flexible way. We know that charities operate in an increasingly demanding and accountable environment. Our dedicated charities team take time to understand each client's unique set of priorities and put in place an investment strategy that represents their particular position. Our approach is well suited to charities with an ethical investment policy; almost a third of our clients have an ethical or responsible investment policy in place.

Generating attractive real returns for our clients over the long term is our principle aim. We use an active, flexible and direct investment approach through segregated portfolios or specialist funds to do so. We attach huge importance to investing in what we believe to be the best ideas worldwide, be that in individual stocks, funds, fixed interest or alternative asset classes. Alongside this, we pride ourselves on our personalised client service and comprehensive in-house administrative operations.

SERVICES WE PROVIDE

- A dedicated charity team
- Direct relationship with your portfolio manager
- Ethical investment screening
- Tailored reporting
- Trustee training and investment guidance
- Institutional investment approach

KEY CONTACT

If you would like to find out more about how we could work together with your charity please contact:

Emma Robertson

A: 16 Babmaes Street, London, SW1Y 6AH

T: +44 (0) 20 7484 2065

E: erobertson@waverton.co.uk



WAVERTON
INVESTMENT MANAGEMENT



HARRIS HILL

As part of one of the UK's leading charity recruiters, Harris Hill's Finance team focus exclusively on charity and not for profit finance roles.

With extensive experience in charity finance recruitment, as well as the public and commercial sectors, our specialist team has a keen understanding of the particular skills required for charity finance teams. We are ideally placed to find the strongest candidates both from within and outside the charity sector and have an exceptional track record of successful appointments.

We work with organisations of all sizes and cover permanent and temporary positions at every level from finance assistants to directors and senior management, financial controllers, finance managers, purchase ledger, treasury, management accountants and more.

SERVICES

Specialist recruitment for charity and not for profit finance teams

CONTACTS

Simon Bascombe, Belton Bass, Matthew Smith

T: 020 7820 7311





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Leading charity advisors

We have been recognised as the Top Charity Auditor for 10 consecutive years in the Charity Finance audit survey and Charity Financials audit league table.

Start the conversation

Pesh Framjee

Global Head of Non Profits
pesh.framjee@crowe.co.uk
+44 (0)20 7842 7100

Naziar Hashemi

National Head of Non Profits
naziar.hashemi@crowe.co.uk
+44 (0)20 7842 7229

www.crowe.co.uk

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