Keeping Your Charity on the Right Track

Your month to month plan to better governance

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About MHA

MHA is an association of progressive and respected accountancy and business advisory firms with members across England, Scotland and Wales. Our member firms provide both national expertise and local insight to their clients. MHA members assist clients with their needs wherever they are in the UK, as well as globally through our membership of Baker Tilly International, which has a network of trusted advisors covering 141 countries worldwide.

Our Sector Approach:

Our award winning teams of charity advisors have the experience and expertise to fully understand the complex and regulatory accounting needs of your organisation.

We act for over 1600 charitable and not for profit organisations including schools, academies and Further Education institutions. Our clients in the charity and not for profit sector are national, regional, local and international in their reach.

50 offices across the UK
We have created a month to month checklist which can help you improve your organisation’s governance in a stepped and measured way. The complete checklist in month 12 will aid you from start to finish, improving your governance over the 12 month period.

Each article covers an area of charity governance that you could review within your organisation and leads you through good practice, areas to consider and improve and where you can find extra guidance. Working through the checklist will ensure small marginal improvements are achieved at each stage. This should result in a cumulative improvement on the governance of your organisation. It should ensure you make continual, incremental gains and will assist you in being at the forefront of exemplar governance and transparency.
Are we an Effective Board?

Responsibilities

All charity boards must, first and foremost, ensure that they are discharging their legal responsibilities if they are to be considered an effective board.

They could be providing a lot of detailed operational input, but if they have not first ensured, for example, compliance with the governing document then they would be falling short in their role. So what are these overriding responsibilities?

- To act in the interests of the charity and put the interests of the charity first;
- Ensure the charity acts in accordance with its governing document and in a manner which is consistent with its purposes;
- Act with due care and diligence;
- Ensure compliance with legislation.

With these responsibilities always in mind, a board will be demonstrating good governance if it works to exercise control and deliver the organisation's purpose.

To do this the members of the board must fully understand their role; this includes not just what they should be involved in, but also what boundaries exist and when they should allow delegated management space to run the organisation.

What is the role of the Board?

The trustee board is responsible for establishing strategies to achieve the purpose or mission of the charity. They are also responsible for safeguarding its assets as well as its values and reputation. Although the long term strategy will normally be developed with a lot of input from the Chief Executive, the responsibility for it lies with the board. In many cases the internal Senior Management Team will have created the ideas and sourced the information from which to establish the strategy. The role of the board would be to challenge and stress test the plans to ensure they are happy that they follow the overarching purpose of the charity and are viable initiatives.

After setting the long term strategy, it is then necessary to establish and monitor policies that ensure the charity will work to achieve that strategy. Part of this will involve employment procedures and recruiting the right people for senior positions. One of the most important things that any board will do is to select and then support, as well as review the performance of the Chief Executive. Proper systems for reporting and monitoring are needed and the board should set the overall values framework for everyone involved with the charity.

The board must make sure that the charity’s activities comply with its charitable objectives and that it is accountable as required by law to the regulator (Charity Commission or OSCR), the Registrar of Companies (if applicable) and HMRC.

Maintaining fiscal oversight is a key board role, as it is their responsibility to manage the resources so that charitable objectives can be met. It needs to know that there are sufficient resources available and will need involvement in setting budgets and approving financial statements, as well as monitoring spending. Risk management is also critical and it is the boards role to set and agree policies.

Having a framework for delegation, internal control and ensuring that appropriate reporting is brought to board meetings is very important.
What makes a board effective in fulfilling this role?

Different boards will be able to work effectively in different ways, but some of the more important steps to take are to ensure:

• Meetings are productive;
• Individual standards of conduct are high;
• Effective sub committees are established;
• Good recruitment and induction processes are established;
• Regular performance reviews are held.

Recruitment is crucial as a board needs to be comprised of people with the correct mix of skills. It is not always enough just to have an interest and willingness to help, the board have a collective responsibility so don’t just defer to the member with a particular skill; benefit from his or her guidance but form your own judgement. Occasionally governing documents will stipulate where trustees should be sourced from, if this is the case for your organisation it remains important to ensure there is a broad mix of skills.

Two members of the board who need particular skills are the Chair and the Honorary Treasurer. The Chair should have a background in strategy and management and needs to provide leadership and direction. The treasurer should ideally have a background in finance and risk and needs to monitor financial reporting and risk management.

The relationships that these two key board members have with management are critically important in ensuring good governance. The Treasurer must have a good working relationship with the Head of Finance, such that they can be sure that good quality, reliable financial reporting is brought to board meetings. However, the most important factor is the relationship between the Chair and the Chief Executive. This must be close so that the Chair is available to advise, but not so close that it is seen as interference. The balance in this relationship is tricky and may vary depending on the individuals involved, but it’s important to get it right as most high profile cases of charities failing involve a very dominant Chief Executive who hasn’t been subject to strong enough board oversight.

Checklist for the month

1. Ensure you have the right mix of skills on the board and that you work effectively as a team – perform a board skills audit;
2. Develop strategy to ensure delivery of your charity’s objectives and compliance with the governing document – does your organisation have a detailed strategy document?
3. Monitor policies and exercise effective control – consider how you are doing this and if necessary, introduce a formal procedure for monitoring e.g. audit effectiveness of the board;
4. Be a sounding board and source of advice for the Chief Executive – consider implementing board 360º appraisal processes to gauge the success of the relationships;
5. Do not interfere – respect the role of staff and let management manage – test yourself on this, if you are a board member are you a critical friend or an interfering presence for the Senior Management Team, is the balance correct?

Where can I get more information?

There are a number of useful resources available and two of the best ones are:

- **Code of Good Governance**
  - [www.governancecode.org/summary-code-of-governance](www.governancecode.org/summary-code-of-governance)
  - Six key principles of good governance, developed for, and by the voluntary sector.

- **The Essential Trustee**
  - This provides an overview of the duties and responsibilities of a trustee.

If you have any questions arising from this article or would like to speak to a member of our team about how we can help. Please get in touch with your local MHA member firm.
Do we Have an Effective Finance Function – Reporting to the Board?

Charity management and responsibility is often split, ultimate responsibility remains firmly with the board of trustees and the organisation is run on a day-to-day basis by a management team made up of employees. As a result, it is vital that the board receive timely and accurate financial reports.

What is the remit of the finance function?

The key remit of the finance function, regardless of size, is to produce accurate and timely reports for wider management and the board themselves.

What information should be reviewed and why?

In order to understand what the numbers tell us, we need to understand both the ‘performance’ of the charity (over a certain period of time) and its ‘position’ in terms of assets and liabilities.

‘Performance’ is recorded in a ‘Profit and Loss Account’ – known as a ‘Statement of Financial Activity’ (SoFA). This will cover a certain period of time, commonly a month, quarter or year.

‘Position’ measurement is recorded on a ‘Balance Sheet’. A balance sheet only gives a snapshot of the charity’s finances as at the end of any given month or year end date, providing a summary of the assets and liabilities. The sum of assets and liabilities are represented by and equal to the charity’s reserves.

‘Reserves’ are the total of the assets and liabilities at that point in time and are split between:

- Unrestricted (including any unrestricted funds which have been ring-fenced/designated, at the discretion of the board); and
- Restricted reserves (funds given by donors for a specific purpose).

Experience shows that some boards only look at performance reports, ignoring the balance sheet completely. This is fraught with danger, since the nature of accounting double entry is that performance can be manipulated by incorrect recording of performance data onto the balance sheet (usually in error, but it might point to evidence of fraud).
Often as board members rotate, the new trustees simply accept what has gone before and receive the same financial reports without question. We recommend that the following questions are considered:

- Is financial information readily available and up to date, or is it received several weeks following a month end?
  
  a. What information is being received (performance and/or position)?
  
  b. What is the basis of preparation (receipts & payments or accruals)?

- Do the management team and board understand financial information or is any form of training required (annual or one-off)?

- Is your current accounting software giving you what you desire in terms of the reports output?
  
  a. Or does someone manipulate the data prior to sending the financial information to the board?
  
  b. How much resource is required to keep the finances up to date – does this seem excessive?

- Do the board have a clear channel of communication with the auditor/independent examiner and are any auditor recommendations (from the annual audit feedback report) being actioned to improve financial accuracy?

Often, this information is compared against our original expectations for the year ahead. Variance reporting can be useful to highlight areas where the performance is straying from our expectations and therefore requires further investigation to ascertain the reasons why.

Another, often overlooked, financial report which is useful is a ‘cash flow forecast’. This attempts to map out the flow of future cash receipts and payments over a given future period.

It is very important for the finance function to communicate to the board what ‘basis’ the numbers are prepared under. Are they on an ‘accruals basis’ or ‘receipts and payments basis’?

- Receipts and Payments Basis means that transactions recorded in the performance statement are only recording items that have been through the bank account.

- Accruals Basis is a more accurate position of reporting financial performance and position, since it takes into account known amounts of money due to or payable by the charity. In other words the performance and position statements include all expenses and liabilities which have been incurred but not yet paid.

The performance and position of the charity can look dramatically different under the above two methods. Without knowing the basis of preparation, the conclusions reached by the board and management team could be fundamentally wrong.

Are there any other points to be considered?

Good management information should flow from the accounting software and the charity’s finance team with as little human intervention as possible. Inevitably the more something is manipulated, the higher the risk of error (or fraud) and the greater the time cost.

New software solutions from the accounting software providers are becoming more intuitive and automated.

If you would like to gain our input and expertise, helping you to assess or provide any further support required, we would be delighted to discuss any points arising with you. Please get in touch with your local MHA member firm.

Checklist for the month

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Resources

There are lots of useful resources available online at the Charities Commission website.

As a starting point

[www.gov.uk/government/organisations/charity-commission/about/publication-scheme](www.gov.uk/government/organisations/charity-commission/about/publication-scheme)

gives a list of detailed guidance, known as their ‘CC publications’.

There are a number of useful documents, including those particularly relevant to this article, including:

- CC12 – Managing a charity’s finances
- CC15b – Charity report and accounting: the essentials
- CC19 – Charity reserves: building resilience
- CC26 – Charities and risk management
Does Your Finance Function Allow for Effective Financial Reporting – SORP Compliance

INTERNAL REPORTING VERSUS CHARITY SORP COMPLIANCE AND WHY IT IS IMPORTANT TO UNDERSTAND THE DIFFERENCES

Charities need to manage their finances so they can keep abreast of their on-going financial position. This means producing timely, accurate and understandable financial information. However, charities also need to prepare annual statutory accounts which are compliant with charity law. In particular, this means complying with the Statement of Recommended Practice for Charities (Charity SORP). These two objectives can sometimes be at odds with each other:

Let’s consider a charity which delivers services that are funded through a blend of contracts and grants. To comply with the Charity SORP, the accounts need to recognise income from service contracts to the extent that the service had been delivered, whereas grant income would generally be recognised at the point that the grant was receivable. Producing internal management accounts which adhere to these contrasting income recognition rules could be confusing to lay users and it is therefore not surprising that because of complexities such as this, some charities choose to prepare internal financial information on a different basis to the Charity SORP.

Non-compliance with the Charity SORP is not always deliberate. One common issue we encounter as auditors is charities who do not adequately monitor the balances of restricted and unrestricted funds during the year. This situation is potentially very worrying. A charity’s fund position can have an enormous impact on its financial health. A charity may have a strong balance sheet and be creating surpluses, but if those surpluses are restricted for a very specific purpose, the charity could easily find itself with an inability to pay for core running costs and find itself technically insolvent. Understanding the fund position often requires additional work and sometimes involves making high level judgements. It is not surprising some charities struggle to find the resource and expertise to undertake this very important exercise regularly.

WHY DOES IT MATTER IF OUR FINANCE FUNCTION DOES NOT COMPLY WITH SORP?

Although sometimes charities choose not to adopt all of the policies of Charity SORP when preparing internal management information, it is still important that charities periodically review the position and monitor the extent that their internal financial reporting differs from the SORP.

Charities often use their statutory accounts as a fundraising tool, or send them to existing funders as part of a monitoring process. It is therefore essential that the charity understands whether the statutory accounts will differ significantly from the message being communicated to funders during the year or during the application process. Funders may perceive a radical change in the results as a lack of financial control and it is therefore helpful to proactively communicate differences at the soonest opportunity.

It is also good from a housekeeping perspective to understand the level of work needed to bring the financial records into a SORP compliant format. The work could be time consuming or require third party input, which could easily delay the production of the statutory accounts or incur additional professional fees.

Applying some of the requirements of SORP to internal reporting can have very real benefits to understanding the day to day financial position of the organisation.
We have already provided one example of how understanding a charity’s fund position can aid day-to-day financial management. However, there are many other aspects of SORP reporting which are geared to help charities better understand their position. Exploring these differences periodically may help to improve the quality of the internal information produced by a charity.

It is also commonplace for charities to appraise the effectiveness of the internal systems by considering the level of adjustments that emerge as part of the annual audit. It is important to understand whether these differences are the result of deliberately adopting differing accounting policies or whether they are due to inherent weaknesses in the accounting systems.

A new reporting standard

2016 was a year that many organisations began to wrestle with a new reporting standard. The Charity SORP was updated to reflect the wider changes to the UK accounting regime, in particular the adoption of Financial Reporting Standard 102 (FRS102). Although some smaller entities have temporarily dodged some of the changes by adopting the Financial Reporting Standard for Smaller Entities (FRSSE), the FRSSE cannot be used for periods beginning on or after 1 January 2016 and all charities will need to adopt the provisions of SORP FRS102 in due course.

These new reporting standards are likely to have exacerbated the position and it is possible that the differences between internal management accounts and the SORP may have increased. For example, the FRS102 SORP makes it clear that charities should be including an accrual for the value of untaken staff holidays. Charities that have a holiday year which does not coincide with the financial year can easily see this balance being significant. The calculation of the accrual is potentially time intensive and it is not something we have traditionally seen charities incorporate into their internal financial systems. Charities need to ask themselves if this is something their internal financial function needs to start monitoring.

Another example is that income recognition criteria have changed, meaning that income can be accrued when receipt is probable rather than virtually certain. This is particularly relevant for income streams such as legacies, where notification of the legacy could be sufficient to include the income. Potentially, finance teams may need to look more carefully at setting up legacy registers or reviewing correspondence to ensure their systems are compliant with SORP. If not, the statutory accounts may end up showing significantly different results once the auditor has reviewed the position.

These and other changes in the SORP mean that it is a good time to review your finance function for SORP compliance.

Speak to your auditor:
They will have a unique perspective on the extent your financial systems adhere to the Charity SORP and because they work with similar organisations they may be able to advise pragmatic ways of bringing the systems in line.

Understand the differences:
There are situations where it may be beneficial to have differences between the statutory accounts and the numbers reported internally. If it is decided that internal information should deviate from SORP policies, the decisions should be recorded and made collectively.

Understand the work involved:
Although it may be attractive to have fully SORP compliant reporting throughout the year, it may not be practical with the resources available. Some numbers may require third party input which could incur additional cost.

Consider if other stakeholders need to be informed:
If there are other users of your internal financial information who may be confused by differences between statutory and management accounts, consider proactively discussing differences with them.

Regularly review the position:
Consider revisiting the position in regular intervals (perhaps annually). This will keep new Trustees abreast and ensure that the internal information adapts to the changing needs of the organisation.

Where can I get more information?
 Charity SORP (FRS102)
 CC15b: Charity reporting and accounting: the essentials
 CC19: Charity Reserves

If you have any questions arising from this article or would like to speak to a member of our team about how we can help. Please get in touch with your local MHA member firm.
At the start of 2016, on the back of much media attention on the financial regularities of the not for profit sector, the Charity Commission published an update to its guidance on reserves (CC19 – Charity reserves: building resilience). This looks at the practical nature and intent behind a fully justifiable level of reserves, and uses it to act as a reminder to trustees of their responsibilities and legal duties.

**Rethink your reserves**

Historically, Charity Commission guidance clearly promoted the principals of charity law that required charitable funds to be spent in a reasonable period of receipt. This has been moved to the back of the recent guidance, with a programme of ‘key messages’ that includes an underlying steer towards bolstering reserves to address risks of ‘unplanned closures’ and essential services. Therefore, this is a turnaround from having to justify why reserves are being retained, to requiring an explanation as to why they are adequate.

It also clarifies the meaning of what should be classed as reserves. Briefly, they are unrestricted funds that are freely available (so no designated funds towards future spending plans and no fixed assets) and readily available cash that can be called upon momentarily. There is no formula to apply and no legal levels set; every charity has its own personal circumstances which should be reflected.

Therefore, tailoring a reserves policy is crucial to give an understanding of the charity’s position (both current and future) and indicative of the Charity Commission’s expectations; no longer is a static overview with minimal attachment to the charity’s position an option. This demands regular reviews (across the financial period, not merely at the balance sheet date), flexibility, explanation and direction is to be applied.

**What policy?**

The policy should aim to provide accountability, express confidence in times of uncertainty, display sustainability in a charity’s objects, while evidencing the trustees’ management skills and understanding of a charity’s strategy and budget.

Where a charity’s accounts are prepared on an accruals basis, this reserves policy is to be disclosed in the annual report, alongside the actual level of reserves maintained and why they are held, or the impact and solution if they have fallen short.

Where a zero level policy is adopted, the mitigation of risks inherent to such a position (unforeseen expenditure coverage or shortage of anticipated funds), should be clarified. Where there is an aspiration to hold certain levels of reserves, but the charity appears unable to reach them, the charity needs to be able to explain how it will raise additional funds to meet it.

Alternatively, surplus free funds can appear superfluous or not commensurate with a charity’s objects, if no reasonable care is taken to explain the purpose behind maintaining at such a level, or are its funds simply greater than required? A sign that trustees should be considering widening the scope or reach of the charity’s operations to become even more successful.
With the mass media spotlight brighter and more far reaching than ever, the need to meet objectives and maintain credibility in your field remains vital.

Adequate balance

This new guidance and the resounding change in focus has been criticised, as despite its arguments to ‘build resilience’, reviewers feel that as a result charities may lose sight of, or be fearful of, taking advantage of opportunities to grow.

The regular reference throughout CC19 to ‘unplanned closures’ has found accusations that there will be an emphasis and fear instilled on trustees and a need to hold on tighter to reserves ‘just in case’ and that building resilience equates to building savings. This need not be the case. There has always been an onus on trustees to be aware of their reserves, to understand what they have and why they need it. It is perhaps the discipline to review and reflect on this on a more regular basis and the need to record and report it more explicitly that might be the only change that is required.

Maybe the conclusions drawn will still be a relatively low reserves level, or an ambition and recognition of what a charity should be striving for to alleviate the pressures of the future. If this is the conclusion, then there should be a clear route towards achieving this.

In these enlightened times, with the mass media spotlight brighter and more far reaching than ever, the need to meet objectives and maintain credibility in your field remains vital and for example, no amount of reserves can shield from a damaged reputation, so you also need to remember your objectives and not let them be threatened by a future reserves target.

There is no correct answer of course. Each and every charity must consider its own position, be aware of the threats and opportunities ahead, and create a reserves policy that is both resilient and open to flexibility on its way towards achieving its objectives.

Charity Commission Guidance CC19:

How to invest charity funds:
www.gov.uk/guidance/how-to-invest-charity-money

If you have any questions arising from this article or would like to speak to a member of our team about how we can help. Please get in touch with your local MHA member firm.
Is Tax on Your Radar? Considering the Tax Implication of Strategic Plans

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It is a common misconception that charities have a blanket exemption on tax, whether that be direct (corporate/income) or indirect (VAT) tax and therefore it is often not even considered until it is too late.

Historically, HMRC have rarely asked charities to file a tax return and so as they have started to issue more notices to file returns, more than one charity has ‘filed it’ in the bin on the basis that they don’t pay tax.

However, failure to consider or even be aware of tax can be costly, in terms of missed opportunities, shortfalls in contribution or even fines and penalties.

As the funding environment has changed, charities have had to adapt. Funders have sometimes changed the way in which they fund and in seeking to mitigate over-reliance on grant funding, many charities have put in place strategic plans which look to introduce charges for services or goods or to extend further into trading and enterprise activities.

In developing new opportunities and even in delivering the same services under different arrangements, tax needs to be on your radar. On more than one occasion a charity has stalled in a building project because suppliers assume that the charity can recover the VAT and so the charity has underestimated the total cost of the project to the tune of 20% VAT!

On the direct tax side of this, there is perhaps a little more awareness of the potential for a tax liability on ‘trading’ activities, but some trading activities will fall within the exemptions from tax available to charities, whilst other activities which you might not consider to be trading could cause a problem. Sometimes a subtle change to what you do could shift the activity into a different category. For example just hiring the room out to an organisation wouldn’t be trading, but if you start to offer different layouts or provide refreshments that could fall into trading.

Often as soon as the word “trading” is mentioned, there is perhaps a little more awareness of the potential for a tax liability on ‘trading’ activities, but some trading activities will fall within the exemptions from tax available to charities, whilst other activities which you might not consider to be trading could cause a problem. Sometimes a subtle change to what you do could shift the activity into a different category. For example just hiring the room out to an organisation wouldn’t be trading, but if you start to offer different layouts or provide refreshments that could fall into trading.

With a little forethought however, some detailed discussion and sometimes a little professional advice, new and creative plans for development can often be structured in a way that furthers the charitable purposes and either minimises the impact of tax or at least factors in the impact of tax. There is no point looking at a new income generating idea to find that unforeseen tax implications render it a cost to the charity. For existing activities, a regular review of what has changed could help identify if adjustments are needed.

Direct tax – what, why, how and who

Broadly speaking, provided that a charity is applying their income for charitable purposes and it falls within one of a number of exemptions then there will be no tax arising from trading. The exemptions cover profits from trade which is directly in furtherance of charitable purposes, closely related to charitable purposes, mainly carried out by beneficiaries of the charity or carried out at small levels.

When did you last consider your activities and if they are trading? Do they fall within the exemptions?

What is it that you are charging for? Is it directly related to your charitable purposes or carried out by your beneficiaries?

Why are you doing it? If it is not directly furthering your charitable purposes, is it closely related or is it intended to be a source of fundraising to support other charitable activities? Fundraising activities would generally be expected to generate a contribution.
Indirect tax – who, what, and how

Detailed considerations of VAT can be found in Month 11 on page 24.

It is important to remember that you need to be aware of VAT as part of the complete picture when structuring activities.

Whether or not you have to charge VAT is not just a question of whether it suits you to.

Who carries out the activity can be particularly important. Although there is not a blanket exemption for charities, certain activities carried out in a charity (e.g. education) have a different treatment in a non-charitable entity.

What you are doing will generally dictate whether or not the activity is a taxable supply (i.e. you have to charge VAT). If this is the only activity which falls in that category and you are not already registered for VAT then you would need to monitor whether you breached the registration threshold.

How you structure your activities can assist in the extent to which you can recover VAT on purchases.

Always think ahead – give yourself time to implement tax efficiently and properly

Checklist for the month

- Review your activities – are they in furtherance of your charitable purposes and are they trading?
- Might there be a potential tax or VAT implication?
- Does this impact on whether the activity becomes viable?
- Can this be addressed by how we structure what we do?
- Should we seek professional advice?

Where can I get more information?

- A Charity and Tax overview by HMRC
  - www.gov.uk/charities-and-tax/overview
- A list of exemptions from tax available to Charities
- How Charities can lawfully trade – HMRC guide
- What a Charity is and how VAT affects charities’ income and purchases
  - www.gov.uk/government/publications/vat-notice-7011-charities

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Remember in your planning and review, that a holistic consideration of proposed activities is more beneficial. There is no point in looking at one tax in isolation, to then find that it creates a bigger impact from the other tax.

Think ahead too, as putting the right steps in place is not always a quick exercise.
Are Charities Making use of Effective Resources?

In the guidance provided by the Charity Commission to help new and existing trustees understand their role and what is required of them (CC3 The Essential Trustee), initial emphasis is placed on the prudent use of resources. Trustees have a stewardship role which means ensuring that resources are used for charitable objectives and not put at risk unnecessarily. However, trustees are not just responsible for the safekeeping of resources, there is also a duty to use them effectively.

This article looks at the particular areas of investment, banking and property.

Investment

Charity Commission guidance sets out the following key points for trustees:

- Be clear about the basis of investment. The approach familiar to many trustees is for charities to invest solely to generate income. Recent developments have encouraged charities to also consider ethical investment, so that activity does not compromise the aims of the charity. The case of the Church of England investing in the pay day lender Wonga is an example. There is also programme related investment where charities want to invest in activities that achieve their objectives and are willing to sacrifice some income. Recent legislation has put these additional choices into statute so that any charity can exercise these powers unless their governing document has explicit restrictions.

- It is a legal requirement to exercise reasonable care and skill when deciding upon investment matters and to obtain appropriate advice when making decisions. While the use of an investment manager protects the trustees to an extent, they still have to exercise reasonable care. Recent legislation requires that investment professionals identify the level of expertise of a customer. This will help identify the level of risk taken and the level of support required.

- Consider the ethical aspect of investment. It would appear natural that charities, as values based organisations, would choose to invest ethically. However, there are a number of difficulties that can be raised to prevent that happening and one is the shades of grey involved. There are now increasing numbers of ethical options available on the market.

- When undertaking a programme related investment it is also a legal requirement that the charity be clear that the charity is making best use of resources, that any private benefit is incidental and that there is a clear end point. If the investment is similar to traditional arms length investment this is less problematic, but charities may wish to invest directly in the shares of another entity such as a subsidiary or a joint venture and in this case, a clear basis of investment is important.
Banking

Banking has a degree of overlap with investment matters and an investment policy should include considerations of liquidity and banking.

- Banking services should be kept under review and trustees should be aware of the level of charges and benefits available in the market. In addition to the high street banks there are new entrants into the market, charity sector specific players and private banks. Electronic banking has reduced reliance upon branches, but this can still be important for charities with local fundraising or shops.

- A primary reason for a good banking relationship has been the ability to borrow and a charity’s bank should always be the first port of call for a loan. However, because of the overstretch in the industry leading to the 2008 crash, many banks have not been willing to lend. This has led to more reliance on specialist lenders.

- Setting up bank accounts for a new entity can be a frustrating experience, partly because of anti money laundering legislation that affects all banks but partly because pressure on the industry means that some banks do not want the business. It is worth checking with your accountant to see if they can recommend a suitable bank.

- Trustees should be aware of the risks inherent within the banking sector. In 2008 it appeared that depositors with the Icelandic banks were going to lose their money until the UK government stepped in to guarantee deposits. That guarantee still stands but is limited to £85,000 per customer. Not all banks are covered by the scheme so it is worth checking.

Land and property

Land and Property often form the majority of assets for charities and so the effective use of space is a key consideration for trustees.

- Property can be retained as part of an investment. As such, it is subject to the same considerations as investment funds. Target rates of return and the costs of management need to be explicit. However, charities often have mixed motives with property, seeing the assets as both an investment and as part of charitable activity. This echoes the programme related activity issues identified above.

- Operating properties allow the charity to carry out its aims and objectives. Examples would be a school building, a day centre or social housing. Capital appeals are a good way of securing ownership and providing a long term asset for the charity, allowing both present and future needs to be met.
Reporting – Ensuring Outcomes and Impact are Clearly Communicated

Why is reporting important?

Communication with the outside world has never been more important. Ensuring your organisation successfully communicates what you are doing and the difference you are making to your beneficiaries can mean the difference between future funding being awarded or not.

Public confidence in charities needs constant improvement and the best way organisations can achieve this is to publicise the difference they actually make on a day to day basis. Otherwise, how will the public or your funders know that what you do is making a significant difference? Consider how regular reporting of achievements can assist in improving confidence and public perception of organisations in the sector.

Reporting outcomes to the wider public in a way that clearly demonstrates the impact of your work should be a hallmark of a successful charity. Informing the wider world what the money received achieves and not just what it was spent on is key.

Writing this type of report is the hardest part. When done, certain aspects of the information within the report can usually be re-used and replicated in a number of ways. A comprehensive report on outcomes for a funder, can translate into the trustees report, or form the basis of a web page, be used as a blog and sent out on social media, or be used again to demonstrate to future funders the difference you make. The really hard part is committing the time to sit down, clear a space and write something from scratch and most importantly from the heart of the organisation that is meaningful.

That is the challenge; here are some tools to help.

So, what should be done?

The fundamentals of your report should be that activities need to be assessed and measured, outcomes reviewed and explained and impacts communicated. The reporting process should start by defining a clear purpose, explaining why the organisation or project exists, describe what the organisation is tackling and illustrate the impact of the organisation. The impact should explain the difference the activity of the organisation has made; consider what the world would look like if this activity hadn’t been undertaken, what would be different and how this is reflected in the impact and improvements achieved.

Look back to the beginning of the project and at the clearly defined aims in place.
How to report outcomes effectively

There is work to be done:

1. Funding – complete a flowchart starting with your objects and purposes, which links through to your funding streams that relate to each strand, further flowing into the projects and activities being undertaken. Do you receive funding and undertake activities which help you to achieve your objects and purposes?

2. On an activity basis, determine the required outcomes. Does each project have a method of recording outcomes and measuring success? Does each project have a method of reporting?

3. Assess the information that points one and two provide. Do you have gaps in your recording and monitoring of outcomes for the work you undertake? Do you understand your successes; can you learn from your failures?

4. You need to ensure your reports are easily understandable, with a coherent narrative which connects all aspects of your organisation – i.e. your report must have clarity.

5. Time to read your reports. If you read your last trustees report, does it give you a real sense of what has been achieved or of what the world would have been like if your organisation didn’t exist or wasn’t funded?

   Ask yourself, is your communication consistent, representative, appealing? Do people know you make a difference?

6. Finally, there must be areas for improvement. Plan how the organisation can improve its reporting of impact and its measurement of outcomes. Involve the whole organisation in the process and plan how to make your organisation stand out from the rest. Finally, don’t cut and paste last year’s trustee report into this one.

Checklist for the month

☐ Assess whether you gather the right kind of information that will allow you to write a meaningful report.

☐ Review your communications with the outside world. Categorise those that you have to do and those that you choose to do.

☐ Assess where material can be written once, and the time invested can be used over and over in different reports, applications etc.

☐ Involve other teams early on to assist with populating reports, hold a session to set everyone on the right track.

☐ Be bold – you do great work, your charity makes a difference, make sure your communications at every point demonstrate that.

Where can I get more information?

☐ Impact reporting in the UK charity sectors – report by CFDG and Cass Business School

☐ Charity reporting and accounting: the essentials March 2015 – The Charity Commission

☐ Charities evaluation service www.ces-vol.org.uk

☐ Explaining the difference your project makes – Big lottery fund

☐ Advice and guidance on promotion and marketing www.wcva.org.uk

☐ Services and support on outcomes and impact www.ncvo.org.uk

☐ Scottish Council for Voluntary Organisations www.scvo.org.uk

If you have any questions arising from this article or would like to speak to a member of our team about how we can help. Please get in touch with your local MHA member firm.
Keeping Your Charity on the Right Track
Your month to month plan to better governance

Internal Audit/Internal Controls Reviews

GILES KIRKHAM
Larking Gowen

What are internal controls?

Trustees have duties to safeguard charity assets and to ensure the best application of resources, and a good system of internal control is key to this. Sound internal controls reduce, but cannot eliminate entirely, the risk of loss through theft, fraud, bad decisions, error etc.

How long has it been since your last review?

In many charities, internal controls are well documented, however this exercise may have been undertaken a number of years ago, and not subsequently checked or updated.

Since 2015, the annual return to the Charity Commission has included a tick box confirmation that the charity has considered its internal controls systems within the year. The fact that a charity has answered ‘No’ to this question will not be in the public domain, but may put you on the Charity Commission’s radar, especially if you answer ‘No’ on more than one consecutive occasion.

If it has been more than a year since your last review, now might be the time to do one.

Do you need an internal controls review?

An annual review is best practice and is expected by the Charity Commission, so the default answer is probably yes you need an annual review. The nature of the review will depend upon the size of the charity and its activities and complexity. For many charities, this is a routine process and follows similar procedures each year.

Guidance from the Charity Commission (CC8) includes a checklist of matters to consider, however whilst it is a good starting point, this is a prescriptive list and is not a one size fits all solution. New activities, rapid growth, new income streams, and changes in staff all bring with them new risks which may indicate that a change in methodology and scope is required.

Has there been a change in risk?

When considering internal controls, risk should drive the discussion. Charities should update their risk register annually, therefore shortly after this would be a good time to consider how risks have changed and whether there are any potential gaps in controls.

New offices or branches for example need closer supervision. If there are new income streams and activities there may be a need to control the relevant income and expenditure in a different way. Staff changes could mean that new employees are not fully aware of their responsibilities with regards to internal controls, in which case they may not be implementing them as intended.

The internal controls review will be most efficient where it is tailored to the specific risks identified.
What should an internal review cover?

The internal control review should not just cover finance but also operations and governance. For example, it may cover trustee training, quality of records and information provided to trustees and controls over the detection and prevention of fraud.

An internal control review should always cover any area of known weakness, for instance if there is a staff shortage which may reduce the capacity for segregation of duties.

Do you need to review everything each year?

You should decide if you want to review all areas of control annually (e.g. bank accounts, income recognition, expenses, credit card controls, payroll, controls over fixed assets etc.), or whether you would prefer to review on a completely risk based approach (only looking at areas identified in the risk assessment) or a combination of the two (e.g. risk areas plus other areas on a revolving basis). It will be necessary to come up with a scheme of work which is agreed between senior management and the Trustees.

Who is best to do this?

It can be done in house by a member of the finance team, or a peer from another department.

Another option is to use an external consultant. This could be your external auditor or others with relevant experience. Although this may result in a cash outlay, you will not be diverting your own staff resources for a sustained period of time. Another benefit of using an external consultant is that they bring experience of best practice which they have seen elsewhere.

Would you benefit from an internal audit department?

If your structure is complex then it may be worth considering having an internal audit function. This can be staffed by your own staff or can be outsourced. In practice, internal audit departments tend to be found only in larger charities.

If you decide to appoint an internal audit function, you will need to consider an annual work plan which focuses on risk. This may form part of a three year cycle for example.

In order to be fully objective, the internal audit function should be independent of the finance function and should report to the CEO and the Trustees.

What do you do with the results?

Recommendations arising from the review should be formed into an action plan which should be reported on, or followed up, at each board or finance committee meeting. This will ensure that the exercise enables your organisation to improve and evolve its controls over time.

You will also be able to tick the relevant box on your annual return to the Charity Commission.

Where can I get more information?

More information on the Charity Commission guidance can be found in their publication CC8 – Internal Financial Controls for Charities. This can be downloaded from the Charity Commission website

www.gov.uk/government/organisations/charity-commission along with their suggested checklist.

If you have any questions arising from this article or would like to speak to a member of our team about how we can help. Please get in touch with your local MHA member firm.
You’ve Looked at Your Internal Controls – how do They Stand up to Fraud?

SUDHIR SINGH
MHA MacIntyre Hudson

The Charity Commission has recently highlighted its concerns over the level of fraud and mis-management in the charity sector.

This article identifies other actions you can do to mitigate fraud risks.

Establishing a robust anti-fraud environment

Set out below are three steps you should follow:

1. Ensure your anti-fraud policies are reviewed regularly and are easily accessed by everyone in the organisation. This particularly applies to whistle-blowing policies which are still one of the most effective ways of fraud being identified.

2. Establish good systems and controls, document them in a formal manner such as through a financial procedures manual, and review them regularly. For example, through an annual review by your finance or audit committee.

3. Review the adequacy of key systems and controls in a structured way. For example, through examination by internal auditors or by asking external auditors to undertake some extended systems testing. Internal reviews are also effective, and using the Charity Commission’s publication, CC8, as a checklist can be helpful, particularly for smaller charities.

However, at times these approaches are not effective at identifying where the charity may be vulnerable to fraud. The problem often is that you find what you are looking for, which is a trait that fraudsters can exploit.

So I would recommend that you periodically seek to challenge the received wisdom, and ask yourselves, and others in your charity, some simple questions about the way things are done. This will involve spending time considering the “what if” scenarios that could affect your organisation.

It is difficult to think “outside the box”, so set out below are some real-life examples of frauds I have come across in the charity sector. The losses made by the charities concerned ranged between £10k and £3m, and the facts have been changed to protect the innocent, and not so innocent!

Some real-life examples of frauds in charities

Not taking notice of your auditor

Recommendations were made in an audit management letter to this charity concerning two areas – maintenance of their fixed asset register (to keep the FAR up to date and undertaking regular physical checks of the existence of assets) and procedures regarding dealing with conflicts of interest (to ensure that interests of both trustees and senior staff were identified formally and regularly).

The charity, however, failed to act on these recommendations as they were deemed to be low priorities.

The fraud was discovered by the finance team, and related to IT procurement, whereby assets purchased were not in fact received by the charity, and had been misappropriated by the Head of IT. The purchases had been made from a supplier that was his brother in law.
Risks of electronic banking

This charity had a strong procurement system, with every purchase invoice being approved by the Finance Director. However, the electronic banking system only required one individual to both initiate and authorize payments. The Head of Finance led the Finance Director astray by indicating erroneously that dual authorization was not possible, and perpetuated a fraud by making payments to himself, coding the costs to a variety of expense codes.

Not seeing the wood for the trees

This charity had a poor finance function – there was a high turnover of staff, information was always provided late, and management accounting was weak. But the trustees felt reassured that key controls were in place for purchasing and payroll. The difficulties were considered to be temporary and were attributed to just poor “housekeeping”. This situation was exploited by a member of staff who made fraudulent expenses claims. Whilst this was one of the smallest losses in this set of examples, amounting to less than £10,000, there was a large amount of trustee and management time spent on investigations and disciplinary actions. And the charity was badly affected for several years due to the resultant culture of mistrust that ensued.

Covering up the tracks

This is not one example, but several. All involve individuals having inappropriate access to accounting systems, particularly standing data. This included the ability to change bank account details of suppliers in the accounting system; setting up new suppliers, including with connected persons with insufficient approval; falsifying invoices, particularly changing bank details for otherwise valid payments; and creating ghost employees on the payroll. The common factor was the ability of the perpetrator to make subsequent amendments and changes to prevent detection of their actions.

Cash, cash, cash

This visitor attraction charity had three cash frauds in a single year. Entry fees were stolen at the gate, fraud took place at the tills of its catering outlet, and cash was stolen on transit to its shop. As we all know, the handling of cash always brings with it a greater risk, so particular care is always needed.

The trusted employee

The long-serving Head of Finance of this charity was very loyal and hard-working, and held an important position in their own church. However, she was always rather grumpy with both internal and external auditors, and when information was requested during audits it never appeared to be her priority. She stated that audits were a distraction from her job. It transpired that this lady had for many years been creating false invoices, and the lack of segregation of duties for all areas of purchase authorisation, meant the fraud was not identified for several years.

Fraudsters that don’t benefit from their frauds

It is important to realize that not all frauds involve financial losses. In this charity the CEO had initiated a new fundraising initiative. After it had operated for a year, the results were good and the trustees were happy. The reality was the fundraising was a flop, and to cover up his tracks the CEO had been making disguised anonymous personal donations to the charity to avoid his embarrassment. The hidden identity of donors created this veneer of success.

Where can I get more information?

The Charity Commission has supported the development of the Charities Sector Counter Fraud Group and created an online resource at charitiesagainstfraud.org.uk/. This is an excellent portal for further information and guidance which also highlights the increasingly important work of the Cyber Fraud Resilience Group.

If you have any questions arising from this article or would like to speak to a member of our team about how we can help. Please get in touch with your local MHA member firm.
Keeping Your Charity on the Right Track
Your month to month plan to better governance

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Cyber Security – Threat or No Threat?

STEVE FRASER
Monahans

A threat!

There is no doubt that cyber security is a threat to us all, whether small or large, profit making or not, a business or an individual. Unfortunately, charities can sometimes be seen as soft targets. A typical charity only spends 25% of what a similar sized business would spend on cyber security, despite the valuable data they hold.

While the growing threat of cyber-attacks might seem obvious, the need to protect ourselves against them is often overlooked or ignored. A successful cyber-attack can leave a charity open to blackmail and ransom demands and can result in financial losses and can damage reputation.

It is often the case that shortcuts are taken in protecting a charity against cyber-attacks due to cost restraints, and because the actual threat is under-estimated. However, some of the essential protections that can be put in place are neither expensive nor complicated.

80% of cyber-crime could be avoided if users were better trained.

The biggest risk?

It is often said that the biggest risk to an organisation is its own people. Certainly, it is estimated that 80% of cyber-crime could be avoided if users were better trained.

People are seen as a vulnerability that cyber attackers can seek to exploit. No matter what technology or security is in place, the major risk that will always remain is your individual users. It is essential that all of your users receive training covering cyber security and what the threats are so they are more aware of what to avoid and how to react to, for example, a suspicious e-mail.

So, how can you help your users to help you?

• Encourage users to lock their PC or laptop when it’s unattended, and never leave them switched on at night.

• Make sure that any users out on the road are aware of the risks. It is staggering the number of people you can see on trains with confidential data on the screen in front of them!

• If an email looks suspicious, it probably is.

• If you receive requests for payments or the change of a bank account, don’t react immediately. Take a step back and think about whether it’s reasonable.

• Unfortunately, sooner or later a cyber-attack may be successful. If something happens, do your users fully understand the risk? Do they know how to react? Who to speak to? Are these processes part of your IT policies?

www.mha-uk.co.uk
What are they after?

More often than not, the answer to that question is simple – your data. In the UK, it is estimated that charities hold data on three out of four people, data often of a financial, personal or medical nature. This data will be absolutely vital to their continuing operations, and its safety will be crucial to their reputation.

It is therefore essential that you understand where your data is. At first sight, this may sound a strange statement, surely it is saved safely on your server? However:

• How much data is used or saved to mobile devices?
• How often is data copied to a memory stick and used remotely on a lap-top?
• Are staff allowed to take data home to work on?
• Are there proper controls over the use, safety and deletion of this data?
• Is it properly protected and encrypted?
• Is shared data controlled in the same way?
• Are your processes fully understood and adhered to?

What else can you do?

There are some practical steps that can also be taken to help avoid damaging cyber-attacks.

• Charities cannot always afford the latest equipment and software, but it is still important that they have sound technical support available, either internally or through a third party resource.

• One of the vulnerabilities that a cyber-attack will seek to exploit is through your software, whether it is an operating system or an application. It is important that any software you use is kept up to date, with the latest version or update, and patches are in place. Try to avoid using out of date software, or software (particularly operating systems) which are no longer supported (for example, Windows XP) and are therefore no longer updated with the security patches. To ensure that your software is up to date, consider what automatic updates are available and how these might be applied, particularly to your operating systems.

• Have a think about how strong your access controls are. Who can access your systems? Who can access applications? Do they really need to access those applications? All these things should be considered and the appropriate protections put in place.

I know that it can be a nuisance, but if you need to limit risk, then why let a user access a part of your system which has no bearing on their job?

Whenever you can, make sure any passwords are “strong” passwords, whether it is for an encrypted device or to access a system or software. These passwords should, for example, include a range of characters from capitals to lower case, to numbers and special characters, such as exclamation marks. Also, make sure that procedures are in place to force password changes on a regular basis.

Checklist for the month

At the end of the day, trustees must recognise their responsibility to protect your organisations data, people, finances and reputation.

√ Lead by example, from your board down.

√ In compiling your risk register, has the risk of a cyber-attack and your reaction to it been fully considered?

√ Review your systems, processes and procedures. Are they up to scratch?

√ Are your users properly trained?

√ Do you meet the essentials of cyber security?

Where can I get more information?

I appreciate that a lot of this sounds complicated, and maybe a little unnecessary. However, none of this needs to be complicated, a lot of it is just common sense and good practice, and is down to training and understanding the risk. Sadly, all of this and more is necessary if we’re to face the growing threat from cyber security, a threat which is predicted to increase significantly before it gets any better.

Try the government’s simple self-assessment at

www.cyberaware.gov.uk/cyberessentials

If you have any questions arising from this article or would like to speak to a member of our team about how we can help. Please get in touch with your local MHA member firm.
Making the Most of VAT

TRACY JOHNSON
Moore and Smalley

Why VAT is important

There is no doubt that VAT is a complex area for charities and one which they can very easily get wrong, potentially resulting in project underfunding or missed opportunities to claim reliefs. As charities grow and develop, their activities may change. They may be able to apply for different types of funding, explore alternative sources of fundraising or need to move to larger premises. With the constant pressure on resources, there is a risk that the VAT implications of changes may not be explored fully, resulting in additional costs or reduced funding. It is therefore important that the VAT treatment of income and expenditure is regularly reviewed, particularly if something new is being considered.

Maximising reliefs

A number of areas of expenditure can be zero rated for charities. This may represent a rare opportunity to reduce costs on the following:

- Advertising and items connected with collecting donations - this covers all advertising, including advertisements for staff recruitment, and items such as branded envelopes and appeal letters.
- Aids for the disabled provided for personal or domestic use.
- Drugs and chemicals used for testing where a charity is involved in medical or veterinary research.
- Equipment for producing ‘talking’ books and newspapers.
- Supplies of medical and scientific equipment which are then donated to an eligible body, such as a UK health authority.

Charities are also able to pay a reduced rate of VAT on energy supplies provided that it is used in residential accommodation or in a non-business activity. To take advantage of these reliefs, charities must provide the supplier with an eligibility declaration. It may be useful to keep a list handy to make sure that any such opportunities are not overlooked.

Reviewing your income streams

Many charities have various different income streams, which may be outside the scope of VAT, exempt, standard or zero rated. A charity currently needs to register for VAT once its VATable income exceeds £83,000. Getting the VAT treatment right from the beginning will avoid potential interest and penalties and make sure that the calculation of partially recoverable VAT is correct. Some particularly complex areas are:

Grant or service level agreement?: grant income for which the funder receives no benefit, is not generally subject to VAT. However, where a service is provided under a service level agreement, VAT is likely to be charged unless the service is specifically exempt. If the charity has budgeted for a project on the basis that the income will not be subject to VAT and is then required to pay VAT out of the funding, the income received may be insufficient to cover the costs of the project.

Sponsorship: If a sponsor receives significant benefit, sponsorship is treated as taxable at the standard rate. Naming a donor in a list of supporters is not considered to be significant, but where they benefit from advertising as a result of the sponsorship it is likely that this will be subject to VAT.

Membership fees: The treatment of membership fees depends on the benefits to which the members are entitled. Where members of a charity obtain free tickets for events, then the membership is probably subject to VAT. If the member only receives a magazine, then it is likely that the income will be zero rated.

The VAT treatment of income is rarely definitive and often depends on the particular circumstances involved, so it is always beneficial to take professional advice.
Partial exemption

Partial exemption is an area much hated by charity staff but, given the variety of income streams and VAT treatments, is something that charities often have to deal with. Under partial exemption, charities must allocate expenditure to their income streams and can only reclaim in full the VAT on costs relating to taxable supplies. VAT on costs relating to exempt or outside the scope income cannot be reclaimed unless minimal. Costs that cannot be allocated directly to either of these categories must be apportioned. There are various ways to apportion costs, based on relative levels of income, the amount of floor space taken up by each activity or another reasonable basis. It is worth reviewing the allocation method periodically to ensure that it is still appropriate and is giving the best VAT recovery for the charity.

Property transactions

The construction of a building used by a charity solely for a “relevant residential or charitable purpose” can be zero rated. A relevant charitable purpose includes a purely non business activity, as well as a village hall or similar property providing social or recreational facilities. Given the scale of costs involved, getting this wrong could have serious consequences. A charity could complete construction of a building on which they thought there would be no VAT to pay, to then have the treatment challenged.

As an additional complication, care needs to be taken where a property originally built with a zero rating is subsequently altered. The VAT treatment depends on whether the further build is deemed to be an extension or an annexe. An extension will be standard rated but an annexe (capable of operating independently) will be zero rated.

With any property transaction, no matter how big or small, it is recommended that specialist advice is taken at the earliest opportunity as any mistakes can be difficult to rectify and could prove very costly.

Checklist for the month

- Review expenditure and ensure that any relevant reliefs have been claimed and invoiced correctly. Ensure that any suppliers of services to which reliefs apply are aware that those services are to be zero-rated.
- Review all income streams and ensure that the VAT treatment of each is correct. Is the VAT registration threshold likely to be exceeded?
- Revisit partial exemption calculations and ensure that they are still appropriate and that VAT recovery is being maximised.
- Consider any future plans relating to buildings and construction and take advice.
- Ensure that consideration of VAT is part of a checklist for those individuals producing funding bids or budgeting for projects.

Where can I get more information?

- HMRC manual for charity VAT
  www.gov.uk/hmrc-internal-manuals/vat-charities-manual
- VAT notice for charities

If you have any questions arising from this article or would like to speak to a member of our team about how we can help. Please get in touch with your local MHA member firm.
Map out the Next 12 Months for Your Organisation

We have created a tool which can help you improve your organisations’ governance in a stepped and measured way. This can be used as a month to month checklist to aid the start and finish point of your improvements in governance over the 12 month period. Small marginal improvements over this period will have had a cumulative improvement on the governance of your organisation, ensuring you have made continual, incremental gains in your organisation being at the forefront of exemplar governance and transparency.

Don’t worry if you haven’t achieved all of the months or all of your actions. Use this tool as an action plan and a reminder to populate strategies going forward and ensure the mind-set of small continuous improvement continues within your organisation in the coming months and onwards.

Reflect on what has been achieved. Your organisation and the 3rd sector world you operate in is constantly evolving, at the end of the 12 months once you have reassessed yourself, creating an action plan for the next 12 months would be useful.

Good luck in your governance journey.

Month 12

Questions to ask yourself

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<thead>
<tr>
<th>Month</th>
<th>Questions to ask yourself</th>
<th>Where are you now?</th>
<th>Where do you want to be and how will you get there?</th>
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<tbody>
<tr>
<td>1</td>
<td>Are we an effective board?</td>
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<td></td>
<td>• Do we have the right mix of skills?</td>
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<td>• Do we have a detailed strategy document and are we monitoring its effectiveness?</td>
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<td>• Have we considered the board/CEO relationships? Self assess relationships – critical friend or interfering presence?</td>
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<td>2</td>
<td>Do we have an effective finance function reporting to the board?</td>
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<td></td>
<td>• What timescales do we work to when reporting and are these satisfactory?</td>
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<td></td>
<td>• Do the board understand and actively question the reporting?</td>
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<td></td>
<td>• Are the board happy with the level of information they receive?</td>
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| 3     | Does our finance function allow for effective financial reporting?  
• Have you had this discussion with your auditor?  
• Do we have differences in the management accounting and are we happy that these are necessary?  
• If there are differences, consider who sees the management figures and will this distort their views? | | | |
| 4     | Your reserves – are we building financial resilience?  
• Assess your actual free reserves and their liquidity.  
• Assess your needs – scenario planning, stress testing etc.  
• Compare and document your reserves to policies, review gaps and plan strategy. | | | |
| 5     | Is tax on our radar?  
Consider tax implications.  
• Review all income streams and activities, prime purpose, ancillary or trading?  
• Consider each income stream for potential VAT issues?  
• Should we seek professional advice? | | | |
| 6     | Are we making effective use of our resources?  
• Do we have an effective investment policy that considers ethical issues, risk and return on investment?  
• Have we reviewed our current bank and considered what other options there are?  
• Have we considered whether our land and property assets are being utilised effectively? | | | |
### Keeping Your Charity on the Right Track

Your month to month plan to better governance

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</table>
| 7     | Reporting – do we ensure outcomes are clearly reported?  
|       | • Flowchart objects and purposes through to funding streams. |                     |                                                  |                     |
|       | • Consider outcomes and how you report them – what improvements can be made? |                     |                                                  |                     |
|       | • What can we work on to improve our impact and transparency of our reporting? |                     |                                                  |                     |
| 8     | Reviewing your internal controls.  
|       | • Assess your written documentation on internal controls to the guidance by Charity Commission. |                     |                                                  |                     |
|       | • Assess the internal controls in relation to the risk register. |                     |                                                  |                     |
|       | • Create a method of continual assessment and improvement of internal controls. |                     |                                                  |                     |
| 9     | How would our internal controls stand up to fraud?  
<p>|       | • Ensure that your charity is alert to the risks of fraud, and you are responding accordingly, as the direct and indirect costs can be highly significant. |                     |                                                  |                     |
|       | • Be aware of new and emerging areas, for example at present cyber-risks are becoming ever greater. |                     |                                                  |                     |
|       | • Monitor the guidance issued by the Charity Commission, Office of the Scottish Charity Regulator, and Charity Sector Counter Fraud Group, so you understand the expectations of charity sector regulatory bodies. |                     |                                                  |                     |</p>
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| 10    | What are our cyber security issues?  
• In compiling your risk register, has the risk of a cyber-attack and your reaction to it been fully considered?  
• Review your systems, processes and procedures. Are they up to scratch?  
• Are your users properly trained, aware of the risk and how to mitigate them, and what to do if an attack is successful? | | | |
| 11    | Are we making the most of VAT?  
• Review income and ensure the correct VAT treatment for each element.  
• Review expenditure and maximise claims and reliefs.  
• Funding applications – ensure VAT is on the agenda when preparing the tender. | | | |
| 12    | What have we achieved?  
What do we still need to look at?  
• Did we need to make improvements?  
• Did we make improvements?  
• Do we need a plan for the next 12 months to further enhance our governance? | | | |

The Importance of Governance

Never has governance been more important in the third sector. This tool can help you improve your organisations’ governance in a stepped and measured way. However, there are many tools, guides and websites you can use to help you on your journey.

At MHA our team of specialist Not for Profit advisors can also help you with bespoke training, assistance with strategy and implementation, controls and so on. If you have a need and don’t know where to start, get in touch with your local representative.

This information is up to date as of January 2017
Keeping Your Charity on the Right Track
Your month to month plan to better governance

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