The Honorary Treasurers Forum

Kingston Smith

Finance Update

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Fundraising and Management

27 March 2019

Commitment
Enterprising
Enhancing
Fresh
Potential
Empowering
Business building

Finance update - Contents

- Recent sector updates
- Charity Commission feedback – Accounts monitoring
- Charity Commission feedback – Public Benefit reporting
- Charity fraud – Key areas of risk and controls to mitigate
- Charity Impact reporting – A How To Guide
- Charity Impact reporting – Best practice Trustee Report examples
- Q&A

A number of Trustee relevant updates in the last 12 months

- CC3 – The Essential Trustee (June 17 and May 18) updates

- Charity Commission "induction welcome pack" https://www.gov.uk/government/publications/charity-trustee-welcome-pack

- Charities (P&SI) Act – Trustee Disqualification changes - Also applies to those classed as "Senior Management"

Trustee Disqualification Changes

- Applicable from 1 August 2018
- Expands those convictions that can lead to Trustee disqualification
- Who was already disqualified – debt, insolvency, director
- Senior Management
- Waivers and self certification
- More information - https://www.gov.uk/guidance/automatic-disqualification-rules-for-charity-trustees-and-charity-senior-positions

Finance and Taxation changes

- FRS 102 and Charity SORP
  - Triennial review – Changes from 2019, SORP Update Bulletin 2

- FRED 68 – Gift aid from subsidiaries
  - Significant changes for the sector – prior year adjustments for many in their 2018 Financial Statements (comparatives)

- Employment taxation - pensions
  - Employee and employer contributions rise again in April 2019 (last in April 18) – up to 3%/5% respectively

Charity SORP – Update Bulletin 2

- FRS 102 and Charity SORP
  - Triennial review – Changes from 2019, SORP Update Bulletin 2
- Not a new SORP – now need FRS 102, Charity SORP, Update Bulletin 1 and Update Bulletin 2 to draft compliant financial statements
- Comparatives
- Investment properties – valuation and in-group leases
- Disclosures – new (net debt) and removed (financial instruments)
- Applicable for first period on/after 1 Jan 2019

Making Tax Digital for VAT ("MTDfV")

- or "Making Tax *Difficult*"
- Compliance required for first return after 1 April 2019
- Storing information electronically, submitting VAT return electronically and a clear digital link between the two
- Soft landing approach to April 2020, then complexity increased
- Trusts and unincorporated charities – deferred to 1 October 2019

- Ways to comply 2019 – Accounting software/bridging software/API
- Ways to comply 2020 – Accounting software/?
- Future – other taxes to follow

Other sector updates we don't have time for in detail:

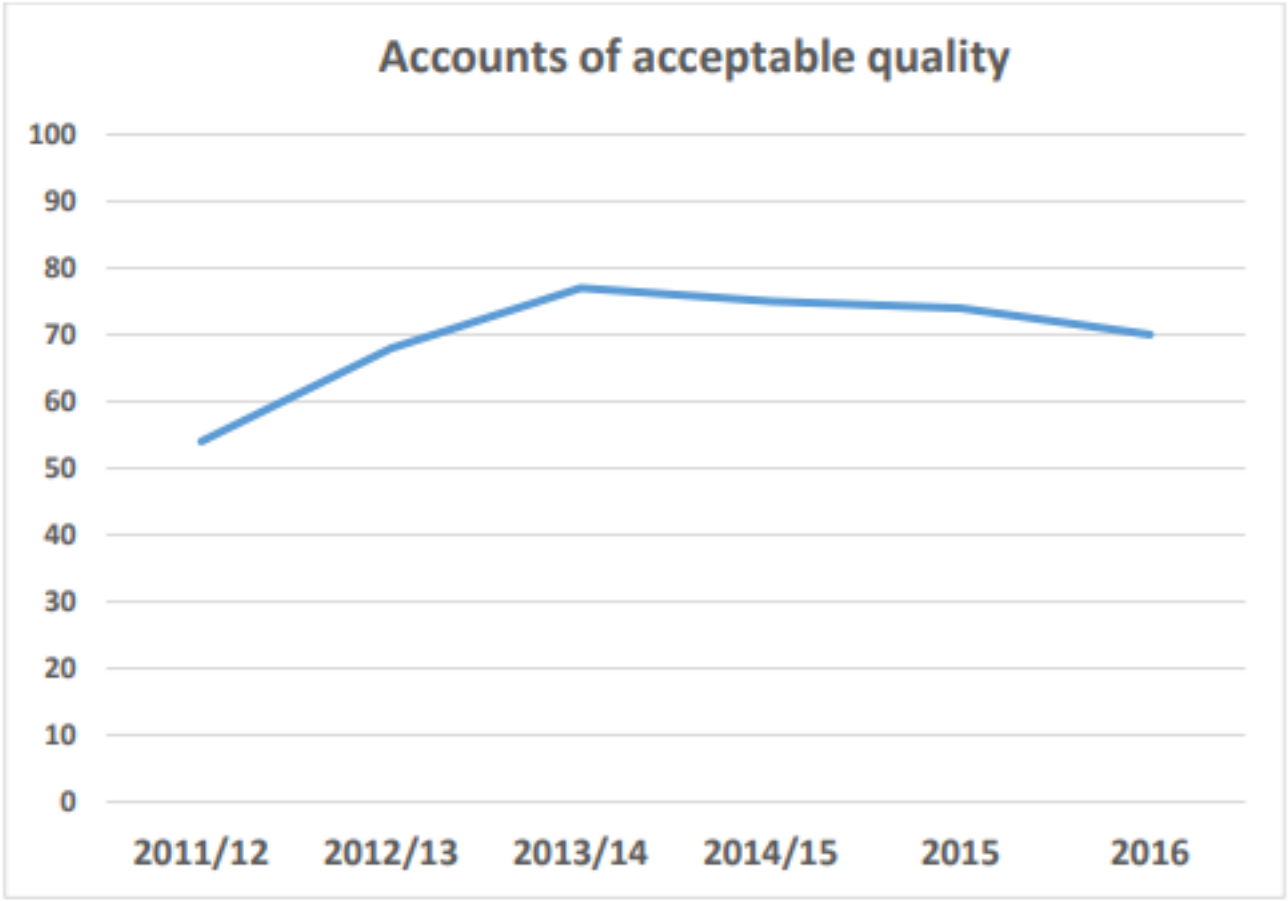
- Charities working with non-charities (incl. trading subs)
- Safeguarding task force and policies
- Overseas working
- Charity Governance Code
- Conflicts of interest / loyalty
- Risk and reserves policies
- *Brexit……*
- *Commission consultation on charging……*

Charity Commission Accounts Monitoring overview

- Accounts monitoring review: public reporting by charities in their trustees' annual report and accounts
- 20 December 2018
- The latest of 11 reports published by the Commission in 2018
- Random sample of 105 financial statements that were representative of the sector as a whole taken May 2018.

Charity Commission Accounts Monitoring results

What did we find?



Charity Commission Accounts Monitoring conclusion

- A continuing downward trend of financial statements meeting the "acceptable quality" benchmark
- 70% acceptable, down from 74% in prior year (and 13/14 high of 78%)

Reasons for the 30% not acceptable:

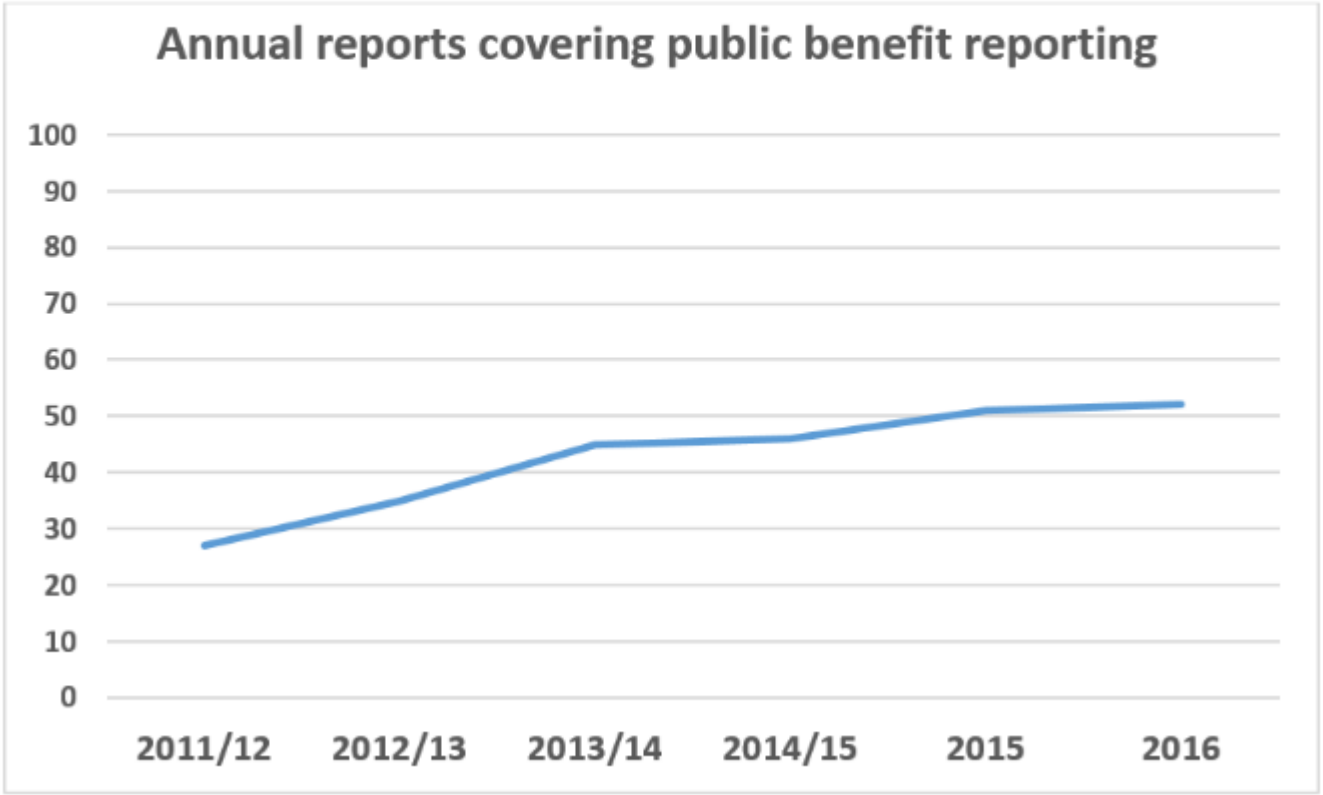
- 12% - little or no overview on charity purposes and activities to undertake those purposes
- 9% - lack of correct independent scrutiny, lack of transparency
- 9% - no independent scrutiny or missing Trustees Report
- *How to make sure you are not in the above?*

Charity Commission Public Benefit overview

- Accounts monitoring review: public benefit by charities
- Same representative sample as at May 2018 and reported 20 December 2018
- **Considered compliance with PB3 (Public benefit statement)**
- The Commission assessed whether the trustees' annual report contained:
- - an explanation of the activities undertaken by the charity to further its purposes for the public benefit
- - a statement by the trustees as to whether they have had due regard to the Commission's guidance on public benefit, known as 'the public benefit statement'

Charity Commission Public Benefit results

What did we find?



Charity Commission Public Benefit conclusion

- A (slight but) continuing upwards trend - 52% of reports demonstrated compliance, similar to last year's 51%.
- It does however mean nearly have of all reviewed charities do not explain the activities they undertake to improve the lives of their beneficiaries and make a difference.
- Taking the two parts of the review in isolation:
  - 66% included a public benefit statement, compared with 62% last year
  - 66% explained the activities undertaken by the charity to further its purposes for the public benefit, compared with 71% last year.

Charity Commission Public Benefit conclusion *(cont)*

- Best practice in this area included:

- expanding the public benefit statement to explain why the trustees believed that the charity's activities provided public benefit
- explaining who had benefitted from what the charity had done, whether a particular group of beneficiaries or the wider public
- explaining the impact of what the charity had done, such as examples of how the charity's services had led to improvements in people's lives.

Finance update – Charity fraud

Charity fraud on the increase

Recent headlines

- Former Mencap PA pleads guilty to fraud at Crown Court — ThirdSector
- Former chief of education charity on trial for alleged fraud — ThirdSector
- Charities 'lose hundreds of thousands to fraud each month' — ThirdSector
- 823 employee frauds against charities in last 6 months — "ActionFraud"
- Former chief executive of Birmingham Dogs Home and his wife admit £900,000 fraud — ThirdSector

Finance update - Charity fraud

- In 2006 Assoc of Chief Police Officers - £0.5 billion
- In 2010 National Fraud Authority AFI - £0.75 billion
- In 2012 National Fraud Authority AFI - £1.1 billion
- In 2013 National Fraud Authority AFI - £1.17 billion
- In 2016 National Fraud Authority AFI - £1.9 billion
- In 2017 , AFI stood at £2.3 billion (£400m increase)
- Some 2.5% of the estimated value of the sector
- **For frauds identified, average losses are 5.6% of expenditure!**

"There are only two types of organisation. Those that have been hit by fraud, and those that are going to be."

- Alan Bryce, Strategic Counter-Fraud Lead, Charity Commission

- **Don’t be complacent – it can and will happen**
- **Charities are an easier target:**
  - Use of volunteers
  - Culture of openness and trust
  - Separation of trustees and operational team
  - Small operational team/finance function
  - *Income streams are often less predictable*
  - Partnership working and reliance on others
  - Resource strapped (people and money)

- **Common frauds and controls to protect against**
  - Supplier mandate fraud
  - Batch supplier duplication
  - Procurement fraud
  - Fraudulent staff costs
  - Cyber fraud – email takeover

- **Supplier mandate fraud**
- "Contact is made from a "supplier" employee who is noting (either by phone or official headed notepaper) a change of bank details". The bank details are fraudulent.
- *Control* to mitigate the risk – review and approval of all standing data supplier changes (BEFORE!) and calls to check BEFORE updates processed.

- **Batch supplier duplication**
- An example of an internal fraud – the details of a supplier are duplicated onto the system and the duplicate given the fraudulent parties bank details. “Real invoices” are paid twice, hidden in the batch run, once real and once fraudulent.
- *Controls* – Approval of new suppliers and monthly management accounts reviews. The additional debit will need to be either to a balance sheet code or will be seen through an inflated expense code on the SOFA.

- **Procurement fraud**
- External parties (fraudulent employee at another organisation who is already a supplier) issue invoices over and above the goods/services delivered with minimal narrative.
- This type of fraud can also involve collusion between two parties (where items such as TVs are delivered and sold on eBay but the invoice is for charitable purposes).
- *Controls* – collusion is notoriously difficult to identify, but scrutiny of PO's narrative & increase charitable costs could be indicators. Also Whistleblowing policy/training?

- **Fraudulent staff/temp staff costs**
- The fraudulent party continues to pay staff after they have left (using updated fraudulent bank details), enrols ghost employees for payment or processes fake invoices through “busy” nominal codes such as temp staff costs.
- *Controls* - This fraud is almost always discovered through a review of management accounts vs budgets. Preventive controls would include approval of staff detail changes and “lock down” on leavers details in a timely fashion.

- **Email takeover**
- A internet based fraud that is expanding rapidly (and becoming more sophisticated).
- The finance team receive an email “from” the FD/CEO usually late afternoon, indicating they have forgotten to pay a key supplier and it should be paid immediately.
- The email is fraudulent and so are the bank details given
- *Controls* – Communication by phone or face to face to confirm details. Do not allow payments to supplier details that do not match those saved on the standing data.

Finance update - Charity fraud

Cyber fraud - How it happens?

- Ineffective information security governance
- Poor access controls
- Identity details not held securely
- Weak data and data management controls
- Vulnerable applications
- Penetrable website
- Inadequately controlled accounting systems
- End-user computing weakness e.g. uncontrolled critical spread sheets

Cyber fraud - How to protect against?

- Technology protection
- Information security governance
- Access management
- Identity management
- Data encryption
- Secure data warehousing, storage, classification
- Automated application controls
- Vulnerability/penetration testing
- Exception and user access reporting

10 questions trustees should ask

Do we...

FRAUD ADVISORY PANEL

CHARITY COMMISSION FOR ENGLAND AND WALES

Kingston Smith
Fundraising
and Management

Commitment
Enterprising
Enhancing
Fresh
Potential
Empowering
Business building

Impact Reporting

James Newell, Managing Director
Kingston Smith Fundraising and Management

The Impact Paradigm

Output	Products, services and facilities that result from an organisation's or project's activities
Outcome	Changes, benefits, learning or other effects that result from what the project or organisation makes, offers or provides
Impact	Broader or longer-term **material** effects of a project's or organisation's outputs, outcomes or activities, accounting for attribution and deadweight

In reality

Output	A new school in an underserved area
Outcome	XX Children get access to an education that they otherwise would not have had
Impact	Micro benefits Macro benefits

The Impact of your charity

- Impact is a broad and often-misunderstood term
- Grant makers can be guilty of misusing it too
- Can be confusing for fundraisers
- Focus on impact can nurture relationships

So, Impact is

1. The adjusted value of an outcome

2. Taking into account things like what would have happened anyway (deadweight),

3. AND the contribution of others (attribution)

4. With consideration to the length of time an outcome lasts

And Impact within the charity sector

- Moving beyond reporting outputs
- Focus on outcomes
- Defining relative value
- Demonstrating organisational capacity to do it
- Appealing to potential investors in difficult times

An unsettling 24 months

- One in five of the UK's biggest charities are **'spending less than half of their income on good causes'** (and some spend as little as ONE PER CENT on charitable work)
- Victory over **charity cold-calling sharks:** Mail investigation leads to clampdown on sale of personal details
- Prince Charles' **fat-cat charity bosses** pocket over £500k
- X Charity - £42m blown on staff EXCLUSIVE: New charity cash shock as **half of donations go on pay**
- Charity at heart of massive **tax avoidance scam**

The ‘bloke in the pub’

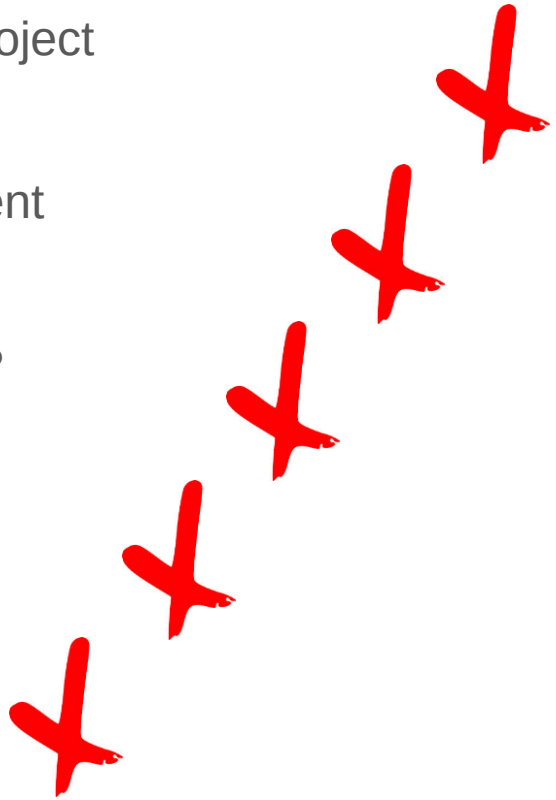
- Check out their Accounts online at the charities commission, you will be amazed at the salaries they pay themselves for handing out in most cases a glossy leaflet!

- This is why I have never and will never give to any charity ever they are all crooks! I don't give to charities for this very reason, this is only the tip of the iceberg, they make me sick.

- definition of charity is to give help without any reciprocation. Meaning that **people should do charity without any pay and there are many who do that**. The ***** who make a living out of it can f off for all I care. This is why I only donate to my local hospice ever since my **best friend died of a heart attack induced by cancer**.

So what is our Impact story?

- The history of our project
- Our mission statement
- Our financial health?
- Quality of our staff?
- Our activities?



Why should we know our Impact story?

- Knowing where we create and destroy Social Value
- What outcomes can we sell
- Where do we create the best social value
- Sustainability
- Aligned decision-making
- Directing aims and mission
- Who will commission us for the outcomes we create?
- Improving fundraising ask
- Evaluating our services
- Designing services that meet the needs of our stakeholders – beneficiaries and funders

Impact has a macro ‘scope’

- Economic
- Social
- Political
- Geographic – local to international
- Time specific – short to long term
- Stakeholders and partnerships

Add a micro ‘scope’

- Focusing on specific benefits for a given individual

- This can be via case studies and stakeholder engagement, but remain mindful that these only give you ‘part’ of the impact picture

Seven principles

1. Involve stakeholders
2. Understand what changes
3. Value the things that matter
4. Only include what is material
5. Do not over-claim
6. Be transparent
7. Verify the result

Appropriate rigour

Less rigorous ⟷ More rigorous

	Different objectives			
	Planning	Management Report	Investor Report	Public Report
Principles required				
1	✓	✓	✓	✓
2	✓	✓	✓	✓
3	✓	✓	✓	✓
4	✓	✓	✓	✓
5	✓	✓	✓	✓
6	✓	✓	✓	✓
7	✓	✓	✓	✓

The SROI Network
Accounting for Value

Experiment with combinations

- 85% of students completed our programme of education, with those that dropped out being sign-posted to alternate provision
- We know the net cost of a young person categorised as NEET to be XX so we can reasonably assume our intervention results in a saving of YY to the public purse
- Of the graduating cohort, 90% went on to further education and 10% to employment
- This has a significant positive impact on the surrounding area, which is over-represented in unemployment figures
- One graduate said in relation to their experience: '*without intervention X, I would still be unemployed. The only reason I have a job is because they believed in me*'

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