

# Honorary Treasurers Forum – Charity Governance

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– NFP Partners

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Commitment  
Enterprising  
Enhancing  
Fresh  
Potential  
Empowering  
Business building



- Audit update – September 2017
- Charity Governance Code – background and principles
- Focus on Section 4 of the Code – “Decision making, risk and control”
- Deep dive into Section 4 of the Code – difficulties for smaller charities
- Other pertinent areas of the Code for smaller charities
- Charity Governance Code for larger charities – best practice and aspirations
- Time for questions, answers and comments



## **CHARITIES SORP (FRS 102)**

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**Amendments to Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the Financial Reporting Standard applicable in the UK and Republic of Ireland**

**Update Bulletin 1**



- A reminder - Update Bulletin 1  
Effective periods commencing 1 Jan 16  
**FRSSE SORP officially withdrawn**  
Larger charity = £500,000 income  
Large charities need to prepare statement of cash flows and provide additional SORP disclosures
- **Audit and consolidation threshold** – now > £1m (unless dual registered)
- **Practice Note 11 (PN11) consultation**  
Practice Note issued for the Audit of Charities  
Consultation version amended for new accounting standards  
Significantly shortened with “helpful” appendices removed and cross refs



- **Accounting Regulations 2008**  
True and fair override required for non company charitable organisations  
Regulations have been updated in Scotland but not England and Wales
- **Charity Commission (CC)32** – Independent examination directions updated
- **Significant number of new financial statement disclosures**  
– fundraising policies (CC20), FRS 102, Charity SORP etc.
- We will reference throughout the presentation when new accounting disclosures will be required/suggested by the Charity Governance Code



- Charity Governance Code – third edition issued in the last twelve years
- Developed by a broad steering group of sector specialists
- Latest edition has raised the bar in response to the challenges that the sector has faced over the last two years
- Follows a “foundation principle”, matched with seven key principles
- Each principle then explained by a rationale, key outcome and recommended practice
- Smaller and larger code for the first time
- “Apply or explain” not “Comply or explain”.

The logo for the Charity Governance Code, featuring the words "Charity", "Governance", and "Code" stacked vertically in a bold, red, sans-serif font. The text is set against a light gray rectangular background.

**Charity  
Governance  
Code**



- Principle

*“The board makes sure that its decision-making processes are **informed**, **rigorous** and **timely**, and that effective delegation, control and risk-assessment, and management systems are set up and **monitored**.”*

- Rationale

*“The board is **ultimately responsible** for the decisions and actions of the charity **but it cannot and should not do everything**. The board may be required by statute or the charity’s governing document to make certain decisions but, beyond this, it needs to decide which other matters it will make decisions about and **which it can and will delegate**. Trustees delegate **authority but not ultimate responsibility**, so the board needs to implement suitable financial and related controls and reporting arrangements to make sure it oversees these delegated matters. Trustees must also identify and assess risks and opportunities for the organisation and decide how best to deal with them, including assessing whether they are manageable or worth taking.*



- Key outcomes

*“4.1 The board is clear that its main focus is on **strategy**, performance and assurance, rather than **operational** matters, and reflects this in what it delegates*

*4.2 The board has a sound decision-making and monitoring framework which helps the organisation deliver its charitable purposes. It is aware of the range of **financial and non-financial risks** it needs to monitor and manage.*

*4.3 The board promotes a culture of **sound management** of resources but also understands that being **over-cautious and risk averse can itself be a risk** and hinder innovation.*

*4.4 Where aspects of the board’s role are delegated to committees, staff, volunteers or contractors, the board **keeps responsibility and oversight.**”*



- ***4.5.1 The board regularly reviews which matters are reserved to the board and which can be delegated. It collectively exercises the powers of delegation to committees or individual trustees, or staff and volunteers if the charity has them.***
- **Difficulties for smaller charities:**
  - Anyone to delegate to, if only Board?
  - Are these delegations documented/agreed?
  - When were these last reviewed?

- ***4.5.2 The board describes its ‘delegations’ framework in a document which provides sufficient detail and clear boundaries that the delegations can be clearly understood and carried out.***
- **Difficulties for smaller charities:**
  - Does this framework document exist on paper?
  - If it does exist, does it match what happens in practice?
  - “Clear boundaries” and “understood” by all?

- **4.5.3 The board makes sure that its committees have suitable terms of reference and membership and that:**
  - **the terms of reference are reviewed regularly**
  - **the committee membership is refreshed regularly and does not rely too much on particular people**
  - **committee members recognise that the board has ultimate responsibility.**
- **Difficulties for smaller charities:**
  - **Example terms of reference to confirm best practice?**
  - **Reliance on particular people?**
  - **Removal of difficult or disruptive people?**
  - **Collective ultimate responsibility, not just one persons (the strongest or loudest opinion)?**

- ***4.5.4 Where a charity uses third party suppliers or services – for example for fundraising, data management or other purposes – the board assures itself that this work is carried out in the interests of the charity and in line with its values and the agreement between the charity and supplier. The board makes sure that such agreements are regularly reviewed to make sure they are still appropriate.***
- **Difficulties for smaller charities:**
  - CC20 tightens the policies around fundraising – Trustees
  - Those who review have sufficient knowledge of sector?

- ***4.5.5 The board regularly checks the charity’s key policies and procedures to ensure make sure that they still support, and are adequate for, the delivery of the charity’s aims. This includes: policies and procedures dealing with board strategies, functions and responsibilities, finances (including reserves), service or quality standards; where needed, good employment practices and encouraging and using volunteers; key areas of activity such as fundraising and data protection.***
- **Difficulties for smaller charities:**
  - Keeping up to speed with policy and procedure changes
  - Donald Rumsfeld – “the unknown unknowns”.

### *Managing and monitoring organisational performance*

- *4.6.1 The board makes sure that operational plans and budgets are in line with the charity's purposes, strategic aims and resources.*
- *4.6.2 The board regularly monitors performance using a consistent framework and checks performance against the charity's strategic aims, operational plans and budgets.*
- **Difficulties for smaller charities:**
  - Ensuring Board concentrates on strategic not operational
  - Regularly monitoring performance – information shared?
  - Wearing two hats – Trustee and bookkeeper.

- ***4.6.3 The board agrees what information is needed to assess delivery against agreed plans, outcomes and timescales. Trustees share timely, relevant and accurate information in an easy to understand format.***
- ***4.6.4 The board regularly considers information from other similar organisations to compare or benchmark the organisation's performance.***
- **Difficulties for smaller charities:**
  - Benchmarking – against who/how/why and outcomes?
  - KPI's – relevant, able to be measured, timely?
  - Discussions outside meetings – documented? shared?

## *Actively managing risks*

- ***4.7.1 The board retains overall responsibility for risk management and discusses and decides the level of risk it is prepared to accept for specific and combined risks.***
- **Difficulties for smaller charities:**
  - Risk appetite and where is this on the scale?
  - Ensuring risk management encompasses all key risks?
  - Sector knowledge?
  - Kingston Smith Charity Risk Toolkit
  - Emerging risks – Data protection, Cyber crime?



### *Actively managing risks*

- ***4.7.2 The board regularly reviews the charity's specific significant risks and the effect of these risks added together. It makes plans to mitigate and manage these risks appropriately. Trustees consider risk that relates to their situation and where they work, for example charities working with children or vulnerable adults will probably look at risks relating to safeguarding.***
- **Difficulties for smaller charities:**
  - Will now be disclosed in Trustees report – FRS 102, principal risk and mitigating actions.

- ***4.7.3 The board puts in place and regularly checks the charity's process for identifying, prioritising, escalating and managing risks and, where applicable, the charity's system of internal controls to manage these risks. The board reviews the effectiveness of the charity's approach to risk at least every year. The board describes the charity's approach to risk in its annual report and in line with regulatory requirements.***
- **Difficulties for smaller charities:**
  - Time for annual review of risk – state of flux in sector
  - CC8 – Internal Financial Controls Checklist



- ***2.6.2 Where individual board members are also involved in operational activities, for example as volunteers, they are clear about the capacity in which they are acting at any given time and understand what they are and are not authorised to do and to whom they report.***
- **Difficulties for smaller charities:**
  - **Wearing two hats – Trustees attending as volunteers?**
  - **Right time and the right place for discussions?**



- ***2.4.2 The chair provides leadership to the board and takes responsibility for ensuring the board has agreed priorities, appropriate structures, processes and a productive culture and has trustees who are able to govern well and therefore add value to the charity.***
- **Difficulties for smaller charities:**
  - Finding the right Chair (right qualities not just longest serving)
- **Efficient meetings – adding value? Right areas?**
- **AOC publications - Chairs Compass etc**
- **[Icaewvolunteers.com](http://Icaewvolunteers.com)**



- ***5.6.1 The board has, and regularly considers, the skills, knowledge and experience it needs to govern, lead and deliver the charity's purposes effectively. It reflects this mix in its trustee appointments, balancing the need for continuity with the need to refresh the board.***
- **Difficulties for smaller charities:**
  - Skills mix – Kingston Smith Governance toolkit
  - Board appraisal – how?
  - Continuity, corporate knowledge and succession?



- ***5.6.2 The board is big enough that the needs of the charity's work can be carried out and changes to the board's composition can be managed without too much disruption. A board of at least five but no more than twelve trustees is typically considered good practice.***
- **Difficulties for smaller charities:**
  - Recruiting Trustees (at least five?)
  - Skills mix?
  - Beneficiaries on the Trustee Board?
  - Trustee induction process?



### *Recruiting diverse trustees*

- ***6.4.1 The board regularly looks at the skills, experience and diversity of background of its members to find imbalances and gaps, informing trustee recruitment and training.***
- ***6.4.2 The board sees diversity, in all its forms, as an important part of its regular board reviews. The board recognises the value of a diverse board and has suitable diversity objectives.***
- **Difficulties for smaller charities:**
  - Diversity in appointments? Diversity objectives?
  - Co-opting to specific meetings or committees?



### Other disclosures and policies in the Code

- **3.5.3 *Registers of interests, hospitality and gifts are kept and made available to stakeholders in line with the charity's agreed policy on disclosure.***
- **3.5.2 *Trustees disclose any actual or potential conflicts to the board, and deals with these in line with the charity's governing document and a regularly reviewed conflicts of interest policy.***





### Other disclosures and policies in the Code

- **5.7.3 Trustees are appointed for an agreed length of time, subject to any applicable constitutional or statutory provisions relating to election and re-election. If a trustee has served for more than nine years, their reappointment is: - subject to a particularly rigorous review and - takes into account the need for progressive refreshing of the board - explained in the trustees' annual report.**
- **7.6.4 If a charity has staff, the trustees agree how to set their remuneration, and they publish their approach.**

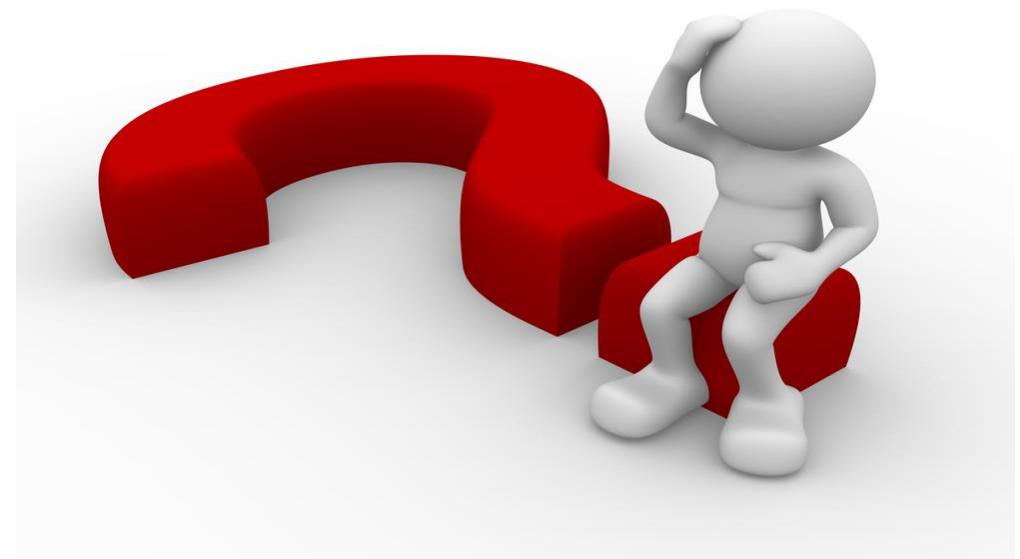


## Areas of the larger code for Charity Governance

- **5.8.2 (larger code) - The board reviews its own performance and that of individual trustees, including the chair. This happens every year, with an external evaluation every three years. Such evaluation typically considers the board's balance of skills, experience and knowledge, its diversity in the widest sense, how the board works together and other factors relevant to its effectiveness.**
- **Larger code also has expanded areas on impact reporting and governance reporting.**



## Any questions, answers or comments





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